CHIMERIX INC
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number: 001-35867

CHIMERIX, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0903395**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2505 Meridian Parkway, Suite 340 **Durham, North Carolina**	**27713**
(Address of Principal Executive Offices)	(Zip Code)

(919) 806-1074

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

As of August 1, 2014, the number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 35,669,451.

CHIMERIX, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHIMERIX, INC.

BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 119,601	$ 109,976
Short-term investments, available-for-sale	80,996	—
Accounts receivable	288	248
Prepaid and other current assets	3,246	2,765
Deferred financing costs, current portion	20	20
Total current assets	204,151	113,009
Property and equipment, net of accumulated depreciation	469	338
Deposits	32	30
Deferred financing costs, less current portion	6	10
Total assets	$ 204,658	$ 113,387
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,055	$ 2,214
Accrued liabilities	3,553	2,420
Loan payable, current portion	5,610	5,573
Total current liabilities	12,218	10,207
Other long-term liabilities	285	347
Loan payable, less current portion	1,480	4,294
Total liabilities	13,983	14,848
Commitments and contingencies	—	—
Stockholders' equity:		
	—	—

Preferred stock, $0.001 par value, 10,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding as of June 30, 2014 and December 31, 2013		
Common stock, $0.001 par value, 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 35,404,326 and 26,664,972 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	35	26
Additional paid-in capital	375,504	261,243
Accumulated other comprehensive loss	(20)	—
Accumulated deficit	(184,844)	(162,730)
Total stockholders' equity	190,675	98,539
Total liabilities and stockholders' equity	$ 204,658	$ 113,387

See accompanying notes to financial statements.

CHIMERIX, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Contract revenue	$ 919	$ 808	$ 1,699	$ 2,579
Total revenues	919	808	1,699	2,579
Operating expenses:				
Research and development	8,092	6,276	16,384	13,059
General and administrative	4,423	2,188	7,095	3,725
Loss from operations	(11,596)	(7,656)	(21,780)	(14,205)
Other expense:				
Interest expense, net	(138)	(415)	(334)	(771)
Fair value adjustments to warrant liability	—	(4,388)	—	(6,590)
Net loss	(11,734)	(12,459)	(22,114)	(21,566)
Other comprehensive loss:				
Unrealized gain (loss) on securities available-for-sale	12	1	(20)	1
Comprehensive loss	$ (11,722)	$ (12,458)	$ (22,134)	$ (21,565)
Net loss	(11,734)	(12,459)	(22,114)	(21,566)
Accretion of redeemable convertible preferred stock	—	(8,582)	—	(34,108)
Net loss attributable to common shareholders	$ (11,734)	$ (21,041)	$ (22,114)	$ (55,674)
Per share information:				
Net loss per common share, basic and diluted	$ (0.39)	$ (0.91)	$ (0.78)	$ (4.50)
Weighted-average shares outstanding, basic and diluted	30,111,380	23,067,201	28,446,074	12,360,125

See accompanying notes to financial statements.

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CHIMERIX, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	$ (22,114)	$ (21,566)
Adjustments to reconcile net loss to net cash used in operating activities**:**		
Depreciation	95	135
Non-cash interest expense	83	224
Amortization/accretion of premium/discount on investments	385	149
Share-based compensation costs	1,415	2,589
Fair value measurement of redeemable convertible preferred stock warrant liability	—	6,590
Changes in operating assets and liabilities:		
Accounts receivable	(40)	700
Prepaid expenses and other current assets and deposits	(489)	(2,051)
Accounts payable and accrued liabilities	1,912	(400)
Net cash used in operating activities	(18,753)	(13,630)
Investing activities:		
Purchase of property and equipment	(226)	(70)
Purchase of short-term investments	(88,641)	(1,851)
Maturities of short-term investments	7,240	3,957
Net cash (used in) provided by investing activities	(81,627)	2,036
Financing activities:		
Proceeds from exercise of stock options	781	55
Proceeds from employee stock purchase plan issuance	229	—
Proceeds from exercise of warrant	—	1,537
Proceeds from public offering, net of offering costs	111,845	107,634
Repayment of loan payable	(2,850)	(2,100)
Net cash provided by financing activities	110,005	107,126
Increase in cash and cash equivalents	9,625	95,532
Cash and cash equivalents, beginning of period	109,976	19,906
Cash and cash equivalents, end of period	$ 119,601	$ 115,438
Supplemental cash flow information:		
Interest payments	$ 370	$ 505

See accompanying notes to financial statements.

CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

1. The Business and Summary of Significant Accounting Policies

Description of Business

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

On March 25, 2013, the Company's board of directors approved and implemented a 3.55-for-1 reverse split of the Company's outstanding common stock. The accompanying financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented.

On April 10, 2013, the Company completed the initial public offering (IPO) of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold an aggregate of 7,320,000 shares of common stock under the registration statement at a public offering price of $14.00 per share. Net proceeds were approximately $93.3 million, after deducting underwriting discounts and commissions of $7.1 million and offering expenses of $2.1 million. Upon the completion of the IPO, all outstanding shares of the Company's redeemable convertible preferred stock and dividends accrued on Series F redeemable convertible preferred stock were converted into 15,556,091 shares of common stock and all outstanding warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase 1,613,395 shares of common stock. On April 16, 2013, the underwriters exercised the full over-allotment option pursuant to which the Company sold an additional 1,098,000 shares of common stock at $14.00 per share. Net proceeds from the over-allotment shares were approximately $14.3 million after deducting underwriting discounts and commissions of $1.1 million.

On October 23, 2013, the Company completed an underwritten secondary public offering of 2,476,995 shares of common stock held by certain of the Company's existing stockholders at a price to the public of $16.50 per share. The

Company did not issue any shares of common stock and received no proceeds in connection with such offering. The principal purposes of the offering were to facilitate an orderly distribution of shares and to increase the Company's public float.

On May 27, 2014, the Company completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an over-allotment option previously granted to the underwriters. All of the shares were offered by the Company at a price to the public of $14.22 per share. Net proceeds to the Company from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by the Company, were approximately $111.8 million. The securities described above were offered by the Company pursuant to a shelf registration statement declared effective by the Securities and Exchange Commission (the SEC) on May 16, 2014.

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of the Company's management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of its financial position, operating results and cash flows for the periods presented have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the full year, for any other interim period or for any future year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

	June 30, 2014	Fair Value Measurements at June 30, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$118,228	$ 118,228	$ —	$ —
Short-term investments	80,996	—	80,996	—

	December 31, 2013	Fair Value Measurements at December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$107,349	$ 107,349	$ —	$ —

Short-term investments consist of corporate bonds, commercial paper and certificates of deposit.

Revenue Recognition

The Company’s revenues generally consist of revenue generated under federal contracts. Revenues are recognized when the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery of the products and/or services has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

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

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

Clinical Trial Accruals/Prepaids

As part of the process of preparing financial statements, the Company is required to estimate its expenses resulting from its obligation under contracts with vendors and consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company's objective is to reflect the appropriate clinical trial expenses in its financial statements by matching those expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. Depending on amounts paid to the contract research organization and other third-party vendors as compared to actual expenses incurred, there might be a prepaid balance recorded as a prepaid asset. The Company determines accrual estimates through discussion with applicable personnel and outside service providers as to the progress or state of completion of trials, or the services completed. During the course of a clinical trial, the Company adjusts its rate of clinical trial expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known at that time. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its understanding of status and timing of services performed relative to the actual status and timing of services performed may vary and may result in the Company reporting amounts that are too high or too low for any particular period. Through June 30, 2014, there had been no material adjustments to the Company's prior period estimates of accrued expenses for clinical trials. The Company's clinical trial accrual is dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors.

Basic and Diluted Net Loss Per Common Share

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of warrants and options to purchase common stock. Diluted net loss per common share is computed by dividing net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of warrants and options to purchase common stock outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during the periods of net loss, there was no difference between basic and diluted loss per share of common stock for the three months ended or the six months ended June 30, 2014 and 2013.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of warrants and options to purchase common stock, as the impact of such items are anti-dilutive during periods of net loss. Shares excluded from the calculations were 3,187,867 and 4,244,971 for the three months ended June 30, 2014 and 2013, respectively, and 3,189,265 and 7,808,128 for the six months ended June 30, 2014 and 2013, respectively.

Impact of Recently Issued Accounting Standards

During the quarter ended June 30, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for the Company on January 1, 2017. The adoption of this standard is not expected to have an impact on the Company’s financial position or results of operations.

2. Investments

The following table summarizes available-for-sale securities:

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate bonds	$49,992	$ 1	$ (18)	$ 49,975
Commercial paper	26,224	5	(4)	26,225
Certificates of deposit	4,800	—	(4)	4,796
Total	$81,016	$ 6	$ (26)	$ 80,996

The Company had no short or long-term investments at December 31, 2013. All of the Company’s investments as of June 30, 2014 had maturities of one year or less at the time of purchase.

3. Loan Payable

On January 27, 2012, the Company entered into a Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB) and MidCap Financial SBIC, LP (MidCap) allowing for borrowings up to $15.0 million, split between a first tranche of $3.0 million borrowed at the time of the agreement, and a second tranche of up to $12.0 million that would be available to be drawn by December 31, 2012 upon meeting one of three stated financial and/or operational goals. The borrowings under the LSA are collateralized by a security interest in all of the Company's assets, excluding its intellectual property.

The first tranche was used to repay the remaining principal balance outstanding of $2.6 million under a previous loan. This repayment was deemed a modification of debt and therefore the remaining related deferred financing costs totaling $0.1 million remained in deferred financing costs and are being amortized over the term of the LSA through interest expense. The first tranche has an interest-only period of twelve months followed by a 30-month principal and interest amortization period with interest being charged at 8.25% per year for the full period of the LSA.

The Company met one of the financial and/or operational goals mentioned above and, in September 2012, the remaining $12.0 million was borrowed in the second tranche. The second tranche has a six-month interest-only period followed by a 32 month principal and interest amortization period with interest being charged at the same rate as the first tranche. There are certain fees in accordance with the LSA which are being recorded as discounts or other long and short-term liabilities depending on the nature of the fees. The fees are being accreted through interest expense. Approximately $24,000 and $37,000 was included in interest expense for the three months ended June 30, 2014 and 2013, respectively, and $51,000 and $75,000 for the six months ended June 30, 2014 and 2013, respectively.

Concurrently with entering into the LSA, the Company also granted SVB a warrant to purchase shares of Series F preferred stock. Upon the completion of the Company's IPO, this warrant was converted into a warrant to purchase 41,323 shares of common stock. In May 2013, SVB exercised the warrant in full and it is no longer outstanding.

4. Commitments and Contingencies

Leases

The Company leases its facilities and certain office equipment under long-term non-cancelable operating leases that expire at various dates through 2018.

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 $0.1 million for the three months ended June 30, 2014 and 2013, respectively, and approximately $0.3 million and $0.2 million for the six months ended June 30, 2014 and 2013, respectively.

Significance of Revenue Source

The Company is the recipient of federal research contract funds from BARDA. Periodic audits are required under the grant and contract agreements and certain costs may be questioned as appropriate under the agreements. Management believes that such amounts in the current year, if any, are not significant. Accordingly, no provision for refundable amounts under the agreements has been made as of June 30, 2014 and December 31, 2013.

5. Equity Transactions and Share-based Compensation

Warrants

Upon the completion of the Company's IPO, all outstanding warrants to purchase redeemable convertible preferred stock were marked to market resulting in a $4.3 million fair value adjustment for the three months ended June 30, 2013 and a $6.4 million fair value adjustment for the six months ended June 30, 2013. The warrants were then converted into warrants to purchase 1,613,395 shares of common stock and were no longer required to be measured at fair value.

The following warrants for the purchase of common stock were issued, outstanding and exercisable at June 30, 2014:

Class	Date	Shares	Price Per Share	Expiration
Common	February 7, 2011	1,330,958	$ 7.26	February 2018

Stock Options

In connection with the Company's IPO, the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The 2013 Plan provides for the grant of incentive stock options (ISOs), nonstatutory stock options (NSOs), stock appreciation rights, restricted stock awards, restricted stock unit (RSU) awards, performance-based stock awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and its affiliates. Additionally, the 2013 Plan provides for the grant of performance cash awards. On January 1, 2014, the common stock reserved for issuance under the 2013 Plan was automatically increased by 666,624 shares. As of June 30, 2014, there was a total of 1,433,054 shares reserved for future issuance under the 2013 Plan. At the Company's annual meeting held on June 20, 2014, shareholders approved a change to the annual automatic increase in the number of common shares to be reserved for issuance under the 2013 Plan by changing the percentage increase from 2.5% to 4.0% 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.

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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. The ESPP authorizes 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 will automatically increase 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, 2014, the common stock reserved for issuance under the ESPP was automatically increased by 266,649 shares.

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. Compensation expense recognized related to stock options, RSUs and the ESPP is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Research and development:				
Employee	$ (471)	$ 1,574	$ (96)	$ 1,681
Non-employee	—	5	—	21
General and administrative:				
Employee	1,115	699	1,511	809
Non-employee	—	45	—	77
	$ 644	$ 2,323	$ 1,415	$ 2,588

During the three months ended June 30, 2014, the Company recorded an immaterial out of period adjustment of $1.4 million to properly state additional paid-in-capital with a resulting decrease in compensation expense related to restricted stock awards that vested in 2013 in connection with the IPO. On April 9, 2014, Kenneth I. Moch, the Company's then President and Chief Executive Officer, resigned. The Company entered into a severance agreement with Mr. Moch that provides for severance benefits to him in connection with his resignation. Among other benefits, Mr. Moch received accelerated vesting of all of his outstanding stock options as if he had continued service for an additional 15 month period. In addition, Mr. Moch's vested options were modified to extend his exercise period to December 31, 2014. The Company recorded a charge of $1.0 million to compensation expense on the date of his resignation related to the acceleration of vesting and the modification.

Employee Stock Purchase Plan

The Company has reserved a total of 970,874 shares of common stock to be purchased under the ESPP, of which 956,690 shares remain available for purchase at June 30, 2014. Eligible employees may authorize up to 15% of their salary to purchase common stock at the lower of 85% of the beginning price or 85% of the ending price during each six-month purchase interval. During the three months ended June 30, 2014, the Company did not issue any shares

pursuant to the ESPP; for the six months ended June 30, 2014, the Company issued 14,184 shares of common stock pursuant to the ESPP. Compensation expense for shares purchased under the ESPP related to the purchase discount and the “look-back” option were determined using a Black-Scholes option pricing model. The Company recorded compensation expense of $47,000 for the three months ended June 30, 2014 and $149,000 for the six months ended June 30, 2014. There was no compensation expense recorded for the three or six months ended June 30, 2013 since the ESPP was not active during that period.

6. Income Taxes

The Company estimates an annual effective tax rate of 0% for the year ending December 31, 2014 as the Company incurred losses for the six month period ended June 30, 2014 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, 2014. Therefore, no federal or state income taxes are expected and none have been recorded at this time. Income taxes have been accounted for using the liability method in accordance with FASB Accounting Standards Codification 740.

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

At June 30, 2014, the Company had no unrecognized tax benefits that would reduce the Company’s effective tax rate if recognized.

7. Significant Agreements

The Regents of the University of California

In May 2002, the Company entered into a license agreement with The Regents of the University of California (UC) under which the Company obtained an exclusive, worldwide license to UC's patent rights in certain inventions (the UC Patent Rights) related to lipid-conjugated antiviral compounds and their use, including certain patents relating to brincidofovir. 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 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, 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) the Company is obligated to pay to UC a fee, which amount will vary depending upon the size of any upfront payment 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 or six months ended June 30, 2014 or the year ended December 31, 2013.

Biomedical Advanced Research and Development Authority (BARDA)

In February 2011, the Company entered into a contract with BARDA for the development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended several times, most recently on April 10, 2014, to extend the first option segment until August 31, 2014.

Under the contract, BARDA will reimburse the Company, plus pay a fixed fee, for the research and development of brincidofovir as a 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 of approximately one year each, 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 receive up to $75.8 million in expense reimbursement and $5.3 million in fees if all remaining option segments are exercised.

The Company is currently performing under the first option segment of the contract during which the Company may receive up to a total of $5.3 million in expense reimbursement and fees. In April 2014, the Company and BARDA extended the term of the first option segment to a period of 15 months, currently scheduled to end on August 31, 2014. For the three and six months ended June 30, 2014, the Company recognized revenue of $0.9 million and $1.7 million, respectively, under this contract.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2013 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission (SEC) on March 7, 2014. Past operating results are not necessarily indicative of results that may occur in future periods.

Forward-Looking Statements

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

OVERVIEW

Chimerix is a biopharmaceutical company dedicated to discovery, developing and commercializing novel, oral antivirals to address unmet medical needs. We were founded in 2000 based on the promise of our proprietary lipid technology to unlock the potential of some of the most potent antivirals by enhancing their antiviral activity and safety profiles in convenient, orally administrated drug regimens. Based on our proprietary lipid technology, the Company's lead compound, brincidofovir (BCV, CMX001), has progressed to Phase 3 clinical development; in addition, we have an active discovery program focusing on viral targets for which no therapies are currently available.

Recent Developments

Initiation of Study 304: Treatment of AdV Infection

In March 2014, we reached agreement with the U.S. Food and Drug Administration (FDA) for the immediate initiation of a pilot trial of brincidofovir for the treatment of adenovirus (AdV) infections in immunocompromised transplant patients. On March 12, 2014, the first subject was enrolled into the pilot portion of this study, which will provide data to guide the finalization of the study design for a Phase 3 pivotal trial of brincidofovir for the treatment of adenovirus infection. To date the pilot study has treated 36 patients at 24 sites.

Appointment of M. Michelle Berrey, M.D., M.P.H. as President, Chief Executive Officer, and Chief Medical Officer

On April 9, 2014, our board of directors appointed M. Michelle Berrey to the position of President and Chief Executive Officer of the Company. Dr. Berrey also retained the role of Chief Medical Officer of the Company. Dr. Berrey replaced Kenneth I. Moch who resigned as our President and Chief Executive Officer effective April 9, 2014.

Public Offering of Common Stock

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

Annual Meeting of Stockholders

Our annual meeting of stockholders was held on June 20, 2014, in Durham, North Carolina. Voting results consisted of the following:

- M. Michelle Berrey, M.D., M.P.H., Rodman L. Drake, and Lisa Ricciardi were elected class I directors of the Company;
- the 2013 Equity Incentive Plan, as amended, was approved; and
- the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014 was ratified.

Appointment of Additional Directors

On June 20, 2014, our board of directors appointed Jim Daly and John Leonard, M.D. to serve as class II directors of the Company and appointed Cathy Gillis, Ph.D., R.N., FAAN and C. Patrick Machado, J.D., to serve as class III directors of the Company. Mr. Machado was appointed to serve as a member of the Audit Committee of our board of directors.

Passing of Rodman L. Drake

On June 26, 2014, the Company marked the passing of our esteemed colleague and member of our board of directors, Rodman L. Drake. Mr. Drake joined the Board of Directors in 2013 and served as Chairman of the Compensation Committee.

Update on Clinical Development Program for brincidofovir (CMX001)

- Enrollment of our Phase 3 SUPPRESS trial (cytomegalovirus (CMV) prevention in HCT recipients) is currently underway at 40 sites across the United States, Canada and Europe. Enrollment is progressing steadily and is anticipated to be completed by year end 2014 or early 2015 with study data to be reported in the second half of 2015.

- A trial of brincidofovir for prevention of CMV infection in solid organ transplant recipients is under discussion with United States and European regulatory agencies. This trial may serve to correlate CMV viremia with the risk of progression to CMV disease in order to support traditional approval in the United States. We anticipate that this trial would be in progress in the United States, Canada, and/or Europe at the time of accelerated approval of brincidofovir in the United States.

Biomedical Advanced Research and Development Authority (BARDA)

We are currently in formal discussions with BARDA regarding future development of brincidofovir under the Animal Rule for the treatment of smallpox under a potential Option Segment 2 of the agreement.

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 a collaboration and license agreement.

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 of approximately one year each, referred to as option segments. Subsequent option segments to the contract are not subject to automatic renewal and are not exercisable at Chimerix's discretion. The contract is a cost plus fixed fee development contract. Under the contract as currently in effect, we may 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 first option segment of the contract during which we may receive up to a total of $5.3 million in expense reimbursement and fees. The first option segment is scheduled to end in August 2014. As of June 30, 2014, we had recognized revenue in aggregate of $34.4 million with respect to the base performance segment and first extension period. For the six months ended June 30, 2014, we recognized $1.7 million with respect to the BARDA contract.

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 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); and
- Costs related to legal expenses related to regulatory compliance and patent expenses; and
- License fees for and milestone payments related to licensed products and technologies.

From our inception through June 30, 2014, we have incurred approximately $170.0 million in research and development expenses, of which $137.8 million relates to our development of brincidofovir. We plan to increase our research and development expenses for the foreseeable future as we continue development of brincidofovir for the prevention of CMV infection in HCT recipients, for the treatment of AdV infections, for the prevention of CMV in solid organ transplant recipients and for other indications, and to advance the development of our other product candidates, subject to the availability of additional funding.

The table below summarizes our research and development expenses for the periods indicated. 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.

	Six months Ended June 30,	
	2014	2013
	(unaudited)	
	(in thousands)	
Direct research and development expense	$ 10,680	$ 7,053
Personnel costs	4,303	5,029
Indirect research and development expense	1,401	977
	$ 16,384	$ 13,059

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

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

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

Brincidofovir

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

- manufacturing to produce, test and package our drug substance and drug product for brincidofovir;
- initiation, enrollment, and conduct of our Phase 3 clinical trial, SUPPRESS;
- initiation, enrollment, and conduct of our study of brincidofovir for the treatment of AdV.

In addition, pursuant to our contract with BARDA, we are evaluating brincidofovir for the treatment of smallpox. During the base performance segment of the contract, we incurred significant expense in connection with the development of orthopox virus animal models, the demonstration of efficacy and pharmacokinetics of brincidofovir in the animal models, the conduct of an open label clinical safety study for subjects with dsDNA viral infections, and the manufacture and process validation of bulk drug substance and brincidofovir 100 mg tablets. In June 2013, we initiated performance under the first option segment of the contract with BARDA. In April 2014, we entered into an amendment to our agreement with BARDA to extend the period of performance under the first option segment from May 2014 to August 2014.

General and Administrative Expenses

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

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

Interest Income (Expense), Net

Interest income consists of interest earned on our cash, cash equivalents and short-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).

Revaluation of Warrants

In conjunction with various financing transactions, we issued warrants to purchase shares of our preferred stock and common stock. The warrants related to our Series F preferred stock financing and to our term loan were considered redeemable at the option of the security holder. As a result, these warrants were classified as a liability and were marked-to-market at each reporting date. The fair value estimates of these warrants were determined using a Black-Scholes option-pricing model and are based, in part, on subjective assumptions. Non-cash changes in the fair value of the warrant liability were recorded as fair value adjustments to warrant liability. The final revaluation of the warrants occurred just prior to our IPO. Upon the IPO these warrants converted into warrants for common stock and therefore no longer require revaluation.

Stock-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 stock-based compensation expense of $1.4 million and $2.6 million was recognized in the six months ended June 30, 2014 and 2013, respectively. The stock-based compensation expense recognized included expense from performance-based stock options, restricted stock units (RSUs) and our 2013 employee stock purchase plan (ESPP). The decrease in expense recognized during the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily due to the effect of an out-of-period adjustment in 2014 to additional paid-in capital related to RSUs and a decrease in stock compensation in connection with the vesting of RSUs in the second quarter of 2013 in connection with our IPO.

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

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

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

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 1 to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 7, 2014. There have been no material changes during the second quarter of 2014 to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

RESULTS OF OPERATIONS

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

The following table summarizes our results of operations for the three months ended June 30, 2014 and 2013, together with the changes in those items in dollars and percentage:

	Three Months Ended June 30,		Dollar Change	% Change
	2014	2013	Increase/(Decrease)	
	(unaudited) (in thousands)			
Revenue				
Contract revenue	$919	$808	$111	13.7 %
Operating expenses:				
Research and development	8,092	6,276	1,816	28.9 %
General and administrative	4,423	2,188	2,235	102.1 %
Loss from operations	(11,596)	(7,656)	3,940	51.5 %
Interest expense, net	(138)	(415)	(277)	(66.7)%
Fair value of warrant adjustments	-	(4,388)	(4,388)	*
Net loss	$(11,734)	$(12,459)	$(725)	(5.8)%

*Not meaningful or calculable.

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Contract Revenue

For the three months ended June 30, 2014, total revenue increased to $919,000 compared to $808,000 for the three months ended June 30, 2013. The increase of $111,000, or 13.7%, is related to an increase in reimbursable expenses related to our contract with BARDA.

Research and Development Expenses

For the three months ended June 30, 2014, our research and development expenses increased to $8.1 million compared to $6.3 million for the three months ended June 30, 2013. The increase of $1.8 million, or 28.9%, is primarily related to the following:

- an increase in clinical trial expenses of $3.2 million related to our ongoing Phase 3 SUPPRESS trial and the pilot portion of the Phase 3 study for the treatment of AdV infection, during the three months ended June 30, 2014; and partially offset by a decrease of $1.6 million in compensation expense primarily due to: (1) the effect of an
- out-of-period adjustment in 2014 to properly state additional paid in capital for RSUs and (2) a decrease in stock compensation related to the vesting of RSUs in the second quarter of 2013 in connection with our IPO.

General and Administrative Expenses

For the three months ended June 30, 2014, our general and administrative costs increased to $4.4 million compared to $2.2 million for the three months ended June 30, 2013. The increase of $2.2 million, or 102.1%, is primarily related to the following:

- a one-time severance charge related to our former CEO of $1.6 million of which $1.0 million relates to non-cash stock compensation; and
- an increase in costs associated with the growth of our corporate infrastructure as we begin preparations to launch
- brincidofovir and operate as a publicly-traded company, including filing fees, investor relations, insurance and non-employee director compensation.

Interest Expense, Net

For the three months ended June 30, 2014, our net interest expense decreased to $138,000 compared to $415,000 for the three months ended June 30, 2013. The decrease of $277,000, or 66.7%, is attributable to a decrease in interest expense associated with a smaller outstanding loan balance we had in the second quarter of 2014 compared to the second quarter of 2013 as we continue to pay down the outstanding principal balance.

Fair Value of Warrant Adjustment

Prior to our IPO, some of our outstanding warrants were deemed to be derivative instruments that required liability classification and mark-to-market accounting. As such, the applicable fair value of the warrants was determined using a two-stage, contingent claims model, resulting in the recognition of additional expenses of $4.4 million for the three

months ended June 30, 2013. These expenses were primarily due to the increased likelihood of the occurrence of a liquidity event as well as the underlying stock price. Upon the completion of our IPO, these warrants converted to common stock warrants and are no longer considered to be a derivative instrument. Consequently, these common stock warrants will not be valued at each reporting period.

Comparison of the Six Months Ended June 30, 2014 and 2013

The following table summarizes our results of operations for the six months ended June 30, 2014 and 2013, together with the changes in those items in dollars and percentage:

	Six Months Ended June 30,		Dollar Change	% Change
	2014	2013	Increase/(Decrease)	
	(unaudited) (in thousands)			
Revenue				
Contract revenue	$1,699	$2,579	$ (880)	(34.1)%
Operating expenses:				
Research and development	16,384	13,059	3,325	25.5 %
General and administrative	7,095	3,725	3,370	90.5 %
Loss from operations	(21,780)	(14,205)	7,575	53.3 %
Interest expense, net	(334)	(771)	(437)	(56.7)%
Fair value of warrant adjustments	-	(6,590)	(6,590)	*
Net loss	$(22,114)	$(21,566)	$ 548	2.5 %

*Not meaningful or calculable.

Contract Revenue

For the six months ended June 30, 2014, total revenue decreased to $1.7 million compared to $2.6 million for the six months ended June 30, 2013. The decrease of $880,000, or 34.1%, is related to a decline in reimbursable expenses related to our contract with BARDA.

Research and Development Expenses

For the six months ended June 30, 2014, our research and development expenses increased to $16.4 million compared to $13.1 million for the six months ended June 30, 2013. The increase of $3.3 million, or 25.5%, is primarily related to the following:

- an increase in clinical trial expenses of $4.6 million related to our ongoing Phase 3 SUPPRESS trial and the pilot portion of the Phase 3 study for the treatment of AdV infection, during the six months ended June 30, 2014; and
- partially offset by a decrease in compensation expense primarily related to the effect of a $1.0 million out-of-period adjustment in 2014 to properly state additional paid-in-capital for RSU's.

General and Administrative Expenses

For the six months ended June 30, 2014, our general and administrative costs increased to $7.1 million compared to $3.7 million for the six months ended June 30, 2013. The increase of $3.4 million, or 90.5%, is primarily related to the following:

- a one-time severance charge related to our former CEO of $1.6 million of which $1.0 million relates to non-cash stock compensation; and
- an increase in costs associated with the growth of our corporate infrastructure as we begin preparations to launch brincidofovir and operate as a publicly-traded company, including filing fees, investor relations, insurance and non-employee director compensation.

Interest Expense, Net

For the six months ended June 30, 2014, our net interest expense decreased to $334,000 compared to $771,000 for the six months ended June 30, 2013. The decrease of $437,000 is attributable to a decrease in interest expense associated with a smaller outstanding loan balance we had in the six months ending June 30, 2014 compared to the six months ending June 30, 2013 as we continue to pay down the principal balance.

Fair Value of Warrant Adjustment

Prior to our IPO, some of our outstanding warrants were deemed to be derivative instruments that required liability classification and mark-to-market accounting. As such, the applicable fair value of the warrants was determined using

a two-stage, contingent claims model, resulting in the recognition of additional expenses of $6.6 million for the six months ended June 30, 2013. These expenses were primarily due to the increased likelihood of the occurrence of a liquidity event as well as the underlying stock price. Upon the completion of our IPO, these warrants converted to common stock warrants and are no longer considered to be a derivative instrument. Consequently, these common stock warrants will not be valued at each reporting period.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses since our inception in 2000 and, as of June 30, 2014, we had an accumulated deficit of $184.8 million. We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, government or other third-party funding, strategic alliances and licensing or collaboration arrangements.

On May 27, 2014, we completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an option previously granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of $14.22 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately $111.8 million. The securities described above were offered by us pursuant to a shelf registration statement declared effective by the SEC on May 16, 2014. The shelf registration statement allows us to issue shares of our common stock and preferred stock, various series of debt securities and warrants to purchase any of such securities, up to a total aggregate offering price of $200.0 million from time to time in one or more offerings. As of June 30, 2014, we had sold approximately $119.4 million of our common stock under this shelf registration statement.

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

We believe that our existing cash, cash equivalents and short-term investments will enable us to fund our current operating expenses and capital requirements into 2016. Such operating and capital requirements do not contemplate incremental expenses associated with a full scale commercial launch of brincidofovir. However, changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate.

Since our inception through June 30, 2014, we have funded our operations principally with $433.7 million (net of issuance costs of $16.3 million) from the sale of common stock and preferred stock and the exercise of common stock warrants, including $219.4 million from our net proceeds from our recent public offering in May 2014 and our IPO in April 2013, approximately $37.4 million of research funding from our various National Institute of Allergy and Infectious Diseases awards and approximately $33.5 million in revenue from our BARDA contract, debt financings totaling $21.0 million, and $17.5 million of licensing revenue. As of June 30, 2014 we had cash, cash equivalents and short-term investments of approximately $200.6 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

During 2012, we entered into a loan and security agreement with SVB and MidCap allowing for borrowing up to $15.0 million. In January 2012, we borrowed $3.0 million under this agreement which had an interest only period for twelve months, followed by a thirty month principal and interest period at a rate of 8.25%. In September 2012, we borrowed an additional $12.0 million under this agreement which had an interest only period of six months, followed with a thirty-two month principal interest period at a rate of 8.25%. As of June 30, 2014, the balance of the loan was $7.2 million

Cash Flows

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

	Six Months Ended June 30,	
	2014	2013
	(unaudited)	
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (18,753)	$ (13,630)
Investing activities	(81,627)	