POGO PRODUCING CO LLC
Form 424B5
March 25, 2011
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Filed pursuant to Rule 424(b)(5)
Registration No. 333-165263

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price	Amount of registration fee (1)
6 5/8% Senior Notes due 2021	$600,000,000	$69,660
Guarantees of Senior Notes	(2)	None

(1) The filing fee, calculated in accordance with Rule 457(r), has been transmitted to the SEC in connection with the securities offered from Registration Statement File No. 333-165263 by means of this prospectus supplement.
(2) No separate consideration will be received for such guarantees. Pursuant to Rule 457(n) under the Securities Act, no registration fee is required with respect to such guarantees.

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Prospectus supplement

To prospectus dated March 5, 2010

PXP

Plains Exploration & Production Company

$600,000,000 6 5/8% Senior Notes due 2021

Interest will be payable on the notes on May 1 and November 1 of each year. The notes will mature on May 1, 2021. Interest on the notes will accrue from March 29, 2011, and the first interest payment on the notes will be due on November 1, 2011.

We may redeem all or part of the notes on or after May 1, 2016 at the applicable redemption prices described in this prospectus supplement and prior to such date at a make-whole redemption price, in each case, together with any accrued and unpaid interest to the date of redemption. The redemption provisions are more fully described in this prospectus supplement under Description of notes Optional redemption. In addition, prior to May 1, 2014, we may, at our option, redeem up to 35% of the notes with the proceeds of certain equity offerings. If we undergo a change of control or sell assets, we may be required to offer to purchase notes.

The notes will be our general unsecured, senior obligations, will be equal in right of payment with any of our existing and future unsecured senior indebtedness that is not by its terms subordinated to the notes, and will be effectively junior to our existing and future secured indebtedness to the extent of collateral securing that debt. The notes will initially be guaranteed on a senior unsecured basis by certain of our subsidiaries. The notes will be structurally junior to the indebtedness and other liabilities of our non-guarantor subsidiaries.

Investing in the notes involves risks. See Risk factors beginning on page S-14 of this prospectus supplement and page 1 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public offering price[1]	Underwriting discount	Proceeds, before expenses, to Plains[1]
Per note	100%	1.50%	98.50%
Total	$ 600,000,000	$ 9,000,000	$ 591,000,000

(1) Plus accrued interest, if any, from March 29 , 2011 if settlement occurs after that date. Excludes expenses directly associated with the offering.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes. Delivery of the notes, in book-entry form, will be made on or about March 29, 2011 through The Depository Trust Company.

Joint book-running managers

J.P. Morgan
BMO Capital Markets
Scotia Capital

Barclays Capital
BNP PARIBAS
Wells Fargo Securities

Co-managers

TD Securities	**BofA Merrill Lynch**	**Citi**
Lloyds Securities	**RBS**	**ING**
Morgan Stanley	**RBC Capital Markets**	

The date of this prospectus supplement is March 24, 2011.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

We are not, and the underwriters are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates on the front of those documents or earlier dates specified herein or therein. Our business, financial condition, results of operations and prospects may have changed since those dates.

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Prospectus supplement

Prospectus

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About this prospectus supplement

This prospectus supplement and the accompanying prospectus are part of a universal shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC. Under the shelf registration process, we may sell any combination of common stock and debt securities in one or more offerings from time to time. In the accompanying prospectus, we provide you a general description of the securities we may offer from time to time under our shelf registration statement. This prospectus supplement describes the specific details regarding this offering, including the price, the aggregate principal amount of debt being offered and the risks of investing in our securities. This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein include important information about us, the notes being offered and other information you should know before investing.

Unless otherwise indicated or the context otherwise requires, in this prospectus supplement, all references to Plains, PXP, we, us and our ref Plains Exploration & Production Company and its direct and indirect subsidiaries on a consolidated basis.

Incorporation by reference

The SEC allows us to incorporate by reference the information that we file with them, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the following documents and all documents that we subsequently file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (other than information furnished rather than filed):

- our Annual Report on Form 10-K for the year ended December 31, 2010;
- our Current Report on Form 8-K filed on January 6, 2011; and
- the description of our common stock contained in our Form 10 registration statement filed with the SEC on November 8, 2002, as amended by Amendment No. 1 filed November 21, 2002, Amendment No. 2 filed December 3, 2002, and Amendment No. 3 filed December 6, 2002.

Forward-looking statements

This prospectus supplement includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and the Private Securities Litigation Reform Act of 1995 about us that are subject to risks and uncertainties. All statements other than statements of historical fact included in this document are forward-looking statements. Forward-looking statements may be found under Prospectus supplement summary, Summary historical consolidated financial data, Summary historical reserve and operating data, Risk factors and elsewhere in this document regarding our financial position, business strategy, production and reserve growth, possible or assumed future results of operations, and other plans and objectives for our future operations.

All forward-looking statements in this prospectus supplement are made as of the date hereof, and you should not place undue reliance on these statements without also considering the risks and uncertainties associated with these statements and our business that are discussed in this

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prospectus supplement, the prospectus and our other filings with the SEC. Forward-looking statements are subject to risks and uncertainties. Although we believe that in making such statements our expectations are based on reasonable assumptions, such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

Except as required by law, we do not undertake any obligation to release publicly any revisions to any forward-looking statements, to report events or circumstances after the date of this prospectus supplement, or to report the occurrence of unanticipated events.

Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as will, would, should, plans, likely, expects, anticipates, intends, believes, estimates, thinks, may, and similar expressions, are forward-looki following important factors, in addition to those discussed under Risk factors and elsewhere in this document, could affect the future results of the energy industry in general, and us in particular, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

- uncertainties inherent in the development and production of oil and gas and in estimating reserves;
- unexpected difficulties in integrating our operations as a result of any significant acquisitions;
- unexpected future capital expenditures (including the amount and nature thereof);
- the impact of oil and gas price fluctuations, including the impact on our reserve volumes and values and on our earnings;
- the effects of our indebtedness, which could adversely restrict our ability to operate, could make us vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to our competitors that have less debt, and could have other adverse consequences;
- the success of our derivative activities;
- the success of our risk management activities;
- the effects of competition;
- the availability (or lack thereof) of acquisition, disposition or combination opportunities;
- the availability (or lack thereof) of capital to fund our business strategy and/or operations;
- the impact of current and future laws and governmental regulations, including those related to climate change;
- the effects of future laws and governmental regulation that result from the Macondo accident and oil spill in the Gulf of Mexico;

the value of the common stock of McMoRan Exploration Co., or McMoRan, and our ability to dispose of those shares;

the value and completion of the separation of our Gulf of Mexico deepwater assets;

liabilities that are not covered by an effective indemnity or insurance;

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the ability and willingness of our current or potential counterparties to fulfill their obligations to us or to enter into transactions with us in the future; and

general economic, market, industry or business conditions.

All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by such factors. For additional information with respect to these factors, see Incorporation by reference.

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Prospectus supplement summary

This summary highlights information from this prospectus supplement and the accompanying prospectus to help you understand the notes. You should read carefully the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference for a more complete understanding of this offering. You should read Risk factors beginning on page S-14 of this prospectus supplement and on page 1 of the accompanying prospectus for more information about important risks that you should consider before making a decision to purchase notes in this offering.

We have defined certain oil and gas industry terms used in this document in the Glossary of oil and gas terms beginning on page S-92 of this prospectus supplement. Except in the Description of notes and unless otherwise indicated or the context requires otherwise, references to Plains, PXP, we, us and our mean Plains Exploration & Production Company together with its subsidiaries.

Plains Exploration & Production Company

We are an independent energy company engaged in the upstream oil and gas business. The upstream business acquires, develops, explores for and produces oil and gas. Our upstream activities are located in the United States. We own oil and gas properties with principal operations in:

- Onshore California;
- Offshore California;
- the Gulf Coast Region;
- the Mid-Continent Region; and
- the Rocky Mountains.

Assets in our principal focus areas include mature properties with long-lived reserves and significant development opportunities, as well as newer properties with development and exploration potential. We believe our balanced portfolio of assets and our ongoing hedging program position us well for both the current commodity price environment and future potential upside as we develop our attractive resource opportunities, including our California, Haynesville Shale, Eagle Ford Shale and Granite/Atoka Wash resource plays.

As of December 31, 2010, we had estimated proved reserves of 416.1 million barrels of oil equivalent, of which 54% was comprised of oil and 57% was proved developed. We have a total proved reserve life of approximately 13 years and a proved developed reserve life of approximately seven years. We believe our long-lived, low production decline reserve base, combined with our active risk management program, should provide us with relatively stable and recurring cash flow. As of December 31, 2010, and based on the twelve-month average of the first-day-of-the-month reference prices as adjusted for location and quality differentials, our reserves had a standardized measure of $3.1 billion.

Our principal executive offices are located at 700 Milam, Suite 3100, Houston, Texas 77002, and our telephone number is (713) 579-6000.

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Divestments

In December 2010, as part of our strategic decision to exit operations in the Gulf of Mexico, we completed the divestment of our Gulf of Mexico shallow water shelf properties to McMoRan. At closing and after preliminary closing adjustments, we received approximately $86.1 million in cash, which included $11.1 million in working capital adjustments, and 51.0 million shares of McMoRan common stock in exchange for all our interests in our Gulf of Mexico leasehold located in less than 500 feet of water. The transaction was completed pursuant to an Agreement and Plan of Merger dated as of September 19, 2010, and effective as of August 1, 2010, between us and certain of our subsidiaries and McMoRan and certain of its subsidiaries. The McMoRan shares were valued at approximately $665.9 million based on McMoRan s closing stock price of $17.18 on December 30, 2010 discounted to reflect certain restrictions on the marketability of the McMoRan shares under the registration rights agreement and stockholder agreement entered into by us and McMoRan at the closing of the transaction. The cash proceeds received, net of approximately $8.8 million in transaction costs, were primarily used to repay outstanding borrowings under our credit facilities. The proceeds were recorded as reductions to capitalized costs pursuant to full cost accounting rules.

Description of Operating Areas

Onshore California

San Joaquin Basin. Our San Joaquin Basin properties are located primarily in the Cymric, Midway Sunset and South Belridge Fields. These are long-lived fields that have heavier oil (12 to 16 degree API gravity) and shallow wells (generally less than 2,000 feet) that require enhanced oil recovery techniques, including steam injection, and produce with high water cuts.

We spent $76 million in 2010 on capital projects in the San Joaquin Basin focused on improved recovery efficiency through infill drilling, well recompletions, facility expansions and enhancements to reduce air emissions in all of our primary fields. Our net average daily San Joaquin Basin sales volumes were 18.9 MBOE per day in the fourth quarter of 2010.

We continue to evaluate our exposure to the previously announced positive industry discoveries in Kern County, California. We hold approximately 16,000 net acres in the Kern County area. In 2011, we will continue to concentrate on development drilling and on recompletion projects and facility expansions in the San Joaquin Basin. Additionally, we are participating in the acquisition of 3-D seismic over a significant portion of our acreage and are developing a diatomite expansion project.

Los Angeles Basin. We hold a 100% working interest in the majority of our Los Angeles Basin, or LA Basin, properties, including Inglewood, Las Cienegas, Montebello, Packard and San Vicente. The LA Basin properties are characterized by light crude (18 to 29 degree API gravity), have well depths ranging from 2,000 feet to over 10,000 feet and include both primary production and mature waterfloods where producing wells have high water cuts.

In 2010, we spent $47 million on capital projects in the LA Basin, focused on improved waterflood recovery efficiency through infill drilling, producer and injector well recompletions and facility additions and enhancements to process higher fluid volumes. Our net average daily LA Basin sales volumes were 11.5 MBOE per day in the fourth quarter of 2010. In 2011, we will continue to concentrate on development drilling and on recompletion projects in the LA Basin.

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Other Onshore California. We hold a 100% working interest (94% net revenue interest) in the Arroyo Grande Field located in San Luis Obispo County, California. This is a long-lived field that has heavier oil (12 to 16 degree API gravity) and well depths averaging 1,700 feet and requires continuous steam injection. In 2010, we spent $3 million on capital projects in this field focused on improved recovery efficiency primarily through facility enhancements and recompletion projects. Our net average daily sales volumes from the Arroyo Grande Field were 1.0 MBOE per day in the fourth quarter of 2010.

We have obtained permits to construct a water reclamation and treatment facility to improve operating efficiencies for oil recovery activities. The new facility is designed to accelerate field development and production growth. In 2010 we began construction of key water handling components and in 2011 we expect to begin construction on the facility.

Offshore California

Point Pedernales. We hold a 100% working interest (83% net revenue interest) in the Pt. Pedernales Field, which includes one platform that is utilized to exploit the Federal OCS Monterey Reservoir by extended reach directional wells and support facilities which lie within the onshore Lompoc Field. In 2010, we spent $18 million on capital projects primarily associated with equipment improvements. Our combined net average daily sales volumes from our Pt. Pedernales and Lompoc Fields averaged 5.1 MBOE per day in the fourth quarter of 2010. During 2011, we plan to perform a significant platform upgrade associated with capacity expansion to accommodate the drilling of additional extended reach Monterey wells in this area.

Point Arguello. We hold a 69.3% working interest (58% net revenue interest) in the Point Arguello Unit and the various partnerships owning the related transportation, processing and marketing infrastructure. Our net average daily sales volumes in the fourth quarter of 2010 were 3.5 MBOE per day. Much of our planned activity on this property in 2011 will concentrate on maintaining production.

Gulf Coast Region

Haynesville Shale. As of December 31, 2010, we have rights to approximately 578,000 gross acres (105,000 net) in the Haynesville shale that we acquired from Chesapeake Energy Corporation, including approximately 61,000 net acres of leasehold that we believe is also prospective for the Bossier Shale. The Haynesville Shale is characterized by gas production from the Jurassic aged Haynesville shale formation, and typical well depth is 10,500 feet. The area is currently being developed with approximately 4,000 foot horizontal wells at a measured total depth of 16,000 feet. Based on the potential of 80 acre well spacing, we anticipate that there could be over 8,500 potential drilling locations after applying a risk weighting.

Our net average daily sales volumes during the fourth quarter of 2010 were 146.3 MMcfe per day, a 65% increase from the 88.8 MMcfe per day net average during the first quarter of 2010. Sales volumes are expected to continue to increase to approximately 160 MMcfe net per day by year-end 2011. During 2011, Chesapeake is expected to operate an average of

approximately 25 rigs and other operators are expected to operate 15 or more rigs on our acreage.

We spent $336 million of capital in 2010 focused on converting undeveloped leases to leases held by production. For 2011, we allocated approximately $200 million of our capital budget to Haynesville activity and plan to continue to focus on the development of our undeveloped leasehold with the anticipation that virtually all of our leasehold will be held by production by early 2012.

Eagle Ford Shale. During the fourth quarter of 2010, we completed the acquisition of approximately 60,000 net acres in the Eagle Ford oil and gas condensate windows in South Texas for approximately $596.3 million. At December 31, 2010, four rigs were operating, seven gross wells have been drilled since acquisition and 16 wells were in progress on the properties. Based on the 80 to 130 acre well spacing, we anticipate that there could be approximately 500 potential net well locations. During 2011, we plan to have four to six rigs drilling horizontal development wells on our acreage.

South Texas. We own interests in oil and gas properties on approximately 85,000 gross acres (54,000 net acres) with 321 square miles of 3-D seismic data located in South Texas. Our South Texas development activities are primarily focused on gas reserves concentrated in the Los Mogotes, Lopez Ranch, Mills Bennett and Javelina Fields. The fields produce from the Eocene Yegua and Wilcox formations, found at depths generally ranging from 7,000 to 14,000 feet.

During 2010, we spent $21 million on exploration and development projects in this area primarily associated with drilling activities and we drilled eight gross wells. Our net average daily sales volumes from these properties were 7.9 MBOE per day for the fourth quarter of 2010. In 2011, we plan to continue focusing on development in these fields.

East Texas. We hold approximately 37,000 gross acres, including the Cretaceous Woodbine and Austin Chalk Formations in Polk and Tyler Counties. We own approximately 128 square miles of proprietary 3-D seismic data.

Mid-Continent Region

We have interests in oil and gas properties on approximately 371,500 gross leasehold acres with 834 square miles of 3-D seismic located in Texas and Oklahoma. Development activities are concentrated in the Wheeler and Marvin Lake areas in Wheeler and Hemphill Counties in Texas. The structural and stratigraphic objectives include Cleveland Sands, Mississippian carbonates, and Granite/Atoka Wash found at varying depths.

We spent $145 million on exploration and development projects in 2010, including drilling in the Wheeler and Marvin Lake areas as well as exploration drilling at Courson Ranch. Our net average daily sales volumes from our Mid-Continent Region properties were 8.1 MBOE per day in the fourth quarter of 2010.

We hold leases covering 11,000 gross and approximately 6,500 net acres in the Stiles Ranch Field area in Wheeler County, Texas. The acreage is located within the productive trend of horizontal

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drilling that is targeting multiple Pennsylvanian Granite/Atoka Wash reservoirs. In addition to the horizontal potential at Wheeler, we are also evaluating the horizontal potential of the Marvin Lake Area in Hemphill County, Texas, where we hold approximately 15,000 gross and 13,200 net acres. During 2010, we drilled 20 horizontal wells from our currently identified inventory of approximately 150 horizontal well locations targeting discrete intervals within the Granite/Atoka Wash section. As of December 31, 2010, we had five rigs drilling horizontal wells and 14 wells in progress. More information is being obtained and added to the interpretation both regionally and locally. It is likely that more locations will be identified as additional information is integrated and the critical criteria for economically attractive horizontal targets are better defined.

In 2011, we plan to continue our five rig development drilling in the Wheeler and Marvin Lake areas focusing on horizontal Granite Wash development, as well as additional exploration.

Rocky Mountains

Wind River Basin. We own approximately 14% working interest in the Madden Deep Unit and Lost Cabin Gas Plant located in central Wyoming. The Madden Deep Unit is a federal unit operated by a third party and consists of approximately 64,000 gross acres in the Wind River Basin. The Madden Deep Unit is characterized by gas production from multiple stratigraphic horizons of the Lower Fort Union, Lance, Mesaverde and Cody sands and the Madison Dolomite. Production from the Madden Deep Unit is typically found at depths ranging from 5,500 to 25,000 feet. Some of the gas produced from the Madden Deep Unit requires processing at the Lost Cabin Gas Plant to remove high concentrations of carbon dioxide and hydrogen sulfide.

During 2010, we spent $3 million on capital projects in the Madden Deep Unit. Our net average daily sales volumes were 3.9 MBOE per day for the fourth quarter of 2010 due to the Lost Cabin Gas Plant operating below full capacity. The Madden Deep Unit experienced a significant amount of downtime during 2010 for repair work following a fire in a portion of the Lost Cabin Gas Plant. Repair work was completed during the fourth quarter of 2010. Production is expected to reach full capacity during the first quarter of 2011.

In 2011, we are focused on maintaining production and high-grading the remaining development drilling inventory.

Big Horn Basin. We hold leases covering 54,000 gross and net acres in the Big Horn Basin located in Wyoming. We spudded a well in late 2010, which was in progress at year-end, with the objective of evaluating the Mowry Oil Shale potential for our acreage. We plan to drill and test two horizontal Mowry Shale wells during 2011.

Deepwater Gulf of Mexico

Our deepwater Gulf of Mexico portfolio is anchored by Friesian and Lucius, two high-quality oil discoveries, and a comprehensive exploration portfolio with interests in 107 blocks, nine well-defined prospects and an additional 22 prospects or leads in Pliocene, Miocene and lower Tertiary reservoirs.

In April 2010, the Deepwater Horizon drilling rig, which was engaged in deepwater Gulf of Mexico drilling operations for another operator, sank after an explosion and fire. In response to

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this event and the resulting oil spill, certain federal agencies and governmental officials ordered a six month moratorium on the drilling of new deepwater wells and a suspension of permitted wells being drilled in the deepwater Gulf of Mexico. The moratorium was conditionally lifted in October 2010.

In response to market conditions related to the Gulf of Mexico drilling moratorium in 2010 and as part of our ongoing portfolio optimization, we engaged Barclays Capital and Jefferies & Company to assist us in evaluating various alternatives with respect to our Gulf of Mexico operations. In December 2010 we completed the divestment of our Gulf of Mexico shallow water shelf properties to McMoRan. We are continuing to evaluate alternatives to separate our deepwater and onshore businesses, which include separately capitalizing our deepwater business through a joint venture or outside capital and then either spinning-off or divesting these assets.

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The offering

The following summary contains basic information about the notes and is not intended to be complete. For a more complete understanding of the notes, please refer to the section of this document entitled Description of notes. For purposes of this section of the summary and the description of notes included in this prospectus supplement, references to Plains, PXP, issuer, us, we and our refer only to Plains Exploration & Prod Company and do not include its subsidiaries.

Issuer	Plains Exploration & Production Company.
Securities	$600,000,000 aggregate principal amount of 6 5/8% senior notes due 2021.
Maturity	May 1, 2021.
Interest payment dates	May 1 and November 1 of each year, beginning on November 1, 2011. Interest will accrue from March 29, 2011.
Optional redemption	We may, at our option, redeem all or part of the notes at a make-whole price at any time prior to May 1, 2016. On or after such date, we may redeem notes at fixed redemption prices, plus accrued and unpaid interest, if any, to the date of redemption, as described under Description of notes Optional redemption. In addition, prior to May 1, 2014, we may, at our option, redeem up to 35% of the notes with the proceeds of certain equity offerings at a fixed redemption price, plus accrued and unpaid interest, if any, to the date of redemption, as described under Description of notes Optional redemption.
Ranking	The notes will be our general unsecured, senior obligations. Accordingly, they will rank: senior in right of payment to all of our existing and future subordinated indebtedness; *pari passu* in right of payment with any of our existing and future unsecured indebtedness that is not by its terms subordinated to the notes; effectively junior to our existing and future secured indebtedness, including indebtedness under our senior revolving credit facility, to the extent of the value of our assets constituting collateral securing that indebtedness; and

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structurally subordinate to all existing and future indebtedness and other liabilities (other than indebtedness and liabilities owed to us) of our non-guarantor subsidiaries.

As of December 31, 2010, on an as adjusted basis after giving effect to the issuance and sale of the notes and the application of the net proceeds thereof as set forth under Use of proceeds, we would have had total indebtedness of approximately $3.35 billion ($30.1 million of which would have been secured), excluding approximately $1.4 million in letters of credit outstanding under our senior revolving credit facility, and we would have had approximately $1.37 billion in additional borrowing capacity under our senior revolving credit facility.

Subsidiary guarantees

The notes initially will be jointly and severally guaranteed on a senior unsecured basis by some of our existing domestic subsidiaries. In the future, the guarantees may be released or terminated under certain circumstances.

Each subsidiary guarantee will be a general unsecured obligation of the subsidiary guarantor and will rank:

senior in right of payment to all existing and future subordinated indebtedness of that subsidiary guarantor;

pari passu in right of payment to all existing and future senior unsecured indebtedness of that subsidiary guarantor; and

effectively junior to that subsidiary guarantor s existing and future secured indebtedness, including its guarantee of indebtedness under our senior revolving credit facility, to the extent of the value of the assets of such subsidiary guarantor constituting collateral securing that indebtedness.

Not all of our subsidiaries will guarantee the notes.

Covenants

The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

incur additional debt;

make certain investments or pay dividends or distributions on our capital stock or purchase or redeem or retire capital stock;

sell assets, including capital stock of our restricted subsidiaries;

restrict dividends or other payments by restricted subsidiaries;

create liens that secure debt;

enter into transactions with affiliates; and

merge or consolidate with another company.

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	These covenants are subject to a number of important limitations and exceptions that are described later in this prospectus supplement under the caption Description of notes Covenants.
Change of control offer	If we experience certain kinds of changes of control coupled with a ratings downgrade, we must give holders of the notes the opportunity to sell us their notes at 101% of their principal amount, plus accrued and unpaid interest. However, in such an event, we might not be able to pay you the required repurchase price for the notes you present to us because we might not have sufficient funds available at that time, or the terms of our bank credit agreement may prevent us from applying funds to repurchase the notes.
Use of proceeds	We will receive net proceeds from this offering of approximately $590 million, after deducting the underwriting discount and estimated offering expenses. We intend to use the net proceeds from this offering to reduce indebtedness under our senior revolving credit facility and for general corporate purposes. The amounts to be repaid under our senior revolving credit facility were incurred to fund our acquisition of certain properties in the Eagle Ford Shale and for general corporate purposes, including capital expenditures.
Form	The notes will be represented by registered global securities registered in the name of Cede & Co., the nominee of the depositary, The Depository Trust Company, or DTC. Beneficial interests in the notes will be shown on, and transfers will be effected through, records maintained by DTC and its participants.
Risk factors	See Risk factors for a discussion of the risk factors you should carefully consider before deciding to invest in the notes.
Conflicts of interest	Affiliates of the underwriters are lenders under our senior revolving credit facility and will receive their pro rata portion of the net proceeds from this offering through the repayment of the borrowings they have extended under the senior revolving credit facility. Because 5% or more of the net proceeds of this offering, not including underwriting compensation, may be paid to affiliates of certain of the underwriters, this offering will be made in accordance with Rule 5121 of the Financial Industry Regulatory Authority, or FINRA, which requires that a qualified independent underwriter, or QIU, participate in the preparation of this prospectus and perform the usual standards of due diligence with respect thereto. Morgan Stanley & Co. Incorporated is assuming the responsibilities of acting as QIU in connection with this offering. We have agreed to indemnify Morgan Stanley & Co. Incorporated against certain liabilities incurred in connection with it acting as QIU in this offering, including liabilities under the Securities Act. For more information, see Underwriting; Conflicts of interest.

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Summary historical consolidated financial data

The following table sets forth selected consolidated historical financial information that has been derived from our audited statements of income and cash flows for each of the years ended December 31, 2008, 2009 and 2010 and our audited balance sheets as of December 31, 2008, 2009 and 2010.

You should read this financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as our historical financial statements and notes thereto, all of which are incorporated by reference into this document. Historical results are not necessarily indicative of results that may be expected for any future period.

(Dollars in thousands)	Year ended December 31, 2008(1)	2009	2010(2)
Income statement data:			
Revenues			
Oil and gas sales	$ 2,386,563	$ 1,185,124	$ 1,542,367
Other operating revenues	16,908	2,006	2,228
	2,403,471	1,187,130	1,544,595
Costs and expenses			
Production costs	626,428	423,967	451,902
General and administrative	153,306	144,586	136,437
Depreciation, depletion, amortization and accretion	621,484	421,580	551,118
Impairment of oil and gas properties(3)	3,629,666		59,475
Legal recovery		(87,272)	(8,423)
Other operating expense (income)		2,136	(4,130)
	5,030,884	904,997	1,186,379
(Loss) income from operations	(2,627,413)	282,133	358,216
Other income (expense)			
Gain on sale of assets(4)	65,689		
Interest expense	(116,991)	(73,811)	(106,713)
Debt extinguishment costs	(18,256)	(12,093)	(1,189)
Gain (loss) on mark-to-market derivative contracts(5)	1,555,917	(7,017)	(60,695)
Other (expense) income	(12,575)	27,968	14,391
(Loss) income before income taxes	(1,153,629)	217,180	204,010
Income tax benefit (expense)	444,535	(80,875)	(100,745)
Net (loss) income	$ (709,094)	$ 136,305	$ 103,265

(Dollars in thousands)	Year ended December 31, 2008(1)	2009	2010(2)
Other financial data:			
Net cash provided by operating activities	$ 1,371,409	$ 499,046	$ 912,470
Net cash used in investing activities	(227,790)	(1,280,399)	(1,575,308)
Net cash (used in) provided by financing activities	(857,190)	471,337	667,413
EBITDA(6)	$ (428,190)	$ 698,239	$ 844,139

Ratio of earnings to fixed charges(7)	[8]	1.5	1.3

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(Dollars in thousands)	Year ended December 31, 2008(1)	2009	2010(2)
Balance sheet data:			
Cash and cash equivalents	$ 311,875	$ 1,859	$ 6,434
Total assets	7,111,915	7,734,731	8,894,937
Total liabilities	4,734,635	4,535,750	5,511,972
Total equity	$ 2,377,280	$ 3,198,981	$ 3,382,965

(1) Reflects the February 2008 divestiture of 50% of our working interests in the Piceance and Permian Basins and of all of our working interests in the San Juan Basin and Barnett Shale, the April 2008 acquisition of the South Texas properties and the December 2008 divestiture of the remainder of our interests in the Piceance and Permian Basins.

(2) Reflects the December 2010 divestiture of our interests in all of our Gulf of Mexico leasehold located in less than 500 feet of water and the acquisition of the oil and gas properties in the Eagle Ford oil and gas condensate windows in South Texas during the fourth quarter of 2010.

(3) At December 31, 2008, our capitalized costs of oil and gas properties exceeded the full cost ceiling and we recorded an impairment of oil and gas properties. During 2010, the costs related to our Vietnam oil and gas properties not subject to amortization were transferred to our Vietnam full cost pool where they were subject to the ceiling limitation. Because our Vietnam full cost pool had no associated proved oil and gas reserves, we recorded a non-cash pre-tax impairment charge of $59.5 million.

(4) Represents the gain on the sale of our investment in Collbran Valley Gas Gathering, LLC.

(5) The derivative instruments we have in place are not classified as hedges for accounting purposes. Consequently, these derivative contracts are marked-to-market each quarter with fair value gains and losses, both realized and unrealized, recognized currently as a gain or loss on mark-to-market derivative contracts on the income statement.

(6) EBITDA represents net earnings before income taxes, interest expense, depreciation, depletion and amortization. EBITDA is a performance measure that is not calculated in accordance with generally accepted accounting principles, or GAAP, and should not be considered as an alternative to net income, income before taxes, net cash flow from operating activities or any other measure of financial performance presented in accordance with GAAP. We believe that EBITDA is a widely accepted financial indicator of a company s ability to incur and service debt and to fund capital expenditures used by debt holders, lenders, ratings agencies, industry analysts and financial statement users. Because EBITDA is commonly used, we believe it is useful in evaluating our operating trends and our ability to meet our interest obligations in connection with this offering. EBITDA calculations may vary among entities, so our computation of EBITDA may not be comparable to EBITDA or similar measures of other entities.

The following table provides a reconciliation of net income to EBITDA:

(Dollars in thousands)	Year ended December 31, 2008(1)	2009	2010(2)
Net (loss) income	$ (709,094)	$ 136,305	$ 103,265
Income tax (benefit) expense	(444,535)	80,875	100,745
Interest expense	116,991	73,811	106,713
Depreciation, depletion and amortization	608,448	407,248	533,416
EBITDA	$ (428,190)	$ 698,239	$ 844,139

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EBITDA includes the following items of (expense) income:

(Dollars in thousands)	Year ended December 31, 2008	2009	2010
Impairment of oil and gas properties	$ (3,629,666)	$	$ (59,475)
Gain on sale of assets	65,689		
Gain (loss) on mark-to-market derivative contracts	1,555,917	(7,017)	(60,695)
Stock-based compensation expense	(50,401)	(60,490)	(50,875)
Legal recovery		87,272	8,423
Pre-acquisition date royalty recovery		23,501	8,121
Debt extinguishment costs	(18,256)	(12,093)	(1,189)

Cash (payments) receipts for derivatives and stock appreciation rights or SARs were:

(Dollars in thousands)	Year ended December 31, 2008	2009	2010
Derivative settlements	$ (34,284)	$ 449,443	$ (29,921)
Monetization of crude oil puts and swaps		1,074,361	
SARs	(59,078)	(355)	(566)

(7) For each of the periods presented there were no outstanding shares of preferred stock.

[8] Total fixed charges exceeded total adjusted earnings available for payment of fixed charges by $1,222 million, primarily due to impairment of oil and gas properties recorded in December 2008.

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Summary historical reserve and operating data

The following table sets forth certain information with respect to our consolidated oil and gas reserves as of December 31, 2008, 2009 and 2010 and production for the years ended December 31, 2008, 2009 and 2010. The 2010 information included in this table is based upon (1) reserve reports prepared by the independent petroleum engineers of Netherland, Sewell & Associates, Inc., or NSA, and Ryder Scott Company L.P., or Ryder Scott (99% of reserve volumes) and (2) reserve volumes prepared by us, which were not audited by an independent petroleum engineer (1% of reserve volumes). In 2009, our reserves were based upon reserve reports prepared by NSA and Ryder Scott. In 2008, our reserves were based upon (1) reserve reports prepared by NSA and Ryder Scott (95% of reserve volumes) and (2) reserve volumes prepared by us, which were not audited by an independent petroleum engineer (5% of reserve volumes). The reserve volumes and values were determined using the methods prescribed by the SEC, which for 2010 and 2009 require the use of an average price, calculated as the twelve-month average of the first-day-of-the-month reference prices as adjusted for location and quality differentials, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. For prior years, the SEC rules required the use of year-end prices.

This information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010.

	Year ended December 31,		
	2008	**2009**	**2010**
Estimated net proved reserves (at end of period):			
Oil (MBbl)	177,707	214,030	223,268
Gas (MMcf)	686,357	873,108	1,157,070
Total (MBOE)	292,100	359,548	416,113
Percent oil	61%	60%	54%
Percent proved developed	72%	64%	57%
Standardized measure ($/thousands)	$ 1,136,374	$ 2,224,839	$ 3,093,135
Net reserve additions (including revisions) (MBOE)	(156,884)(1)	98,039	98,518
Reserve life (years)	9.9	11.2	13.0
Sales:			
Oil and liquids (MBbl)	20,294	17,560	16,769
Gas (MMcf)	77,031	75,826	93,093
Total (MBOE)	33,133	30,198	32,285
Average sales price per unit before derivative transactions			
Oil and liquids ($/Bbl)	$ 87.05	$ 51.43	$ 68.14
Gas ($/Mcf)	8.05	3.72	4.29
$/BOE	72.03	39.25	47.77
Production Expenses($/BOE)(2)	18.91	14.03	14.00

(1) Includes 204 MMBOE of negative revisions due to significantly lower average year-end realized prices for oil and gas, the widening of differentials impacting our California properties and development and production costs, which were reflective of the high commodity price environment during the first nine months of 2008. Average year-end realized prices were $85.50 per Bbl and $6.28 per Mcf at December 31, 2007 and $31.75 per Bbl and $5.50 per Mcf at December 31, 2008.

(2) Includes ad valorem and production taxes of $2.84, $1.28 and $0.91 in 2008, 2009 and 2010, respectively.

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Risk factors

An investment in the notes involves risks. You should consider carefully the risk factors included below and under the caption Risk factors beginning on page 1 of the accompanying prospectus, as well as those discussed under the caption Risk factors in our Annual Report on Form 10-K for the year ended December 31, 2010, together with all of the other information included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, when evaluating an investment in the notes.

Risks relating to the notes

We may not be able to generate enough cash flow to meet our debt obligations.

We expect our earnings and cash flow to vary significantly from year to year due to the cyclical nature of our industry. As a result, the amount of debt that we can manage in some periods may not be appropriate for us in other periods. In addition, our future cash flow may be insufficient to meet our debt obligations and commitments, including the notes. Any insufficiency could negatively impact our business. A range of economic, competitive, business and industry factors will affect our future financial performance, and, as a result, our ability to generate cash flow from operations and to pay our debt, including the notes. Many of these factors, such as oil and gas prices, economic and financial conditions in our industry and the global economy or competitive initiatives of our competitors, are beyond our control.

If we do not generate enough cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- refinancing or restructuring our debt;
- selling assets;
- reducing or delaying capital investments; or
- seeking to raise additional capital.

However, any alternative financing plans that we undertake, if necessary, may not allow us to meet our debt obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations, including our obligations under the notes, or to obtain alternative financing, could materially and adversely affect our business, financial condition, results of operations and prospects.

Our debt could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital and capital expenditures, to engage in future acquisitions or development activities, or to otherwise realize the value of our assets and opportunities fully because of the need to dedicate a substantial portion of our cash flow from operations to payments of interest and principal on our debt or to comply with any restrictive terms of our debt;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- impair our ability to obtain additional financing in the future; and

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place us at a competitive disadvantage compared to our competitors that have less debt.

In addition, if we fail to comply with the covenants or other terms of any agreements governing our debt, our lenders will have the right to accelerate the maturity of that debt and foreclose upon the collateral, if any, securing that debt. Realization of any of these factors could adversely affect our financial condition.

The notes and the guarantees will be unsecured and effectively subordinated to our and our subsidiary guarantors existing and future secured indebtedness and structurally subordinated to any existing or future indebtedness and other liabilities of our non-guarantor subsidiaries.

The notes and the guarantees will be general unsecured senior obligations ranking effectively junior in right of payment to all existing and future secured debt of ours and that of each subsidiary guarantor, including obligations under our senior revolving credit facility, to the extent of the value of the collateral securing the debt and will be subordinate in right of payment to any existing or future indebtedness and other liabilities of our non-guarantor subsidiaries. As of December 31, 2010, on an as adjusted basis after giving effect to the issuance and sale of the notes and the application of the net proceeds therefrom as set forth under Use of proceeds, we and our subsidiary guarantors would have had approximately $30.1 million in secured debt outstanding (other than approximately $1.4 million of letters of credit outstanding) under our senior revolving credit facility. After the completion of this offering, we will have an additional $1.37 billion of borrowing capacity available for future secured borrowings under our senior revolving credit facility.

If we or a subsidiary guarantor is declared bankrupt, becomes insolvent or is liquidated or reorganized, any secured debt of ours or that subsidiary guarantor will be entitled to be paid in full from our assets or the assets of the guarantor, as applicable, securing that debt before any payment may be made with respect to the notes or the affected guarantees. Holders of the notes will participate ratably in our remaining assets with all holders of our unsecured indebtedness that does not rank junior to the notes, including all of our other general creditors, based upon the respective amounts owed to each holder or creditor. In any of the foregoing events, there may not be sufficient assets to pay amounts due on the notes. As a result, holders of the notes would likely receive less, ratably, than holders of secured indebtedness.

In addition, creditors of current and future subsidiaries that do not guarantee the notes will have claims, with respect to the assets of those subsidiaries, that rank structurally senior to the notes. In the event of any distribution or payment of assets of such subsidiaries in any dissolution, winding up, liquidation, reorganization, or other bankruptcy proceeding, the claims of those creditors must be satisfied prior to making any such distribution or payment to Plains in respect of its direct or indirect equity interests in such subsidiaries.

We may be able to incur substantially more debt. This could exacerbate the risks associated with our indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. After the completion of this offering and the application of net proceeds therefrom, we will have approximately $1.37 billion in additional borrowing capacity under our senior revolving credit facility. Any additional borrowings would be secured and, as a result, effectively senior to the notes and the guarantees of the notes by our subsidiary guarantors, to the extent of the value of the collateral securing that indebtedness. In addition, the holders of our previously

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issued 7 5/8% senior notes due 2020 (of which $300 million in principal amount is outstanding), the holders of our previously issued 8 5/8% senior notes due 2019 (of which $400 million in principal amount is outstanding), the holders of our previously issued 7 5/8% senior notes due 2018 (of which $400 million in principal amount is outstanding), the holders of our previously issued 7% senior notes due 2017 (of which $500 million in principal amount is outstanding), the holders of our previously issued 10% senior notes due 2016 (of which $565 million in principal amount is outstanding) and the holders of our previously issued 7 3/4% senior notes due 2015 (of which $600 million in principal amount is outstanding), as well as the holders of any future debt we may incur that ranks equally with the notes, will be entitled to share ratably with the holders of the notes in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. This may have the effect of reducing the amount of proceeds paid to you.

If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify. As of December 31, 2010, on an as adjusted basis after giving effect to the issuance and sale of the notes and the application of the net proceeds therefrom as set forth under Use of proceeds, we would have had total indebtedness of approximately $3.35 billion ($30.1 million of which would have been secured), excluding approximately $1.4 million in letters of credit outstanding under our senior revolving credit facility. Our level of indebtedness may prevent us from engaging in certain transactions that might otherwise be beneficial to us by limiting our ability to obtain additional financing, limiting our flexibility in operating our business or otherwise. In addition, we could be at a competitive disadvantage relative to our less leveraged competitors that have more cash flow to devote to their business. Any of these factors could result in a material adverse effect on our business, financial condition, results of operations, business prospects and ability to satisfy our obligations under the notes.

Restrictions in our existing and future debt agreements could limit our growth and our ability to respond to changing conditions.

The indenture governing the notes and each series of our existing notes, our senior revolving credit facility and agreements governing our other indebtedness contain a number of significant covenants in addition to covenants restricting the incurrence of additional debt. These covenants limit our ability and the ability of our restricted subsidiaries, among other things, to:

- pay dividends or distributions on our capital stock or to repurchase our capital stock;
- repurchase subordinated debt;
- make certain investments;
- create certain liens on our assets to secure debt;
- merge or to enter into other business combination transactions;
- issue and sell capital stock of our subsidiaries;
- enter into certain transactions with affiliates; and
- transfer and sell assets.

Our senior revolving credit facility requires us, among other things, to maintain a financial ratio, satisfy certain financial condition tests or reduce our debt. These restrictions also limit our ability to obtain future financings, withstand a future downturn in our business or the economy in general, or otherwise conduct necessary corporate activities. We may also be prevented from taking advantage of business opportunities that arise because of the limitations that the restrictive covenants under the indenture governing the notes and our existing indentures and senior revolving credit facility impose on us.

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A breach of any covenant in the indenture governing the notes, our senior revolving credit facility or the agreements governing our other indebtedness would result in a default under that agreement after any applicable grace periods. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and acceleration of, the debt outstanding under any other debt agreements. The accelerated debt would become immediately due and payable. If that should occur, we may not be able to make all of the required payments or borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us. See Description of our other indebtedness and Description of notes Events of default.

We may not be able to repurchase the notes upon a change of control.

If we experience certain kinds of changes of control coupled with a ratings downgrade with respect to the notes, we must give holders of the notes the opportunity to sell us their notes at 101% of their principal amount, plus accrued and unpaid interest. However, in such an event, we might not be able to pay you the required repurchase price for the notes you present to us because we might not have sufficient funds available at that time, or the terms of our bank credit agreement may prevent us from applying funds to repurchase the notes. The source of funds for any repurchase required as a result of a change of control will be our available cash or cash generated from our oil and gas operations or other sources, including:

- borrowings under our credit facilities or other sources;
- sales of assets; or
- sales of equity.

Sufficient funds may not be available at the time of any change of control to repurchase your notes after first repaying any of our senior debt that may exist at the time. In addition, restrictions under our senior revolving credit facility or any future revolving credit facilities will not allow such repurchases. A change of control (as defined in the indenture governing the notes) will also be an event of default under our senior revolving credit facility that would permit the lenders to accelerate the debt outstanding under the senior revolving credit facility. Finally, using available cash to fund the potential consequences of a change of control may impair our ability to obtain additional financing in the future, which could negatively impact our ability to conduct our business operations.

A financial failure by us or our subsidiaries may result in the assets of any or all of those entities becoming subject to the claims of all creditors of those entities.

A financial failure by us or our subsidiaries could affect payment of the notes if a bankruptcy court were to substantively consolidate us and our subsidiaries. If a bankruptcy court substantively consolidated us and our subsidiaries, the assets of each entity would be subject to the claims of creditors of all entities. This would expose you not only to the usual impairments arising from bankruptcy, but also to potential dilution of the amount ultimately recoverable because of the larger creditor base. Furthermore, forced restructuring of the notes could occur through the cram-down provision of the bankruptcy code. Under this provision, the notes could be restructured over your objections as to their general terms, primarily interest rate and maturity.

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If the subsidiary guarantees are deemed fraudulent conveyances or preferential transfers, a court may subordinate or void them.

Under various fraudulent conveyance or fraudulent transfer laws, a court could subordinate or void our subsidiary guarantees. Generally, a United States court may void or subordinate a subsidiary guarantee in favor of the subsidiary s other obligations if it finds that at the time the subsidiary entered into a subsidiary guarantee it:

- intended to hinder, delay or defraud any present or future creditor or contemplated insolvency with a design to favor one or more creditors to the exclusion of others;
- did not receive fair consideration or reasonably equivalent value for issuing the subsidiary guarantee;
- was insolvent or became insolvent as a result of issuing the subsidiary guarantee;
- was engaged or about to engage in a business or transaction for which the remaining assets of the subsidiary constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they matured.

In addition, a guarantee may be voided based on the level of benefits that the subsidiary guarantor received compared to the amount of the subsidiary guarantee. If a subsidiary guarantee is voided or held unenforceable, you would not have any claim against that subsidiary and would be creditors solely of us and any subsidiary guarantors whose guarantees are not held unenforceable. After providing for all prior claims, there may not be sufficient assets to satisfy claims of holders of notes relating to any voided portions of any of the subsidiary guarantees.

There is a risk of a preferential transfer if:

- a subsidiary guarantor declares bankruptcy or its creditors force it to declare bankruptcy within 90 days (or in certain cases, one year) after a payment on the guarantee; or
- a subsidiary guarantee was made in contemplation of insolvency.

The subsidiary guarantee could be voided by a court as a preferential transfer. In addition, a court could require holders of notes to return any payments made on the notes during the 90-day (or, in certain cases, one-year) period.

Your ability to transfer the notes may be limited by the absence of an active trading market, and an active trading market may not develop for the notes.

The notes are a new issue of securities for which there is no established trading market. An active trading market may not develop for the notes. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market, if any, for the notes may not be free from similar disruptions and any such disruptions may adversely affect the prices at which you may sell your notes. In addition, subsequent to their initial issuance, the notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our operating performance and financial condition and other factors.

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Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our senior revolving credit facility bear interest at variable rates and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase although the amount borrowed remained the same, and our net income and cash available for servicing our indebtedness would decrease.

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Use of proceeds

We will receive net proceeds from this offering of approximately $590 million, after deducting the underwriting discount and estimated offering expenses. We intend to use the net proceeds from this offering to reduce indebtedness under our senior revolving credit facility and for general corporate purposes. The amounts to be repaid under our senior revolving credit facility were incurred to fund our acquisition of certain properties in the Eagle Ford Shale and for general corporate purposes, including capital expenditures.

As of December 31, 2010, the outstanding balance under our senior revolving credit facility was $620 million (excluding $1.4 million in letters of credit), bearing an effective interest rate of 2.31%. Our senior revolving credit facility matures August 3, 2015.

Affiliates of the underwriters are lenders under our senior revolving credit facility and, accordingly, will receive their pro rata portion of the net proceeds from this offering through repayment of the borrowings they have extended under the senior revolving credit facility. See Underwriting; Conflicts of interest.

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Capitalization

The following table sets forth our capitalization and cash balance as of December 31, 2010 (1) on a consolidated historical basis and (2) as adjusted to reflect the issuance and sale of $600 million in aggregate principal amount of senior notes in this offering and application of the estimated net proceeds thereof as described in Use of proceeds.

You should read our historical financial statements and notes that are incorporated by reference into this prospectus supplement.

(Dollars in thousands)	At December 31, 2010 Historical	As adjusted
Cash and cash equivalents	$ 6,434	$ 6,434
Long-term debt:		
Senior revolving credit facility(1)	620,000	30,055
7 3/4% senior notes due 2015	600,000	600,000
10% senior notes due 2016(2)	530,812	530,812
7% senior notes due 2017	500,000	500,000
7 5/8% senior notes due 2018	400,000	400,000
8 5/8% senior notes due 2019(3)	393,905	393,905
7 5/8% senior notes due 2020	300,000	300,000
New senior notes offered hereby		600,000
Total long-term debt	3,344,717	3,354,772
Stockholders equity	3,382,965	3,382,965
Total capitalization	$ 6,727,682	$ 6,737,737

(1) As of December 31, 2010, we had commitments under our senior revolving credit facility of $1.4 billion, of which $779 million was available. The borrowing base will be reduced from $1.6 billion to $1.45 billion as a result of this offering.

(2) —

Total assets	$288,232	$ 248,050	$ 40,182	$ —

	Fair Value Measurements December 31, 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	$19,795	$ 19,795	$ —	$ —
Total cash	19,795	19,795	—	—

equivalents				
Short-term investments				
Certificates of deposit	23,030	—	23,030	—
U.S. Treasury securities	175,214	175,214	—	—
Preferred stock of U.S. corporation	1,485	—	—	1,485
Total short-term investments	199,729	175,214	23,030	1,485
Long-term investments				
Certificates of deposit	7,668	—	7,668	—
U.S. Treasury securities	116,372	116,372	—	—
Total long-term investments	124,040	116,372	7,668	—
Total assets	$343,564	$ 311,381	$ 30,698	$ 1,485

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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) at the beginning of the period (in thousands):

	Fair Value Measurements (Level 3)
Preferred stock of U.S. corporation:	
Fair value at December 31, 2015	$ 1,485
Fair value decrease recorded in other comprehensive loss	(371)
Fair value transferred to Level 2	(1,114)
Fair value at September 30, 2016	$ —

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued research and development expenses	$ 3,236	$ 3,596
Accrued compensation	2,090	2,939
Other accrued liabilities	1,012	3,186
Total accrued liabilities	$ 6,338	$ 9,721

Revenue Recognition

The Company's revenues generally consist of (i) contract revenue – revenue generated under federal contracts, and (ii) collaboration and licensing revenue – revenue related to non-refundable upfront fees, royalties and milestone payments earned under license agreements. Revenue is recognized in accordance with the criteria outlined in the Securities and Exchange Commission (SEC)'s Topic 13 and Accounting Standards Codification (ASC) 605-25 issued by the Financial Accounting Standards Board (FASB). Following these accounting pronouncements, revenue is recognized when all four of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery of the products and/or services has occurred and risk of loss has passed; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured. The Company recognizes revenue under government contracts as qualifying research activities are conducted based on invoices received.

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 and 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 its research and development efforts. 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 research and development 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 its research and development efforts. The Company determines prepaid and accrual estimates through discussion with applicable personnel and outside service providers as to the progress or state of communication of clinical trials, or other services completed. The Company adjusts its rate of research and development expense recognition if actual results differ from its estimates. The Company makes estimates of its prepaid and 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 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 September 30, 2016, there had been no material adjustments to the Company's prior period estimates of prepaid and accruals for research and development expenses. The Company's research and development prepaids and accruals are dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors.

Basic and Diluted Net Loss Per Share of Common Stock

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 to purchase common stock, employee stock purchase plan purchase rights, options to purchase common stock and restricted stock units. Diluted net loss per share of common stock is computed by dividing net loss by the sum of the weighted-average number of shares of common stock outstanding during the period and the potential dilutive effects of warrants and options to purchase common stock outstanding during the period calculated in accordance with the treasury stock method, and employee stock purchase plan purchase rights unless the effects of these potentially dilutive items are anti-dilutive. Because the effects of these potentially dilutive items are anti-dilutive during periods of net loss, there was no difference between basic and diluted loss per share of common stock for the three and nine months ended September 30, 2016 and 2015.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of warrants to purchase common stock, employee stock purchase plan purchase rights and options to purchase common stock as the impacts of such items are anti-dilutive during periods of net loss. Potential common shares excluded from the calculations were 1.4 million and 1.1 million for the three months ended September 30, 2016 and 2015, respectively, and 0.9 million and 1.3 million for the nine months ended September 30, 2016 and 2015, respectively.

Impact of Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (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. The FASB has issued several updates to the standard which (1) defer the original effective date to annual periods and interim periods within those annual periods beginning after December 15, 2017, while allowing for early adoption as of January 1, 2017 (ASU 2015-14); (2) clarify the application of the principal versus agent guidance (ASU 2016-08); and (3) clarify the guidance on inconsequential and perfunctory promises and licensing (ASU 2016-10). The Company is currently analyzing the impact of the adoption of ASU No. 2014-09 on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall (Subtopic 825-10)-Recognition and Measurement of Financial Assets and Financial Liabilities.” The new standard enhances reporting for financial instruments. The ASU is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2017. Earlier adoption is permitted for interim and annual reporting periods as of the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2016-01 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for lessees for operating lease arrangements with lease terms greater than 12 months. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This ASU is effective for financial statements issued for annual periods and interim periods within those annual periods, beginning after December 18, 2018. The Company is currently analyzing the impact of the adoption of ASU No. 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting", which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for financial statements issued for annual periods and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. The Company is currently analyzing the impact of the adoption of ASU No. 2016-09 on its consolidated financial statements.

Impact of Recently Adopted Accounting Standards

In June 2015, the FASB issued ASU 2015-10, “Technical Corrections and Improvements.” The amendments in ASU 2015-10 clarify and correct some of the differences 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. ASU 2015-10 became effective for the Company beginning in the first quarter of 2016. The Company's adoption of ASU 2015-10 did not have a material impact on its consolidated financial statements.

Note 2. Investments

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

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	$16,325	$ 17	$ —	$16,342
U.S. Treasury securities	222,612	69	(53)	222,628
Common stock of U.S. corporation	1,545	—	(399)	1,146
Total investments	$240,482	$ 86	$ (452)	$240,116

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	$30,724	$ 2	$ (28)	$30,698
U.S. Treasury securities	292,264	—	(678)	291,586
Preferred stock of U.S. corporation	1,545	—	(60)	1,485
Total investments	$324,533	$ 2	$ (766)	$323,769

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The following tables summarize the Company's investments with unrealized losses, aggregated by investment type and the length of time that individual investments have been in a continuous unrealized loss position (in thousands, except number of securities):

	September 30, 2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$51,063	$ (53)	$ —	$ —	$51,063	$ (53)
Common stock of U.S. corporation	1,146	(399)	—	—	1,146	(399)
Total	$52,209	$ (452)	$ —	$ —	$52,209	$ (452)
Number of securities with unrealized losses		12		—		12

	December 31, 2015					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificates of deposit	$24,450	$ (28)	$ —	$ —	$24,450	$ (28)
U.S. Treasury securities	291,586	(678)	—	—	291,586	(678)
Preferred stock of U.S. corporation	1,485	(60)	—	—	1,485	(60)
Total	$317,521	$ (766)	$ —	$ —	$317,521	$ (766)
Number of securities with unrealized losses		180		—		180

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. The Company does not currently intend to sell, and is not more likely than not to be required to sell, the available-for-sale securities in an unrealized loss position before recovery of the amortized cost bases of the securities, which may be maturity. 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 nine months ended September 30, 2016 and 2015. The Company recognizes interest income on an accrual basis in interest income, net in the Consolidated Statements of Operations and Comprehensive Loss.

The following table summarizes the scheduled maturity for the Company's debt investments at September 30, 2016 (in thousands):

Maturing in one year or less	$ 199,169
Maturing after one year through two years	39,801
Total debt investments	238,970
Common stock of U.S. corporation	1,146

Total investments	$	240,116

Note 3. 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 September 30, 2016 and 2015, respectively, and $0.6 million and $0.5 million for the nine months ended September 30, 2016 and 2015, 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 sole 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 had been made as of September 30, 2016 and December 31, 2015.

Note 4. Equity Transactions and Share-based Compensation

Warrants

For the three and nine months ended September 30, 2016, there were no exercises of warrants for the purchase of shares of the Company's common stock.

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), non-statutory 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, 2016, the common stock reserved for issuance under the 2013 Plan was automatically increased by 1.8 million shares. As of September 30, 2016, there was a total of 0.6 million shares reserved for future issuance under the 2013 Plan. The Company issued approximately 45,000 shares of common stock pursuant to the exercise of stock options for the nine months ended September 30, 2016. There were no shares of common stock issued pursuant to the exercise of stock options for the three months ended September 30, 2016

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, 2016, the common stock reserved for issuance under the ESPP was automatically increased by an additional 0.4 million shares bringing the total number of shares of common stock that may be purchased under the ESPP to 1.8 million.

The Company has reserved a total of 1.8 million shares of common stock to be purchased under the ESPP, of which 1.6 million shares remained available for purchase as of September 30, 2016. The ESPP 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. Eligible employees may authorize an amount up to 15% of their salary to purchase common stock at the lower of a 15% discount to the beginning price of their offering period or a 15% discount to the ending price of each six-month purchase interval. The Company issued approximately 100,000 shares of common stock pursuant to the ESPP for the three months ended September 30, 2016. The Company issued approximately 108,000 shares of common stock pursuant to the ESPP for the nine months ended September 30, 2016. Compensation expense for shares purchased under the ESPP related to the purchase discount and the “look-back” option and were determined using a Black-Scholes option pricing model.

Restricted Stock Units

In May 2016, the Company issued restricted stock units (RSUs) to certain employees which vest based on service criteria. When vested, the RSU represents the right to be issued the number of shares of the Company's common stock that is equal to the number of RSUs granted. The grant date fair value for RSUs is based upon the market price of the Company's common stock on the date

of the grant. The fair value is then amortized to compensation expense over the requisite service period or vesting term. The Company issued no shares of common stock pursuant to the vesting of RSUs for the three and nine months ended September 30, 2016.

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 nine months ended September 30, 2016 and 2015, there was no non-employee share-based compensation expense. Employee share-based compensation expense recognized related to stock options, the ESPP and RSUs was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development expense	$1,942	$1,594	$5,373	$3,820
General and administrative expense	2,153	2,085	6,961	5,062
Total share-based compensation expense	$4,095	$3,679	$12,334	$8,882

Note 5. Income Taxes

The Company estimates an annual effective tax rate of 0% for the year ending December 31, 2016 as the Company incurred losses for the nine months ended September 30, 2016 and is forecasting additional losses through the 4th quarter, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2016. 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 ASC 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 September 30, 2016, the Company had no unrecognized tax benefits that would reduce the Company’s effective tax rate if recognized.

Note 6. 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. The license agreement was amended in September 2002 in order to expand the scope of the license and again in December 2010 in order to modify certain financial terms. The agreement was amended a third time in September 2011 to add additional patents related to certain metabolically stable lipid-conjugate compounds. A fourth amendment was executed in July 2012 to alter the rights and obligations of the parties in light of the Company’s then current business plans. As partial consideration for the rights granted to the Company under the license agreement, 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. In connection with the development and commercialization of brincidofovir and CMX157, 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.

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 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 or CMX157) 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 nine months ended September 30, 2016 and 2015.

Biomedical Advanced Research and Development Authority

In February 2011, the Company entered into a contract with BARDA for the advanced development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended numerous times. In August 2016, the contract was amended to extend the period of performance for the second option segment through June 30, 2017. In September 2015, the third option segment of the contract to provide approximately $13 million through October 31, 2016 was executed and in October 2016 was amended to extend the period of performance for the third option segment through January 31, 2017.

Under the contract, BARDA will reimburse the Company, plus pay a fixed fee, for the research and development of brincidofovir as a broad-spectrum therapeutic antiviral for the treatment of 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. The Company must complete the agreed upon milestones and deliverables in each discrete work segment before the next option segment is eligible to be exercised. 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 September 30, 2016, the Company had recognized revenue in aggregate of $49.7 million with respect to the base performance segment and the first three extension periods. The Company is currently performing under the second and third option segments of the contract during which the Company may receive up to a total of $17.5 million in expense reimbursement and fees and $13 million in expense reimbursement and fees, respectively. The second option segment is scheduled to end on June 30, 2017 and the third option segment is scheduled to end on January 31, 2017. For the three months ended September 30, 2016 and 2015, the Company recognized revenue under this contract of $0.7 million and $2.3 million, respectively, and for the nine months ended September 30, 2016 and 2015, the Company recognized revenue under this contract of $3.7 million and $6.1 million, respectively.

ContraVir Pharmaceuticals

In December 2014, the Company entered into a license agreement with ContraVir for the development and commercialization of CMX157 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 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 sixty (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. 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 completion of the transfer of the investigational new drug and technical know-how related to CMX157, the Company recognized the upfront payment as revenue during the three months ended June 30, 2015. In September 2016, the Company converted its shares of ContraVir Series B Convertible Preferred Stock into 1,071,429 shares of ContraVir common stock. As of September 30, 2016 and December 31, 2015, the fair value of the investment was recorded as a short-term investment of $1.1 million and $1.5 million, respectively.

Note 7. 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 September 30, 2016, 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 consolidated 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, 2015 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, 2015, filed with the Securities and Exchange Commission (SEC) on February 29, 2016. 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, Inc. is a biopharmaceutical company dedicated to discovering, developing and commercializing novel antivirals to address areas of high unmet medical needs. 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 dosing regimens. Based on our proprietary lipid conjugate technology, our lead compound, brincidofovir, is in clinical development for the treatment and prevention of adenovirus (AdV), cytomegalovirus (CMV) and smallpox. In addition, we have an active discovery program focusing on viral targets for which limited or no therapies are currently available, including most recently a clinical candidate for the prevention and treatment of norovirus infection.

Recent Developments

Development of IV Brincidofovir Formulation Continues

We remain on track to provide pharmacokinetic, safety and tolerability data from a single dose escalation study of intravenous (IV) brincidofovir in early 2017, with multiple dose studies in patients with active viral infection to follow. In preclinical testing, animals given four weeks of IV brincidofovir showed no signs of gastrointestinal injury, even at plasma exposures several fold higher than those ever achieved with oral dosing. If these early clinical studies of IV-administered brincidofovir continue to demonstrate low or no gastrointestinal side-effects, IV brincidofovir could be in late-stage registrational studies in 2018. Once brincidofovir enters the target cells and is converted to the

active antiviral, the drug remains at effective concentrations for several days, potentially allowing for once-weekly dosing. The potential to provide higher drug exposures may allow a much-needed treatment for CMV, AdV, BK virus, and other DNA viral infections, potentially even in difficult to reach anatomical regions such as the brain.

Detailed 24-Week Data from AdVise Study Presented at IDWeek™

In October 2016, we announced the presentation of detailed 24-week interim results from the AdVise trial of brincidofovir for the treatment of AdV infection in allogeneic hematopoietic cell transplant (HCT) patients.

The presentation at IDWeek highlighted that robust declines in AdV viral loads were demonstrated in the study; rapid reduction in AdV viremia were correlated with improved survival in both adults and pediatric patients. The primary efficacy endpoint of the AdVise trial was the incidence of all-cause mortality at Day 60 after the first brincidofovir dose in allogeneic HCT patients enrolled with disseminated AdV disease (Cohort B), a group in which mortality of 50-80 percent has been reported in the literature. All-cause mortality in Cohort B at Day 60 was 19 percent in pediatric subjects and 43 percent in adults. In patients with disseminated

AdV disease who were alive at Week 4, 84 percent of pediatric patients and 50 percent of adults achieved a ≥2 log decline or undetectable AdV viremia by that time. This response was associated with improved survival at Week 24 in both pediatric and adult patients (75 percent of pediatric and 54 percent of adult responders survived to Week 24, compared with 29 percent and 15 percent of non-responders, respectively). The most commonly reported treatment-emergent adverse events (AEs) were gastrointestinal (GI) symptoms, increases in serum transaminases and bilirubin, and acute graft-versus-host disease (GvHD). No events were reported that were suggestive of drug-related nephrotoxicity or myelosuppression.

In an analysis of the data presented at IDWeek that was based on enrollment in the trial, a stepwise reduction in mortality was observed in pediatric patients as the study progressed: 60% mortality was observed in the initial quarter of pediatric patients enrolled in AdVise, with steady declines to 14% mortality for those patients enrolled in the last quartile. A shorter time from diagnosis to first dose of brincidofovir is thought to be a significant driver of the observed improvement.

As previously communicated, an attempt was made to compare outcomes with matched historical controls, but the baseline risk factors for the control patients (including several recognized co-morbidities) did not match the high-risk patients enrolled in AdVise, and a meaningful difference in overall survival between the AdVise patients and historical controls was not observed. These learnings, specifically the significant reduction in mortality observed throughout the conduct of the study underscore the potential for brincidofovir in patients with life-threatening adenovirus infection. Early identification of adenovirus and intervention with brincidofovir are being incorporated in the design of our next comparative trial of oral brincidofovir which we expect to initiate in 2017.

We currently expect to present final 36-week data from the AdVise trial at a medical meeting during the first quarter of 2017.

Brincidofovir Expanded Access Program

We continue to receive requests for brincidofovir via our expanded access programs. Through the first ten months of 2016, we have granted 263 requests for AdV alone, highlighting the unmet need in this area.

Brincidofovir for Smallpox

Our development of brincidofovir for smallpox continues, in collaboration with the Biomedical Advanced Research and Development Authority (BARDA). Following completion of the second animal efficacy study, we plan to meet with the FDA to discuss any additional required data for a regulatory decision. Earlier in 2016, we provided regulators with a summary of the clinical safety and tolerability of the intended three week course of oral brincidofovir in healthy adults and immunocompromised adults and children. In addition, the final study report for the rabbitpox efficacy study of brincidofovir has been submitted to the FDA.

In October 2016, we were notified that the European Medicines Agency’s Committee for Orphan Medicinal Products issued a positive opinion for an Orphan Designation for brincidofovir for the treatment of smallpox.

Clinical Candidate CMX521 for Norovirus

We are currently conducting final preclinical studies of CMX521 that are required to file an Investigational New Drug application (IND) in 2017, allowing for initial clinical testing. CMX521 is a nucleoside analog identified from our proprietary Chemical Library which targets the norovirus polymerase, a part of the virus that is common to all strains and is required for viral replication. It is therefore expected to be active against the multiple genetically diverse norovirus strains that circulate each year and cause disease in humans.

Chronic norovirus infection is increasingly being diagnosed in immune compromised patients. Approximately 15-20 percent of HCT and SOT recipients are diagnosed with norovirus within the first year after transplant, a diagnosis that has been associated with chronic diarrhea, electrolyte disturbances, and graft rejection. We plan to file an IND for CMX521 in 2017, which, upon acceptance would enable clinical testing.

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 our 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. We are currently performing under the second and third option segments of the contract during which we may receive up to a total of $17.5 million and $13 million in expense reimbursement and fees, respectively. The second option segment is scheduled to end on June 30, 2017 and the third option segment is scheduled to end on January 31, 2017. As of September 30, 2016, we had recognized revenue in aggregate of $49.7 million with respect to the base performance segment and the first three extension periods. Under the BARDA contract, we recognized revenue of $0.7 million and $2.3 million for the three months ended September 30, 2016 and 2015, respectively, and we recognized revenue of $3.7 million and $6.1 million for the nine months ended September 30, 2016 and 2015, respectively.

In December 2014, we entered into a collaboration and licensing agreement with ContraVir Pharmaceuticals (NASDAQ: CTRV). 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 September 2016, these shares were converted into 1,071,429 shares of ContraVir common stock. 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, and during the second quarter of 2015 we completed our performance obligations and recorded $1.5 million in 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, restricted stock units 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
- license fees for and milestone payments related to licensed products and technologies.

From our inception through September 30, 2016, we have incurred approximately $343 million in research and development expenses, which predominately relates to our development of brincidofovir. These costs were largely related to the conduct of our clinical trials, including most recently our two large clinical trials of oral brincidofovir, SUPPRESS and AdVise.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Direct research and development expenses	$6,301	$18,937	$25,998	$45,819
Research and development personnel costs	4,806	6,348	17,149	16,519
Indirect research and development expenses	1,140	1,210	3,795	3,529
Total research and development expenses	$12,247	$26,495	$46,942	$65,867

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, as detailed in Part II, Item IA, “Risk Factors” in this Quarterly Report on Form 10-Q and in our other filings with the SEC.

Brincidofovir

The majority of our research and development resources has been focused on completing our Phase 3 trial of brincidofovir for prevention of CMV in HCT recipients (SUPPRESS), our trial of brincidofovir as a treatment for AdV (AdVise), our Phase 3 SUSTAIN and SURPASS trials, and our other 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 concluded our Phase 3 SUPPRESS trial and our AdVise study, and closed our SUSTAIN and SURPASS trials in kidney transplant recipients. As a result, our research and development expenses have significantly decreased in 2016. However, following finalization of our revised development plan for oral brincidofovir in early 2017 and completion of early-phase clinical testing for the IV formulation of brincidofovir, we expect to increase our research and development expenses.

In addition, pursuant to our contract with BARDA, we are continuing development of 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 the 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 confirmatory pharmacokinetic studies of brincidofovir in animals. In September 2014, we initiated performance under the second option segment of the contract with BARDA and performed the first pivotal animal efficacy study of brincidofovir. In September 2015, we initiated performance under the third option segment which focuses on brincidofovir chemistry, manufacturing and controls at large scale. We are continuing to assess the efficacy of brincidofovir via animal models under the FDA’s Animal Rule, and anticipate completing the mouse ectromelia study and subsequently reviewing with the FDA in the first half of 2017.

Other Development

In addition to the costs associated with brincidofovir development, we have incurred research and development costs related to other programs, including CMX669 for CMV and BK virus and CMX521 for norovirus. The majority of this work has been focused on preclinical development, early-stage chemistry, and manufacturing in preparation for Phase 1 clinical testing. We have increased spending for preclinical development and early-stage chemistry for

CMX521, conducted our candidate selection in September 2016, and have initiated IND-enabling activities for this molecule for the prevention and treatment of norovirus infection.

General and Administrative Expenses

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

We expect our general and administrative expenses to continue to trend downward during 2016, driven primarily by a reduction in expenses related to commercial preparations.

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). In January 2012, we borrowed $3.0 million under the LSA, and in September 2012, we borrowed an additional $12.0 million. In October 2015, the loan was paid in full.

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 consolidated share-based compensation expense of $4.1 million and $3.7 million was recognized in the three months ended September 30, 2016 and 2015, respectively, and $12.3 million and $8.9 million was recognized in the nine months ended September 30, 2016 and 2015, respectively. The share-based compensation expense recognized included expense for stock options, restricted stock units and employee stock purchase plan purchase rights.

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.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Our management’s discussion and analysis of financial condition and results of operations is based on our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate these estimates and judgments. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenues and expenses that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates. In addition, our reported financial condition and results of operations could vary if new accounting standards are enacted that are applicable to our business.

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, 2015 filed with the SEC on February 29, 2016. There have been no material changes during the nine months ended September 30, 2016 to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2016 and September 30, 2015

The following table summarizes our results of operations for the three months ended September 30, 2016 and September 30, 2015, together with the changes in those items (in thousands, except percentages):

	Three Months Ended September 30,		Dollar Change	% Change
	2016	2015	Increase/(Decrease)	
Revenues:				
Contract revenue	$653	$2,271	$(1,618)	(71.2)%
Collaboration and licensing revenue	—	—	—	— %
Total revenues	653	2,271	(1,618)	(71.2)%
Operating expenses:				
Research and development	12,247	26,495	(14,248)	(53.8)%
General and administrative	5,827	8,524	(2,697)	(31.6)%
Total operating expenses	18,074	35,019	(16,945)	(48.4)%
Loss from operations	(17,421)	(32,748)	15,327	(46.8)%
Interest income, net	396	299	97	32.4 %
Net loss	$(17,025)	$(32,449)	$15,424	(47.5)%

Contract Revenue

For the three months ended September 30, 2016, total contract revenue decreased to $0.7 million compared to $2.3 million for the three months ended September 30, 2015. The decrease of $1.6 million, or 71.2%, is related to a decrease in reimbursable expenses related to our contract with BARDA.

Research and Development Expenses

For the three months ended September 30, 2016, our research and development expenses decreased to $12.2 million compared to $26.5 million for the three months ended September 30, 2015. The decrease of $14.2 million, or 53.8%, is primarily related to the following:

- a decrease in clinical trial expenses of $10.4 million which is comprised of $9.8 million related to the completion of our Phase 3 SUPPRESS and AdVise trials and the closeout of our SUSTAIN and SURPASS trials, offset by an increase of $0.4 million for our ongoing expanded access programs and $0.3 million related to our Phase 1 study of an IV formulation of brincidofovir;
- a decrease of approximately $1.5 million related to compensation and other employee related costs;
- a decrease of $1.2 million related to reimbursable BARDA contract expenses; and
- a decrease of $0.8 million in consultant expenses; offset by
- an increase of approximately $0.7 million for preclinical and chemistry development on our other compounds (including primarily CMX521, our lead candidate compound for norovirus).

General and Administrative Expenses

For the three months ended September 30, 2016, our general and administrative costs decreased to $5.8 million compared to $8.5 million for the three months ended September 30, 2015. The decrease of $2.7 million, or 31.6%, is primarily related to the following:

- a decrease of $1.5 million of commercialization expense;
- a decrease in compensation and other employee related costs of $0.9 million.

Interest Income, Net

For the three months ended September 30, 2016, our interest income, net increased to $0.4 million compared to $0.3 million for the three months ended September 30, 2015. The change is attributable to interest earned on our cash and investments and a decrease in interest expense associated with the repayment of our loan in full in October 2015.

Comparison of the Nine Months Ended September 30, 2016 and September 30, 2015

The following table summarizes our results of operations for the nine months ended September 30, 2016 and September 30, 2015, together with the changes in those items (in thousands except percentages):

	Nine Months Ended September 30,		Dollar Change	% Change
	2016	2015	Increase/(Decrease)	
Revenues:				
Contract revenue	$3,722	$6,104	$(2,382)	(39.0)%
Collaboration and licensing revenue	—	1,548	(1,548)	(100.0)%
Total revenues	3,722	7,652	(3,930)	(51.4)%
Operating expenses:				
Research and development	46,942	65,867	(18,925)	(28.7)%
General and administrative	19,359	21,812	(2,453)	(11.2)%
Total operating expenses	66,301	87,679	(21,378)	(24.4)%
Loss from operations	(62,579)	(80,027)	17,448	(21.8)%
Interest income, net	1,146	498	648	130.1 %
Net loss	$(61,433)	$(79,529)	$18,096	(22.8)%

Contract Revenue

For the nine months ended September 30, 2016, total contract revenue decreased to $3.7 million compared to $6.1 million for the nine months ended September 30, 2015. The decrease of $2.4 million, or 39.0%, is related to a decrease in reimbursable expenses related to our contract with BARDA.

Collaboration and Licensing Revenue

For the nine months ended September 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. During the first nine months of 2015, we completed our performance obligations related to this agreement and recognized $1.5 million of collaboration and licensing revenue. We did not have collaboration and licensing revenue for the same period in 2016.

Research and Development Expenses

For the nine months ended September 30, 2016, our research and development expenses decreased to $46.9 million compared to $65.9 million for the nine months ended September 30, 2015. The decrease of $18.9 million, or 28.7%, is primarily related to the following:

- a decrease in clinical trial expenses of $15.8 million which is comprised of a $16.0 million related to the completion of our Phase 3 SUPPRESS and AdVise trials and the closeout of our SUSTAIN and SURPASS trials and $1.7 million related to supporting clinical studies and activities, offset by an increase of $1.6 million for our ongoing expanded

access programs and $0.3 million related to our Phase 1 study of an IV formulation of brincidofovir;
- a decrease of $1.9 million related to the development of drug manufacturing for brincidofovir;
- a decrease of $1.4 million related to reimbursable BARDA contract expenses;
- a decrease of $1.5 million related to sponsored research grants; offset by
- an increase of approximately $2.5 million of other formulation development, of which $1.7 million is related to preclinical and chemistry development on our IV formulation and $0.8 million on our other compounds (including primarily CMX521, our lead candidate compound for norovirus).

General and Administrative Expenses

For the nine months ended September 30, 2016, our general and administrative costs decreased to $19.4 million compared to $21.8 million for the nine months ended September 30, 2015. This decrease is primarily related to the offsetting effects of the following:

- a decrease of $4.7 million of commercialization costs; offset by
- an increase in compensation and other employee related costs of $2.4 million, consisting of an increase of $1.9 million of share-based compensation and $0.5 million of compensation and benefits.

Interest Income, Net

For the nine months ended September 30, 2016, our interest income, net, increased to $1.1 million compared to $0.5 million for the nine months ended September 30, 2015. The change is attributable to interest earned on our cash and investments and a decrease in interest expense associated with the repayment of our loan in full in October 2015.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, we had capital available to fund operations of approximately $288.3 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 have incurred losses since our inception in 2000 and as of September 30, 2016, we had an accumulated deficit of $400.8 million. We anticipate that we will continue to incur losses for at least the next several years. In connection with the completion or closing of certain clinical trials for brincidofovir, we have seen a reduction in expenses. We believe that our existing cash, cash equivalents, short-term investments, and long-term investments will enable us to fund our current operating expenses and capital requirements for at least the next 12 months; however, we anticipate that 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. Changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate.

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.

Cash Flows

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

	Nine Months Ended September 30,	
	2016	2015
Cash sources and uses:		
Net cash used in operating activities	$(54,118)	$(66,791)
Net cash provided by (used in) investing activities	82,279	(178,809)
Net cash provided by financing activities	592	161,858

Net increase (decrease) in cash and cash equivalents	$28,753	$(83,742)

Operating Activities

Net cash used in operating activities of $54.1 million for the nine months ended September 30, 2016 was primarily the result of our $61.4 million net loss and the change in operating assets and liabilities, partially offset by the add-back of non-cash expenses of $12.3 million for share-based compensation, $1.0 million of amortization on investments and $0.8 million of depreciation of property and equipment. The change in operating assets and liabilities includes a decrease of $10.6 million in accounts payable and accrued liabilities, partially offset by a decrease in accounts receivable of $2.1 million related to work on the BARDA development contract and a decrease in prepaid expenses and other assets of $1.7 million primarily related to a decrease in prepaid research and development expenses. Net cash used in operating activities of $66.8 million for the nine months ended September 30, 2015 was primarily the result of our $79.5 million net loss, partially offset by the add-back of non-cash expenses of $8.9 million

for share-based compensation, the change in operating assets and liabilities and $1.2 million of amortization on investments. The change in operating assets and liabilities includes an increase of $7.9 million in accounts payable and accrued liabilities, partially offset by an increase in prepaid expenses and other assets of $5.4 million primarily related to activities of our clinical trials and an increase in accounts receivable of $0.4 million related to work on the BARDA development contract.

Investing Activities

Net cash provided by investing activities of $82.3 million for the nine months ended September 30, 2016 was primarily the result of the maturities of $147.9 million in short-term investments partially offset by the purchase of $50.9 million in long-term investments and $14.0 million in short-term investments. Net cash used in investing activities of $178.8 million for the nine months ended September 30, 2015 was primarily the result of the purchase of $212.8 million in long-term investments and $56.3 million in short-term investments, partially offset by maturities of $90.8 million in short-term investments.

Financing Activities

Net cash provided by financing activities of $0.6 million for the nine months ended September 30, 2016 was the result of $0.6 million in proceeds from the exercise of stock options and stock purchases through our ESPP. Net cash provided by financing activities of $161.9 million for the nine months ended September 30, 2015 was primarily the result of approximately $161.9 million in net proceeds from the completion of a public offering and $4.0 million in proceeds from the exercise of warrants, stock options and stock purchases through our ESPP, partially offset by $4.0 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, 2015 filed by us with the SEC on February 29, 2016.

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 short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10% 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 certain 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 results of operations for the three and nine months ended September 30, 2016 or September 30, 2015.

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 September 30, 2016, 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

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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, 2015 filed with the Securities and Exchange Commission on February 29, 2016.

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 $61.4 million and $79.5 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, we had an accumulated deficit of approximately $400.8 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 seek to:

- continue the development of our lead product candidate, brincidofovir, for the treatment of adenovirus (AdV) infection;
- continue the development of brincidofovir for the prevention or treatment of cytomegalovirus (CMV), AdV, BK virus, and other viral indications in hematopoietic cell transplant (HCT) recipients, solid organ transplant recipients and other patient populations;
- continue the development of brincidofovir for the treatment of smallpox as a medical countermeasure;
- advance the development of an intravenous (IV) formulation of brincidofovir;
- obtain regulatory approvals for brincidofovir;
- scale-up manufacturing capabilities to commercialize brincidofovir for any indications for which we receive regulatory approval;
- conduct IND-enabling studies of CMX521 for norovirus;
- 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 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, including successfully completing clinical development of IV and oral formulations;
- obtaining United States and foreign regulatory approval for brincidofovir;
- launching and commercializing brincidofovir, including establishing a sales force and/or collaborating with third party providers of sales organizations;
- achieving broad market acceptance of brincidofovir in the medical community and with third-party payers;
- delivering a competitive value proposition compared to established competition and/or competitors who will enter the market before or after any of our product candidates, including brincidofovir; and
- generating, licensing or otherwise acquiring a pipeline of product candidates which progress to clinical development, regulatory approval, and commercialization.

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, we announced that in the SUPPRESS trial, brincidofovir did not prevent clinically significant CMV infection through Week 24 after HCT to a greater extent than occurred on placebo, the primary endpoint of the trial.

We have undertaken a review of our overall development plan for brincidofovir. In connection with this review we elected to close the SUSTAIN and SURPASS trials of brincidofovir in kidney transplant recipients. The brincidofovir IND for CMV prevention is currently on a partial clinical hold, pending review of this program by the FDA. We anticipate that we will need to initiate one or more additional clinical trials in order to attain FDA and/or foreign regulatory approval of brincidofovir. For example, in light of the numerical difference in mortality observed in SUPPRESS and the absence of a mortality benefit observed when results from our AdVise study were compared to data from Study 305, our historical matched control study, further development of brincidofovir for AdV would require one or more additional prospective, controlled trials of brincidofovir in AdV. 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 that will result from any additional trials.

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 for at least the next twelve months. At present, we expect research and development expenses to temporarily trend lower, as we are not actively conducting clinical trials of brincidofovir. We continue to provide brincidofovir for the treatment of AdV infection through our expanded access trial (Study 351) in the US and through the Named Patient Program in the EU. We expect research and development expenses to increase following conduct of early-phase studies of an IV formulation of brincidofovir. Following finalization of our revised development plan, we expect to increase our research and development expenses. In addition, 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.

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.

We may not realize the expected benefits of our cost-saving initiatives.*

Reducing costs is a key element of our current business strategy. In early 2016, as a consequence of the failure of SUPPRESS, our Phase 3 pivotal trial of brincidofovir for the prevention of CMV in HCT to meet its primary endpoint, we initiated a reduction to our workforce. Personnel reductions were initiated across our entire organization that have resulted in a remaining workforce of approximately 90 full-time employees as of September 30, 2016. The principal objective of the reduction in workforce was to enable us to focus our financial resources primarily on the continued clinical development of brincidofovir.

We recorded an aggregate charge related to one-time termination benefits of approximately $1.4 million in the first quarter of 2016. If we experience excessive unanticipated inefficiencies or incremental costs in connection with

restructuring activities, such as unanticipated inefficiencies caused by reducing headcount, we may be unable to meaningfully realize cost savings and we may incur expenses in excess of what we anticipate. Either of these outcomes could prevent us from meeting our strategic objectives and could adversely impact our results of operations and financial condition.

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. In December 2015, we announced that in the SUPPRESS trial, brincidofovir did not prevent clinically significant CMV infection through Week 24 after transplant to a greater extent than occurred

on placebo, the primary endpoint of the trial. In addition, overall mortality for brincidofovir and for placebo were not statistically different, but numerically higher for the patients who were randomized to receive brincidofovir.

Our AdVise study of brincidofovir for the treatment of AdV infection in allogeneic HCT recipients and other immunocompromised individuals has completed enrollment. We will continue to provide data from the AdVise study to the FDA and foreign health authorities to determine the regulatory pathway for the treatment of adenovirus. However, in light of the numerical difference in mortality observed in SUPPRESS and the absence of a mortality benefit observed when results from our AdVise study were compared to data from Study 305, our historical matched control study, further development of brincidofovir for AdV would require one or more additional prospective, controlled trials of brincidofovir in AdV.

Following a review of results from the SUPPRESS trial and discussion with the FDA regarding our clinical development plan for brincidofovir, we elected to close the Phase 3 SUSTAIN and SURPASS trials. The brincidofovir IND for CMV prevention is currently on a partial clinical hold, pending review of this program by the FDA.

There is no guarantee that our current or future clinical trials, including any Phase 3 trials, will be approved by regulators, and no guarantee that they will be completed or, if completed, will be successful, or if successful, will result in an approval for the sale of any of our product candidates. The success of brincidofovir will depend on several factors, including the following:

- successful conduct of required trial(s) of oral brincidofovir for the treatment of adenovirus;
- successful conduct of a second efficacy study of oral brincidofovir in an animal model of smallpox infection, and acceptance of data from these animal model studies by the FDA and foreign regulatory bodies;
- development of an IV formulation and/or alternate drug formulations;
- receipt of marketing approvals from the FDA and corresponding regulatory authorities outside the United States;
- 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 foreign application) for substantive review or may conclude after review of our data that our application is insufficient to obtain regulatory approval of brincidofovir.

In light of the numerical difference in mortality observed in SUPPRESS and the absence of a mortality benefit observed when results from our AdVise study were compared to data from Study 305, our historical matched control study, it is anticipated that regulatory approval of brincidofovir for the treatment of AdV would require one or more additional prospective controlled studies of brincidofovir in patients with AdV. 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 or foreign 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.

It is our intention to continue development of brincidofovir for the treatment of smallpox through assessment of efficacy in animal models of orthopox virus infections.

We depend on the successful completion of animal efficacy studies for brincidofovir for the treatment of smallpox. The positive efficacy results obtained for brincidofovir for the treatment of rabbitpox in the rabbit animal model may not be repeated in future animal efficacy studies.*

Before obtaining regulatory approval for brincidofovir for the treatment of smallpox, we must conduct efficacy studies of brincidofovir in animal models of lethal orthopox infections. These studies are expensive and difficult to design and conduct, can take years to complete, and are uncertain as to outcome. We rely on a limited number of research organizations which conduct orthopox infection studies. A failure of one or more of our trials can occur at any stage of testing. The outcome of prior efficacy studies of brincidofovir may not be predictive of the success of later animal efficacy studies. Results of these studies are susceptible to varying interpretation.

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 may experience a number of unforeseen events during, or as a result of, clinical trials or animal efficacy studies 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;
- animal efficacy studies of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us to conduct additional animal efficacy studies or abandon 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 may 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;
- we may encounter 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; or
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our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators to suspend or terminate the trials.

For example, results from our Phase 3 SUPPRESS and open-label AdVise trials of brincidofovir will likely cause regulators to require that we repeat or conduct additional clinical studies, and the clinical studies we design and/or submit may not be approved. We do not know whether any 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.*

It is our intention to further develop our lead product candidate, brincidofovir, for the treatment of AdV infection through clinical

trials, such as AdVise, and for the prevention or treatment of other DNA viral infections. Many of these patients receive an HCT as a potential cure or remission for many cancers and genetic disorders. For example, patients that were enrolled in AdVise were often extremely sick and had a high likelihood of experiencing adverse outcomes as a result of their infection or due to other significant risks including relapse of their underlying malignancy. To prepare for an HCT, 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 currently assessing the possibility of conducting additional clinical trials for oral or IV brincidofovir for other indications, including in the solid organ transplant setting. In this or other transplant settings, 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, which may cause loss of the new organ, and which may be 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 currently planned or future clinical trials for brincidofovir, include:

- inability to raise funding necessary to initiate or continue a trial;
- delays in obtaining, or failure to obtain, 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 studied in our past and future 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.

If initiation or completion of any of our clinical trials for our product candidates, including 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 clinical trials for brincidofovir have experienced gastrointestinal AEs and liver-related safety laboratory value changes. In addition, brincidofovir is related to the approved drug cidofovir, 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. The brincidofovir IND for CMV prevention is currently on a partial clinical hold, pending review of this program by the FDA. We anticipate that we will need to initiate one or more additional clinical trials in order to attain FDA and/or foreign regulatory approval of brincidofovir.

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 approve the product only with a risk evaluation and mitigation strategy (REMS), potentially with restrictions on distribution and other elements to assure safe use (ETASU);
- regulatory authorities may withdraw their approval of the product or impose restrictions on its distribution in a form of a modified 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, distribution 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 distribution of brincidofovir may be tightly controlled through a REMS with ETASU, which are required medical interventions or other actions healthcare professionals need to execute prior to prescribing or dispensing the drug to the patient. Some actions may also be required in order for the patient to continue on treatment. 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 cidofovir 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. If a REMS is required, the NDA holder may be required to monitor and evaluate those in the healthcare system who are responsible for implementing ETASU measures. 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.

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.

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 validating the drug substance manufacturing process at our selected contractor that will produce the commercial supply of drug substance and have selected commercial tablet and suspension manufacturers to optimize tablet and suspension formulation production to meet forecasted commercial demand. There can be no assurance that such transfer to the selected vendors 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 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 process, and will begin revalidating our drug product process, 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 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:

- lacks or does not devote sufficient time and resources to the development and commercialization of CMX157;
- lacks or does not devote sufficient capital to fund 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. 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, including brincidofovir.

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 distribution and 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 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;
- 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.

Based on market research, competing products that are currently used to treat AdV and/or CMV include and are not limited to:

- Vistide® (cidofovir for injection), marketed by Gilead Sciences, Inc. and generic manufacturers;
- oral and intravenous ganciclovir, a drug that is sold by generic manufacturers;
- Valcyte® (valganciclovir), a prodrug of ganciclovir that is marketed by Genentech, Inc. and generic manufacturers;
- foscarnet sodium for injection available through generic manufacturers;
- acyclovir, a drug that is sold by generic manufacturers; and
- investigational patient-specific T-cell therapies.

Other product candidates currently in development may compete against brincidofovir for the prevention or mitigation of AdV and/or CMV infection in a variety of settings, including:

- letermovir, an anti-CMV drug being developed pursuant to an exclusive worldwide license agreement between AiCuris GmbH & Co. KG and Merck;
- maribavir (SHP620) from Shire for CMV infections in transplant recipients;

- ASP0113 (TransVax), a CMV prevention vaccine, licensed to Astellas Pharma Inc. from Vical Incorporated and in development by Astellas and Vical; and
- patient-specific T-cell therapies directed at antigens of CMV and other DNA viruses, including AdV.

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;
- deliver a competitive value proposition compared to established competition and/or competitors who will enter the market before or after any of our product candidates, including brincidofovir; 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 development 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 and third option segments of the contract which are scheduled to end in June 2017 and January 2017, respectively. 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.*

In April 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. In May 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 related request for proposal (RFP) to us 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. In addition, 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. In August 2015, we submitted a response to the RFP and we subsequently engaged in discussions with BARDA regarding our response. We understand that BARDA had intended to make a contract award on or prior to September 30, 2015, the end of the U.S. government's fiscal year, but the contract award was postponed due to a delay in Congressional approval for the necessary appropriations. Reprioritization in BARDA's budget has resulted in negotiations being delayed until the U.S. government's 2017 fiscal year at the earliest. There are no assurances that negotiations will resume in a timely manner, if at all.

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;
- forfeiture of profits;
- suspension of payments;
- fines; and
- suspension or prohibition from conducting business with the U.S. government.

In addition, we could suffer serious reputational harm if allegations of impropriety were made against us by the U.S. government, which could adversely affect our business.

Agreements with government agencies may lead to claims against us under the Federal False Claims Act, and these claims could result in substantial fines and other penalties.

The biopharmaceutical industry is, and in recent years has been, under heightened scrutiny as the subject of government investigations and enforcement actions. Our BARDA contract is subject to substantial financial penalties under the Federal Civil Monetary Penalties Act and the Federal Civil False Claims Act (False Claims Act). The False Claims Act imposes liability on any person who, among other things, knowingly presents, or causes to be presented, a false record or statement material to a false or fraudulent claim paid or approved by the government. Under the False Claims Act's "whistleblower" provisions, private enforcement of fraud claims against businesses on behalf of the U.S. government has increased due in part to amendments to the False Claims Act that encourage private individuals to sue on behalf of the government. These whistleblower suits, known as qui tam actions, may be filed by private individuals, including present and former employees. The False Claims Act provides for treble damages and up to $11,000 per false claim. If our operations are found to be in violation of any of these laws, or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs, and the curtailment or restructuring of our operations. Any penalties, damages, fines, exclusions, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results.

Risks Related to Our Business Operations and Industry

Increasing demand for compassionate use of our unapproved therapies could result in losses.

We are developing brincidofovir for life-threatening illness for which there are currently limited to no available therapeutic options. During 2014, we were the target of an active and disruptive social media campaign related to a request for access to our unapproved drug, brincidofovir. If we experience similar social media campaigns in the future, we may experience significant disruption to our business which could result in losses.

Recent media attention to individual patients' expanded access requests has resulted in the introduction of legislation at the local and national level referred to as "Right to Try" laws which are intended to give patients access to unapproved therapies. New and emerging legislation regarding expanded access to unapproved drugs for life-threatening illnesses could negatively impact our business in the future.

A possible consequence of both activism and legislation in this area is the need for us to initiate an unanticipated expanded access program or to make brincidofovir more widely available sooner than anticipated. We are a small company with limited resources and unanticipated trials or access programs could result in diversion of resources from our primary goals.

In addition, patients who receive access to unapproved drugs through compassionate use or expanded access programs have life-threatening illnesses and have exhausted all other available therapies. The risk for serious adverse events in this patient population is high which could have a negative impact on the safety profile of brincidofovir, which could cause significant delays or an inability to successfully commercialize brincidofovir, which would materially harm our business.

If we fail to comply with the extensive legal and regulatory requirements affecting the health care industry, we could face increased costs, delays in the development of our product candidates, penalties and a loss of business.

Our activities, and the activities of our collaborators, partners and third-party providers, are subject to extensive government regulation and oversight both in the United States and in foreign jurisdictions. The FDA and comparable agencies in other jurisdictions directly regulate many of our most critical business activities, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting and product risk management. States increasingly have been placing greater restrictions on the marketing practices of healthcare companies. In addition, pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulations, including claims asserting submission of incorrect pricing information, impermissible off-label promotion of pharmaceutical products, payments intended to influence the referral of federal or state healthcare business, submission of false claims for government reimbursement, antitrust violations, violations of the Foreign Corrupt Practices Act, or violations related to environmental matters. Violations of governmental regulation may be punishable by criminal and civil sanctions, including fines and civil monetary penalties and exclusion from participation in government programs, including Medicare and Medicaid. In addition to penalties for violation of laws and regulations, we could be required to delay or terminate the development of our product candidates, or we could be required to repay amounts we received from government payers, or pay additional rebates and interest if we are found to have miscalculated the pricing information we have submitted to the government. Whether or not we have complied with the law, an investigation into alleged unlawful conduct could increase our expenses, damage our reputation, divert management time and attention and adversely affect our business.

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.*

We are highly dependent on the principal members of our executive team. While we have entered into employment agreements or offer letters with each of our executive officers, any of them could leave our employment at any time, as all of our employees are “at will” employees. To help attract, retain, and motivate qualified employees, we use share-based incentive awards such as employee stock options and restricted stock units. Due to the decline in our stock price that occurred in December 2015, a large percentage of the options held by our employees are underwater. As of September 30, 2016, greater than 90% of all outstanding options had an exercise price below the closing price of the stock on that date. As a result, the current situation provides a considerable challenge to maintaining employee motivation, as well as creating a serious threat to retention until a recovery commences. In May 2016 in order to address the issue of employee retention we granted a total of 1.2 million restricted stock units to employees and executives with vesting over 18 and 36 months respectively. If our share-based compensation ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our results of operations.

We do not maintain “key person” insurance for any of our executives or other employees. Recruiting and retaining other qualified employees for our business, including scientific and technical personnel, will also be critical to our success. There is currently a shortage of appropriately skilled executives in our industry, which is likely to continue. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. As a result, competition for skilled personnel is intense and the turnover rate can be high. We may not be able to attract and retain personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. In addition, failure of any of our clinical studies may make it more challenging to recruit and retain qualified personnel. The inability to recruit or loss of the services of any executive or key employee may adversely affect the progress of our research, development and commercialization objectives.

In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us, which could also adversely affect the progress of our research, development and commercialization objectives.

Potential product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

The use of our product candidates, including brincidofovir, in clinical studies and the sale of any products for which we obtain marketing approval exposes us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health care providers, pharmaceutical companies or others selling or otherwise coming into contact with our products. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated adverse effects. If we cannot successfully defend against product liability claims, we could incur substantial liability and costs. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- impairment of our business reputation and significant negative media attention;
- withdrawal of participants from our clinical studies;
- significant costs to defend the related litigation and related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- inability to commercialize our product candidates, including brincidofovir; and
- decreased demand for our product candidates, if approved for commercial sale.

We currently carry $15 million in product liability insurance covering our clinical trials. Our current product liability insurance coverage may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and in the future we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If and when we obtain marketing approval for our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain product liability insurance on commercially reasonable terms or in adequate amounts. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could adversely affect our results of operations and business.

Risks associated with expanding our operations to Europe could adversely affect our business.

We currently have limited operations in Europe and plan to expand the scope of development activities taking place there. We have limited experience with conducting activities outside of the United States. International operations and business expansion plans are subject to numerous additional risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, privacy regulations, export and import restrictions, employment, immigration and labor laws, regulatory requirements, and other governmental approvals, permits and licenses;
- difficulties in staffing and managing foreign operations;
- risks associated with obtaining and maintaining, or the failure to obtain or maintain, regulatory approvals for the sale or use of our products in various countries;
- complexities associated with managing government payer systems, multiple payer-reimbursement regimes or patient self-pay systems;
- financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;
- general political and economic conditions in the countries in operate, including terrorism and political unrest, curtailment of trade and other business restrictions;
-

regulatory and compliance risks that relate to maintaining accurate information and control over activities that may fall within the purview of the U.S. Foreign Corrupt Practices Act, its books and records provisions or its anti-bribery provisions, or similar anti-bribery or anti-corruption laws and regulations.

Any of these risks, if encountered, could significantly increase our costs of operating internationally, prevent us from operating in certain jurisdictions, or otherwise significantly harm our future international expansion and operations, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related To Our Common Stock

The market price of our common stock is likely to be volatile, and you may not be able to resell your shares at or above your purchase price.

Prior to our initial public offering (IPO) in 2013, there was no public market for our common stock. The trading price of our common stock has been volatile, and is likely to continue to be volatile for the foreseeable future. Our stock price is subject to wide fluctuations in response to a variety of factors, including the following:

- results of clinical trials of our product candidates or those of our competitors;
- any delay in filing an application for any of our product candidates and any adverse development or perceived adverse development with respect to regulatory review of that application;
- failure to successfully develop and commercialize our product candidates, including brincidofovir;
- termination of any of our license or collaboration agreements;
- any agency or judicial enforcement actions against us;
- inability to obtain additional funding;
- regulatory or legal developments in the United States and other countries applicable to our product candidates;
- adverse regulatory decisions;
- changes in the structure of healthcare payment systems;
- inability to obtain adequate product supply for our product candidates, or the inability to do so at acceptable prices;
- introduction of new products, services or technologies by our competitors;
- failure to meet or exceed financial projections we provide to the public;
- failure to meet or exceed the estimates and projections of the investment community;
- changes in the market valuations of similar companies;
- market conditions in the pharmaceutical and biotechnology sectors, and the issuance of new or changed securities analysts' reports or recommendations;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- significant lawsuits (including patent or stockholder litigation), and disputes or other developments relating to proprietary rights (including patents, litigation matters and our ability to obtain patent protection for our technologies);
- additions or departures of key scientific or management personnel;
- sales of our common stock by us or our stockholders in the future;
- trading volume of our common stock;
- general economic, industry and market conditions; and
- the other factors described in this "Risk Factors" section.

In addition, the stock market in general, and The NASDAQ Global Market in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.*

Based upon shares of common stock outstanding as of September 30, 2016, our executive officers, directors, 5% stockholders (known to us through available information) and their affiliates beneficially owned approximately 36.6% of our voting stock. Therefore, these stockholders have the ability to substantially influence us through this ownership

position. For example, these stockholders, if they choose to act together, may be able to influence the election of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

Failure to establish and maintain adequate finance infrastructure and accounting systems and controls could impair our ability to comply with the financial reporting and internal controls requirements for publicly traded companies.

As a public company, we operate in an increasingly demanding regulatory environment, which requires us to comply with the Sarbanes-Oxley Act of 2002, and the related rules and regulations of the Securities and Exchange Commission, expanded disclosure requirements, accelerated reporting requirements and more complex accounting rules. Company responsibilities required by the Sarbanes-Oxley Act include establishing and maintaining corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and

are important to help prevent financial fraud.

Our compliance with Section 404 of the Sarbanes-Oxley Act has required and will continue to require that we incur substantial accounting expense and expend significant management efforts. In this or future years, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls that we would be required to remediate in a timely manner so as to be able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act each year. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner each year, we could be subject to sanctions or investigations by the Securities and Exchange Commission, the NASDAQ Stock Market or other regulatory authorities which would require additional financial and management resources and could adversely affect the market price of our common stock. Furthermore, if we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed and investors could lose confidence in our reported financial information.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders.

Pursuant to our 2013 Equity Incentive Plan (the 2013 Plan), our management is authorized to grant stock options to our employees, directors and consultants. The number of shares available for future grant under our 2013 Plan will automatically increase on January 1st each year, through January 1, 2023, by an amount equal to 4.0% of all shares of our capital stock outstanding as of December 31st of the preceding calendar year, subject to the ability of our board of directors to take action to reduce the size of such increase in any given year. In addition, our board of directors may grant or provide for the grant of rights to purchase shares of our common stock pursuant to the terms of our 2013 Employee Stock Purchase Plan (ESPP). The number of shares of our common stock reserved for issuance under our ESPP will automatically increase on January 1st each year, through January 1, 2023, by an amount equal to the lesser of 422,535 shares or one percent of all shares of our capital stock outstanding as of December 31st of the preceding calendar year, subject to the ability of our board of directors to take action to reduce the size of such increase in any given year. Unless our board of directors elects not to increase the number of shares underlying our 2013 Plan and ESPP each year, our stockholders may experience additional dilution, which could cause our stock price to fall.

We have broad discretion in the use of the net proceeds from our financing transactions and may not use them effectively.

Our management has broad discretion in the application of the net proceeds from our financing transactions. Because of the number and variability of factors that will determine our use of the net proceeds from our financing transactions, their ultimate use may vary substantially from their currently intended use. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business, cause the price of our common stock to decline and delay the development of our product candidates. Pending their use, we have invested the net proceeds from our financing transactions in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

Volatility in our stock price could subject us to securities class action litigation.*

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years, and also because our stock price decreased significantly following announcement of results from our Phase 3 SUPPRESS trial. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," generally defined as a greater than 50 percent change (by value) in its equity ownership over a three year period, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes (such as research tax credits) to offset its post-change income may be limited. We have determined that a Section 382 ownership change occurred in 2002 and 2007

resulting in limitations of at least $64,000 and $762,000, respectively, of losses incurred prior to the respective ownership change dates. In addition, we have determined that another Section 382 ownership change occurred in 2013 with our IPO, our most recent private placement and other transactions that have occurred since 2007, resulting in a limitation of at least $6.7 million of losses incurred prior to the ownership change date. We may also experience ownership changes in the future as a result of subsequent shifts in our stock ownership. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset United States federal taxable income may be subject to limitations, which could potentially result in increased future tax liability.

Because we do not anticipate paying any cash dividends on our common stock in the foreseeable future, capital appreciation, if any, would be your sole source of gain.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. As a result, capital appreciation, if any, of our common stock would be your sole source of gain on an investment in our common stock for the foreseeable future.

Provisions in our corporate charter documents and under Delaware law could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management. These provisions include:

- authorizing the issuance of “blank check” preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval which could be used to institute a “poison pill” that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors;
- allowing the authorized number of our directors to be changed only by resolution of our board of directors;
- limiting the removal of directors;
- creating a staggered board of directors;
- requiring that stockholder actions must be effected at a duly called stockholder meeting and prohibiting stockholder actions by written consent;
- eliminating the ability of stockholders to call a special meeting of stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at duly called stockholder meetings.

The amendment of any of these provisions, with the exception of the ability of our board of directors to issue shares of preferred stock and designate any rights, preferences and privileges thereto, would require the affirmative vote of the holders of at least 66 2/3 percent of the voting power of all of our then outstanding common stock.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our board of directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Further, other provisions of Delaware law may also discourage, delay or

prevent someone from acquiring us or merging with us.

Risks Related to Information Technology

Significant disruptions of information technology systems or breaches of data security could adversely affect our business.

Our business is increasingly dependent on critical, complex, and interdependent information technology (IT) systems, including Internet-based systems, to support business processes as well as internal and external communications. The size and complexity of our IT systems make us potentially vulnerable to IT system breakdowns, malicious intrusion, and computer viruses, which may result in the impairment of our ability to operate our business effectively.

In addition, our systems are potentially vulnerable to data security breaches-whether by employees or others-which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers, business partners and others.

Any such disruption or security breach could result in legal proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions to our operations and collaborations, and damage to our reputation, which could harm our business and results of operations.

Increasing use of social media could give rise to liability, breaches of data security, or reputational damage.

We and our employees are increasingly utilizing social media tools as a means of communication both internally and externally. Despite our efforts to monitor evolving social media communication guidelines and comply with applicable rules, there is risk that the use of social media by us or our employees to communicate about our products or business may cause us to be found in violation of applicable requirements. In addition, our employees may knowingly or inadvertently make use of social media in ways that may not comply with our social media policy or other legal or contractual requirements, which may give rise to liability, lead to the loss of trade secrets or other intellectual property, or result in public exposure of personal information of our employees, clinical trial patients, customers, and others. Furthermore, negative posts or comments about us or our products in social media could seriously damage our reputation, brand image, and goodwill.

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

Unregistered Sales of Equity Securities

The Company did not issue any unregistered shares of its common stock or other securities during the period covered by this Quarterly Report on Form 10-Q.

Purchase of Equity Securities

We did not purchase any of our registered securities during the period covered by this Quarterly Report on Form 10-Q.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant.
3.2(1)	Amended and Restated Bylaws of the Registrant.
4.1(2)	Form of Common Stock Certificate of the Registrant.
4.2(2)	Form of Warrant to Purchase Stock issued to participants in the Registrant's Series F Preferred Stock financing dated February 7, 2011.
4.3(2)	Amended and Restated Investor Rights Agreement dated February 7, 2011 by and among the Registrant and certain of its stockholders.
4.4(3)	Amendment to Amended and Restated Investor Rights Agreement dated October 29, 2014 by and among the Registrant and certain of its stockholders.
10.1*	Contract modification No. 34, dated August 3, 2016, to the contract by and between the Registrant and the Biomedical Advanced Research and Development Authority of the United States Department of Health and Human Services dated February 16, 2011, as amended.
10.2	Form of Stock Option Agreement, Notice of Exercise and Form of Stock Option Grant Notice and Form of Restricted Stock Unit Award Agreement and Form of Restricted Stock Unit Award Grant Notice under Chimerix, Inc. 2013 Equity Incentive Plan.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

(1) Incorporated by reference to Chimerix, Inc.'s Current Report on Form 8-K (No. 001-35867), filed with the SEC on April 16, 2013.

(2) Incorporated by reference to Chimerix, Inc.'s Registration Statement on Form S-1 (No. 333-187145), as amended.

(3) Incorporated by reference to Chimerix, Inc.'s Current Report on Form 8-K (No. 001-35867), filed with the SEC on October 29, 2014.

SIGNATURES

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

CHIMERIX, INC.

November 7, 2016 By: /s/ M. Michelle Berrey
M. Michelle Berrey, MD, MPH
President and Chief Executive Officer

November 7, 2016 By: /s/ Timothy W. Trost
Timothy W. Trost
Senior Vice President, Chief Financial Officer and Corporate Secretary