

SCYNEXIS INC  
Form 10-Q  
November 13, 2015

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

OR

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

FOR THE TRANSITION PERIOD FROM TO  
Commission File Number 001-36365

SCYNEXIS, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 56-2181648  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

101 Hudson Street  
Suite 3610 07302-6548  
Jersey City, New Jersey  
(Address of principal executive offices) (Zip Code)  
(919) 544-8636  
(Registrant's telephone number, including area code)

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

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

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

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

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

As of November 1, 2015, there were 13,905,599 shares of the registrant's Common Stock outstanding.



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SCYNEXIS, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## SCYNEXIS, INC.

## UNAUDITED CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

|                                                                                                                                                                                                                                      | September 30,<br>2015 | December 31,<br>2014 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Assets                                                                                                                                                                                                                               |                       |                      |
| Current assets:                                                                                                                                                                                                                      |                       |                      |
| Cash and cash equivalents                                                                                                                                                                                                            | \$53,766              | \$32,243             |
| Prepaid expenses and other current assets                                                                                                                                                                                            | 2,157                 | 703                  |
| Assets of discontinued operations, net (Note 13)                                                                                                                                                                                     | —                     | 6,701                |
| Total current assets                                                                                                                                                                                                                 | 55,923                | 39,647               |
| Other assets                                                                                                                                                                                                                         | 86                    | 25                   |
| Deferred offering costs                                                                                                                                                                                                              | 86                    | —                    |
| Total assets                                                                                                                                                                                                                         | \$56,095              | \$39,672             |
| Liabilities and stockholders' equity                                                                                                                                                                                                 |                       |                      |
| Current liabilities:                                                                                                                                                                                                                 |                       |                      |
| Accounts payable                                                                                                                                                                                                                     | \$796                 | \$426                |
| Accrued expenses                                                                                                                                                                                                                     | 1,539                 | 2,245                |
| Accrued severance and retention costs, current portion (Note 12)                                                                                                                                                                     | 2,801                 | —                    |
| Deferred revenue, current portion                                                                                                                                                                                                    | 257                   | 257                  |
| Liabilities related to assets of discontinued operations (Note 13)                                                                                                                                                                   | —                     | 2,420                |
| Total current liabilities                                                                                                                                                                                                            | 5,393                 | 5,348                |
| Deferred revenue, net of current portion                                                                                                                                                                                             | 699                   | 893                  |
| Deferred rent                                                                                                                                                                                                                        | 25                    | —                    |
| Accrued severance and retention costs, net of current portion (Note 12)                                                                                                                                                              | 8                     | —                    |
| Total liabilities                                                                                                                                                                                                                    | 6,125                 | 6,241                |
| Commitments and contingencies (Note 4)                                                                                                                                                                                               |                       |                      |
| Stockholders' equity:                                                                                                                                                                                                                |                       |                      |
| Common stock, \$0.001 par value, 125,000,000 shares authorized as of September 30, 2015, and December 31, 2014; 13,905,599 and 8,512,103 shares issued and outstanding as of September 30, 2015, and December 31, 2014, respectively | 14                    | 8                    |
| Additional paid-in capital                                                                                                                                                                                                           | 191,702               | 150,934              |
| Accumulated deficit                                                                                                                                                                                                                  | (141,746)             | (117,511)            |
| Total stockholders' equity                                                                                                                                                                                                           | 49,970                | 33,431               |
| Total liabilities and stockholders' equity                                                                                                                                                                                           | \$56,095              | \$39,672             |
| The accompanying notes are an integral part of the financial statements.                                                                                                                                                             |                       |                      |

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SCYNEXIS, INC.

## UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

|                                                                                                                                                                                                                                                    | Three months ended September 30, |            | Nine months ended September 30, |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------|---------------------------------|-------------|
|                                                                                                                                                                                                                                                    | 2015                             | 2014       | 2015                            | 2014        |
| Total revenue                                                                                                                                                                                                                                      | \$64                             | \$61       | \$193                           | \$192       |
| Operating expenses:                                                                                                                                                                                                                                |                                  |            |                                 |             |
| Research and development                                                                                                                                                                                                                           | 3,458                            | 2,478      | 10,525                          | 5,621       |
| Selling, general and administrative                                                                                                                                                                                                                | 4,143                            | 2,121      | 9,628                           | 5,582       |
| Total operating expenses                                                                                                                                                                                                                           | 7,601                            | 4,599      | 20,153                          | 11,203      |
| Loss from operations                                                                                                                                                                                                                               | (7,537                           | ) (4,538   | ) (19,960                       | ) (11,011   |
| Other (income) expense:                                                                                                                                                                                                                            |                                  |            |                                 |             |
| Amortization of deferred financing costs and debt discount                                                                                                                                                                                         | —                                | —          | —                               | 755         |
| Loss on extinguishment of debt                                                                                                                                                                                                                     | —                                | —          | —                               | 1,389       |
| Interest (income) expense                                                                                                                                                                                                                          | (8                               | ) —        | (10                             | ) 49        |
| Derivative fair value adjustment                                                                                                                                                                                                                   | —                                | —          | —                               | (10,080     |
| Other expense                                                                                                                                                                                                                                      | —                                | —          | —                               | 10          |
| Total other (income) expense                                                                                                                                                                                                                       | (8                               | ) —        | (10                             | ) (7,877    |
| Loss from continuing operations before tax                                                                                                                                                                                                         | (7,529                           | ) (4,538   | ) (19,950                       | ) (3,134    |
| Income tax benefit                                                                                                                                                                                                                                 | —                                | 338        | —                               | 909         |
| Loss from continuing operations                                                                                                                                                                                                                    | (7,529                           | ) (4,200   | ) (19,950                       | ) (2,225    |
| Discontinued operations (Note 13):                                                                                                                                                                                                                 |                                  |            |                                 |             |
| Income (loss) from discontinued operations, net of income tax expense of \$0 and \$338 for the three months ended September 30, 2015 and 2014, respectively, and \$0 and \$909 for the nine months ended September 30, 2015 and 2014, respectively | (826                             | ) 396      | (4,285                          | ) 1,066     |
| Net loss                                                                                                                                                                                                                                           | (8,355                           | ) (3,804   | ) (24,235                       | ) (1,159    |
| Deemed dividends, accretion, and allocation of net income to convertible preferred stockholders (Note 5)                                                                                                                                           | —                                | —          | —                               | (1,633      |
| Net loss attributable to common stockholders - basic                                                                                                                                                                                               | (8,355                           | ) (3,804   | ) (24,235                       | ) (2,792    |
| Derivative fair value adjustment                                                                                                                                                                                                                   | —                                | —          | —                               | (10,080     |
| Net loss attributable to common stockholders - diluted                                                                                                                                                                                             | \$(8,355                         | ) \$(3,804 | ) \$(24,235                     | ) \$(12,872 |
| Income (loss) per share attributable to common stockholders - basic                                                                                                                                                                                |                                  |            |                                 |             |
| Continuing operations                                                                                                                                                                                                                              | \$(0.54                          | ) \$(0.50  | ) \$(1.72                       | ) \$(0.82   |
| Discontinued operations                                                                                                                                                                                                                            | (0.06                            | ) 0.05     | (0.37                           | ) 0.23      |
| Net loss per share - basic                                                                                                                                                                                                                         | \$(0.60                          | ) \$(0.45  | ) \$(2.09                       | ) \$(0.59   |
| Income (loss) per share attributable to common stockholders - diluted                                                                                                                                                                              |                                  |            |                                 |             |
| Continuing operations                                                                                                                                                                                                                              | \$(0.54                          | ) \$(0.50  | ) \$(1.72                       | ) \$(2.80   |
| Discontinued operations                                                                                                                                                                                                                            | (0.06                            | ) 0.05     | (0.37                           | ) 0.21      |
| Net loss per share - diluted                                                                                                                                                                                                                       | \$(0.60                          | ) \$(0.45  | ) \$(2.09                       | ) \$(2.59   |

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Weighted average common shares outstanding:

|         |            |           |            |           |
|---------|------------|-----------|------------|-----------|
| Basic   | 13,904,331 | 8,504,785 | 11,576,498 | 4,703,278 |
| Diluted | 13,904,331 | 8,504,785 | 11,576,498 | 4,976,965 |

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

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## SCYNEXIS, INC.

## UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                              | Nine months ended<br>September 30, |           |
|----------------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                              | 2015                               | 2014      |
| Cash flows from operating activities:                                                        |                                    |           |
| Net loss                                                                                     | \$(24,235)                         | \$(1,159) |
| Adjustments to reconcile net loss to net cash used in operating activities:                  |                                    |           |
| Non-cash component of impairment loss on classification of assets as held for sale (Note 13) | 586                                | —         |
| Loss on disposal of Services Business (Note 13)                                              | 73                                 | —         |
| Gain on insurance recovery                                                                   | —                                  | (165)     |
| Loss on extinguishment of debt                                                               | —                                  | 1,389     |
| Recovery of bad debt                                                                         | —                                  | (75)      |
| Depreciation                                                                                 | 447                                | 918       |
| Stock-based compensation expense                                                             | 2,656                              | 837       |
| Amortization of deferred financing costs and debt discount                                   | —                                  | 755       |
| Change in fair value of derivative liability                                                 | —                                  | (10,080)  |
| Changes in deferred rent                                                                     | (108)                              | (97)      |
| Changes in operating assets and liabilities:                                                 |                                    |           |
| Accounts receivable and unbilled services                                                    | (523)                              | (252)     |
| Prepaid expenses, other assets, and deferred costs                                           | (855)                              | (876)     |
| Accounts payable and accrued expenses                                                        | (431)                              | 907       |
| Accrued severance and retention cost obligations                                             | 2,809                              | —         |
| Deferred revenue                                                                             | 1,018                              | 147       |
| Net cash used in operating activities                                                        | (18,563)                           | (7,751)   |
| Cash flows from investing activities:                                                        |                                    |           |
| Proceeds from insurance recovery                                                             | —                                  | 216       |
| Proceeds from sale of Services Business (Note 13)                                            | 2,549                              | —         |
| Purchases of property and equipment                                                          | (547)                              | (632)     |
| Net cash provided by (used in) investing activities                                          | 2,002                              | (416)     |
| Cash flows from financing activities:                                                        |                                    |           |
| Proceeds from public offerings                                                               | 41,400                             | 62,000    |
| Proceeds from sale of preferred stock                                                        | —                                  | 544       |
| Repayment of debt                                                                            | —                                  | (15,000)  |
| Payments of deferred offering costs and underwriting discounts and commissions               | (3,422)                            | (6,875)   |
| Proceeds from employee stock purchase plan issuance                                          | 106                                | 68        |
| Proceeds from exercise of stock warrants                                                     | —                                  | 55        |
| Proceeds from exercise of stock options                                                      | —                                  | 9         |
| Net cash provided by financing activities                                                    | 38,084                             | 40,801    |
| Net increase in cash and cash equivalents                                                    | 21,523                             | 32,634    |
| Cash and cash equivalents, beginning of period                                               | 32,243                             | 1,402     |
| Cash and cash equivalents, end of period                                                     | \$53,766                           | \$34,036  |
| Supplemental cash flow information:                                                          |                                    |           |
| Cash paid for interest                                                                       | \$—                                | \$49      |
| Noncash financing and investing activities:                                                  |                                    |           |
| Beneficial conversion feature on sale of Series D-2 preferred stock                          | \$—                                | \$909     |

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|                                                                           |         |          |
|---------------------------------------------------------------------------|---------|----------|
| Beneficial conversion feature for antidilution adjustment                 | \$—     | \$214    |
| Adjustment of preferred stock to redemption value                         | \$—     | \$510    |
| Deferred offering costs included in accounts payable and accrued expenses | \$52    | \$—      |
| Equipment purchases in accounts payable and accrued expenses              | \$12    | \$11     |
| Impairment of fixed asset                                                 | \$—     | \$51     |
| Deferred offering costs reclassified to additional paid-in capital        | \$3,388 | \$4,127  |
| Warrant derivative liability reclassified to additional paid-in capital   | \$—     | \$2,701  |
| Conversion of convertible preferred stock to common stock                 | \$—     | \$88,790 |
| The accompanying notes are an integral part of the financial statements.  |         |          |



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SCYNEXIS, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share data)

1. Description of Business and Basis of Preparation

Organization

SCYNEXIS, Inc. ("SCYNEXIS" or the "Company") is a Delaware corporation formed on November 4, 1999. SCYNEXIS is a pharmaceutical company, headquartered in Jersey City, New Jersey, committed to the development and commercialization of novel anti-infectives to address significant unmet therapeutic needs.

Until July 17, 2015, the Company also offered its services in drug discovery and development, primarily in the form of integrated research teams consisting of medicinal, computational, analytical, and process scientists working on a collaborative basis with its customers on research projects. These services were provided by the Company's contract research and development services business (the "Services Business") asset group. As part of the Company's strategic objective to focus its resources on the development of SCY-078, the Company's board of directors directed the Company to divest the Services Business, which was no longer strategic to the Company's business. On July 21, 2015, the Company completed the sale of the Services Business asset group to Accuratus Lab Services, Inc. ("Accuratus"), a private-equity backed process chemistry, formulation, manufacturing and analytical development services provider, pursuant to an Asset Purchase Agreement (the "Purchase Agreement"), with an effective date of July 17, 2015. The material terms of the Services Business sale transaction are described in Note 13.

Unaudited Interim Financial Information

The accompanying unaudited financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States, or US GAAP, as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC") for interim financial information. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, and cash flows. The results of operations for the three and nine month periods ended September 30, 2015, are not necessarily indicative of the results for the full year or the results for any future periods. These interim financial statements should be read in conjunction with the financial statements and notes set forth in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2015, and the Company's re-cast financial statements to take into account the sale of the Services Business as set forth in Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on October 30, 2015.

Discontinued Operations

As described in Note 13, the Company met the relevant criteria for reporting the Services Business in discontinued operations in the second quarter of 2015. The accompanying unaudited interim financial statements present the Services Business as held for sale and in discontinued operations as of and for the three and nine month periods ended September 30, 2015, and 2014, pursuant to FASB Topic 205-20, Presentation of Financial Statements--Discontinued Operations, and FASB Topic 360, Property, Plant, and Equipment.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include: the receivable allowances; the valuation of the related-party deemed contribution; the fair value of the Company's common stock used to measure stock-based compensation for options granted to employees and nonemployees and to determine the fair value of common stock warrants; the Services Business asset group's fair value less costs to sell, which was used to assess the Services Business asset group for impairment; the fair value of convertible preferred stock; the fair value of the Company's derivative liability; the estimate of services and effort expended by third-party research and development

service providers used to recognize research and development expense; and the estimated useful lives of property and equipment.

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### Reverse Stock-splits

On March 17, 2014, the Company amended its amended and restated certificate of incorporation to implement a 1-for-4 reverse stock split of its common stock. The reverse stock split did not cause an adjustment to the par value or the authorized shares of common stock. As a result of the reverse stock split, the Company adjusted the share amounts under its employee incentive plans, outstanding options and common stock warrant agreements with third parties.

On April 25, 2014, the Company amended its amended and restated certificate of incorporation to implement an additional 1-for-5.1 reverse stock split of its common stock. The reverse stock split did not cause an adjustment to the par value or the authorized shares of common stock. As a result of the reverse stock split, the Company further adjusted the share amounts under its employee incentive plans, outstanding options and common stock warrant agreements with third parties.

All disclosures of common shares and per common share data in the accompanying interim financial statements and related notes reflect these two reverse stock splits for all periods presented.

### Initial Public Offering

On May 7, 2014, the Company completed an initial public offering ("IPO") of its common stock. The Company sold an aggregate of 6,200,000 shares of common stock at a public offering price of \$10.00 per share. Net proceeds to the Company were \$54,583 after deducting underwriting discounts and commissions of \$3,290 and offering expenses of \$4,127. Upon the completion of the IPO, all outstanding shares of the Company's convertible preferred stock were automatically converted into 1,691,884 shares of common stock and certain outstanding warrants were exercised for an additional 275,687 shares of common stock. In connection with the consummation of the IPO, the Company repaid outstanding debt with a principal balance of \$15,000, plus all accrued interest, to the holder of such debt, which was outstanding pursuant to a credit agreement referred to herein as the 2013 Credit Agreement. The significant increase in the shares outstanding beginning in May 2014 has impacted the comparability of the Company's net income (loss) per share calculations between the interim 2015 and 2014 periods.

### April 2015 Follow-on Public Offering

On April 28, 2015, the Company completed a follow-on public offering (the "April 2015 Offering") of its common stock. The Company sold an aggregate of 5,376,622 shares of common stock at a public offering price of \$7.70 per share. Net proceeds to the Company were approximately \$38,012 after deducting underwriting discounts and commissions and offering expenses of approximately \$3,388. The significant increase in the shares outstanding beginning in April 2015 has impacted the comparability of the Company's net income (loss) per share calculations between the interim 2015 and 2014 periods.

## 2. Summary of Significant Accounting Policies

### Assets Held for Sale

The Company considers assets to be held for sale (i) when management or others having the authority to do so approve a plan to sell the assets, (ii) the assets are available for immediate sale in their present condition, (iii) the Company has initiated an active program to locate a buyer and other actions required to complete the plan to sell the assets, (iv) consummation of the transaction is probable, (v) the assets are being actively marketed for sale at a price that is reasonable in relation to their current fair value, and (vi) the transaction is expected to qualify for recognition as a completed sale, within one year. Following the classification of property and equipment as held for sale, the Company discontinues depreciating the asset and writes down the asset to the lower of carrying value or fair market value, if needed. As described in Note 13, on May 4, 2015, actions taken by the Company's board of directors caused the Company to meet the relevant criteria for reporting the Services Business as held for sale.

### Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk consist principally of cash on deposit with a bank, which exceeds the FDIC insurance limits, as well as accounts receivable and unbilled services. Ongoing credit evaluations of the bank and customers' financial condition and independent ratings are reviewed by the Company. Collateralization of deposits has not been required.

Deferred Offering Costs

Deferred offering costs are expenses directly related to the IPO, the April 2015 Offering, or the Company's shelf registration statement on Form S-3 filed with the SEC in October 2015 (the "Shelf Registration") (see Note 14). These costs

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consist of legal, accounting, printing, and filing fees that the Company has capitalized, including fees incurred by the independent registered public accounting firm directly related to the offerings. The IPO deferred offering costs were offset against the IPO proceeds in May 2014 and were reclassified to additional paid-in capital upon completion of the IPO. Deferred costs associated with the April 2015 Offering were offset against the proceeds from the April 2015 Offering and were reclassified to additional paid-in capital upon completion of the April 2015 Offering. Deferred costs associated with the Shelf Registration will be reclassified to additional paid in capital on a pro-rata basis in the event the Company completes an offering under the Shelf Registration, with any remaining deferred offering costs charged to the results of operations at the end of the three-year life of the Shelf Registration.

### Revenue Recognition and Deferred Revenue

The Company historically derived the majority of its revenue from providing contract research and development services under fee for service arrangements, which were provided by the Company's Services Business that was sold in July 2015 (see Notes 1 and 13). The Company also has entered into collaboration arrangements in exchange for non-refundable upfront payments and consideration as services are performed. These arrangements include multiple elements, such as the sale of licenses and the provision of services. Under these arrangements, the Company also is entitled to receive development milestone payments and royalties in the form of a designated percentage of product sales. The Company classifies non-refundable upfront payments, milestone payments and royalties received under collaboration and licensing agreements as revenues within its statements of operations because the Company views such activities as being central to its business operations.

Revenue is recognized when all of the following conditions are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) fees are fixed or determinable, and (iv) collection of fees is reasonably assured. The Company's contract research and development services revenue was recognized in the period in which the services were performed.

When entering into an arrangement, the Company first determines whether the arrangement includes multiple deliverables and is subject to accounting guidance in ASC subtopic 605-25, Multiple-Element Arrangements. If the Company determines that an arrangement includes multiple elements, it determines whether the arrangement should be divided into separate units of accounting and how the arrangement consideration should be measured and allocated among the separate units of accounting. An element qualifies as a separate unit of accounting when the delivered element has standalone value to the customer. The Company's arrangements do not include a general right of return relative to delivered elements. Any delivered elements that do not qualify as separate units of accounting are combined with other undelivered elements within the arrangement as a single unit of accounting. If the arrangement constitutes a single combined unit of accounting, the Company determines the revenue recognition method for the combined unit of accounting and recognizes the revenue over the period from inception through the date the last deliverable within the single unit of accounting is delivered.

Non-refundable upfront license fees are recorded as deferred revenue and recognized into revenue 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. In arrangements that include license rights and other non-contingent deliverables, such as participation in a steering committee, these deliverables do not have standalone value because the non-contingent deliverables are dependent on the license rights. That is, the non-contingent deliverables would not have value without the license rights, and only the Company can perform the related services. Upfront license rights and non-contingent deliverables, such as participation in a steering committee, do not have standalone value as they are not sold separately and they cannot be resold. In addition, when non-contingent deliverables are sold with upfront license rights, the license rights do not represent the culmination of a separate earnings process. As such, the Company accounts for the license and the non-contingent deliverables as a single combined unit of accounting. In such instances, the license revenue in the form of non-refundable upfront payments is deferred and recognized over the applicable relationship period, which historically has been the estimated period of the Company's substantive performance obligations or the period the

rights granted are in effect. The Company recognizes contingent event-based payments under license agreements when the payments are received. The Company has not received any royalty payments to date.

The Company will recognize a milestone payment when earned if it is substantive and the Company has no ongoing performance obligations related to the milestone. A milestone payment is considered substantive if it: 1) is commensurate with either the Company's performance to achieve the milestone or the enhanced value of the delivered item as a result of a specific outcome from the Company's performance to achieve the milestone; 2) relates solely to past performance; and 3) is reasonable relative to all of the deliverables and payment terms, including other potential milestone consideration, within the arrangement.

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Amounts received prior to satisfying all revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets.

The Company's deferred revenue includes non-refundable upfront payments received under certain licensing and collaboration arrangements that contain substantive performance obligations that the Company is providing over respective defined service or estimated relationship periods. Such non-refundable upfront payments are recognized over these defined service or estimated relationship periods. The Company received a non-refundable upfront payment of \$1,500 from R-Pharm in August 2013 which is being recognized over a period of 70 months. The Company recognized revenue in continuing operations from this upfront payment of \$64 and \$193 for the three and nine months ended September 30, 2015, respectively, and \$61 and \$192 for the three and nine months ended September 30, 2014, respectively. The Company received a non-refundable upfront payment of \$500 in January 2014 under a research services agreement supported by the Company's Services Business, which was being recognized over a period of 48 months. The Company recognized revenue in discontinued operations from this upfront payment of \$5 and \$68 for the three and nine months ended September 30, 2015, respectively, and \$32 and \$90 for the three and nine months ended September 30, 2014, respectively.

### Collaboration Arrangements

The Company assesses its contractual arrangements, and presents costs incurred and payments received under contractual arrangements, in accordance with FASB ASC 808, Collaborative Arrangements (Topic 808), when the Company determines that the contractual arrangement includes a joint operating activity, has active participation by both parties, and both parties are subject to significant risks and rewards under the arrangement. When reimbursement payments are due to the Company under a collaborative arrangement within the scope of Topic 808, the Company determines the appropriate classification for each specific reimbursement payment in the statements of operations by considering (i) the nature of the arrangement, (ii) the nature of the Company's business operations, and (iii) the contractual terms of the arrangement.

The Company's August 2013 development, license, and supply agreement with R-Pharm, CJSC ("R-Pharm"), combined with the supplemental arrangement in November 2014, is a collaborative arrangement pursuant to Topic 808 and the Company's previously described accounting policy. The reimbursements due from R-Pharm for specified research and development costs incurred by the Company are classified as a reduction to research and development expense in the accompanying statements of operations. The reimbursements due to the Company are recorded as a reduction of expense when (i) the reimbursable expenses have been incurred by the Company, (ii) persuasive evidence of a cost reimbursement arrangement exists, (iii) reimbursable costs are fixed or determinable, and (iv) the collection of the reimbursement payment is reasonably assured. The Company recorded receivables for unpaid reimbursement amounts due from R-Pharm of \$872 and \$226 as of September 30, 2015 and December 31, 2014, respectively, which are presented in prepaid expenses and other current assets in the accompanying balance sheets.

### Research and Development

Major components of research and development costs include clinical trial activities and services, including related drug formulation, manufacturing, and other development, preclinical studies, cash compensation, stock-based compensation, fees paid to consultants and other entities that conduct certain research and development activities on the Company's behalf, materials and supplies, legal services, and regulatory compliance.

The Company is required to estimate its expenses resulting from its obligations under contracts with clinical research organizations, clinical site agreements, vendors, and consultants in connection with conducting SCY-078 clinical trials and preclinical development. The financial terms of these contracts are subject to negotiations which vary from 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 development and trial expenses in its financial statements by matching those expenses with the period in which the services and efforts are expended. For clinical trials, the Company accounts for these expenses according to the progress of the trial as measured by actual hours expended by CRO personnel, investigator performance or completion of specific tasks, patient progression, or timing of various aspects of the trial. For preclinical development services performed by outside service providers, the Company determines accrual estimates through financial models, taking into account

development progress data received from outside service providers and discussions with applicable Company and service provider personnel.

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Reimbursements of certain research and development costs by parties under collaborative arrangements have been recorded as a reduction of research and development expense presented within the statement of operations. Such reimbursements were recognized under the collaboration arrangement with R-Pharm during the three and nine months ended September 30, 2015. Information about the Company's research and development expenses and reimbursements due under collaboration arrangements for the three and nine months ended September 30, 2015 and 2014, is presented as follows:

|                                                         | Three months ended September 30, |         | Nine months ended September 30, |       |
|---------------------------------------------------------|----------------------------------|---------|---------------------------------|-------|
|                                                         | 2015                             | 2014    | 2015                            | 2014  |
| Research and development expense, gross                 | \$3,553                          | \$2,478 | 11,352                          | 5,621 |
| Less: Reimbursement of research and development expense | 95                               | —       | 827                             | —     |
| Research and development expense, net of reimbursements | \$3,458                          | \$2,478 | 10,525                          | 5,621 |

Effect of Recent Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, or ASU 2014-08. Under ASU 2014-08, only disposals representing a strategic shift in operations that have a major effect on the Company's operations and financial results should be presented as discontinued operations. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The amendments in ASU 2014-08 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company adopted this guidance in the first quarter of 2015 and has applied it in the accompanying interim financial statements for presentation and disclosure of the Services Business as discontinued operations (see Note 13). The Company will also apply, as applicable, the guidance to future dispositions or classifications as held for sale.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606, or ASU 2014-09. ASU 2014-09 establishes the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the new revenue recognition model to contracts with customers, an entity: (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract(s); (3) determines the transaction price; (4) allocates the transaction price to the performance obligations in the contract(s); and (5) recognizes revenue when (or as) the entity satisfies a performance obligation. The accounting standards update applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The accounting standards update also requires significantly expanded quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, which is effective for the Company for the year ending December 31, 2017. The FASB delayed in the effective date of the accounting standards update to fiscal years and interim periods within those years beginning on or after December 15, 2017. The Company is currently evaluating the impact that the implementation of ASU 2014-09 will have on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, or ASU 2014-15. ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The Company is not early adopting ASU 2014-15. The Company is currently evaluating the impact that the

implementation of ASU 2014-15 will have on the Company's financial statements, and the actual impact will be dependent upon the Company's liquidity and the nature or significance of future events or conditions that exist upon adopting the updated standard.

In January 2015, the FASB issued ASU No. 2015-01, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, or ASU 2015-01. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect that the adoption of ASU 2015-01 will have a material impact on its financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03. Under ASU 2015-03, the costs of issuing debt will no longer be recorded as an intangible asset, except when incurred before receipt of the funding from the associated debt liability. Rather, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. ASU 2015-03 is effective for fiscal years and interim periods beginning after December 15, 2015, with early adoption permitted. ASU 2015-03 requires retrospective application to all prior periods presented in the financial statements. The Company does not expect that the adoption of ASU 2015-03 will have a material any impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, or ASU 2015-05. ASU 2015-05 provides guidance to entities about whether a cloud computing arrangement includes a software license. Under ASU 2015-05, if a software cloud computing arrangement contains a software license, entities should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, entities should account for the arrangement as a service contract. ASU 2015-05 also removes the requirement to analogize to ASC 840-10, to determine the asset acquired in a software licensing arrangement. For public companies, ASU 2015-05 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015, and early adoption is permitted. The Company does not expect that the adoption of ASU 2015-05 will have a material impact on its financial statements.

### 3. Debt Obligations

#### Credit Facility Agreement

In April 2010, the Company entered into a \$15,000 credit facility agreement with HSBC Bank (the "2010 Credit Agreement"). The agreement comprised a \$5,000 term loan and a \$10,000 revolving credit facility. Borrowings under the 2010 Credit Agreement carried interest at a rate of London InterBank Offered Rate plus 0.95% per annum. The 2010 Credit Agreement required interest-only payments through March 2013 and was guaranteed by a related party that has an investment in the Company. All outstanding borrowings under the agreement were originally due on March 11, 2013. The 2010 Credit Agreement contained no financial covenants.

On March 8, 2013, the Company entered into an agreement to amend the 2010 Credit Agreement with HSBC Bank (the "2013 Credit Agreement"). The 2013 Credit Agreement required interest-only payments through December 2014 when all outstanding borrowings were due. Other significant terms of the 2010 Credit Agreement remained the same, which included the guarantee made by a related party that has an investment in the Company. The 2013 Credit Agreement represented a new loan, and the Company determined the value of the extended guarantee under the 2013 Credit Agreement to be \$3,930, which was amortized over the term of the 2013 Credit Agreement.

Pursuant to an addendum dated April 29, 2014, upon completion of the IPO on May 7, 2014, the entire outstanding balance of the 2013 Credit Agreement, amounting to \$15,000 plus accrued interest, was paid in full using the proceeds from the IPO. The payment on May 7, 2014, released the related party guarantor from all obligations, under and in relation to the 2013 Credit Agreement. The Company recorded a loss on the extinguishment of debt of \$1,389 in the three month period ended June 30, 2014, as the remaining deferred financing costs associated with the 2013 Credit Agreement were written off. The Company had no outstanding debt as of September 30, 2015 and as of December 31, 2014.

Amortization of deferred financing costs associated with the 2010 Credit Agreement and 2013 Credit Agreement was \$0 for both the three and nine months ended September 30, 2015, and \$0 and \$755 for the three and nine months ended September 30, 2014, respectively.

#### Note and Warrant Purchase Agreements

In December 2011, the Company executed a Note and Warrant Purchase Agreement (the "December 2011 Note and Warrant Agreement") to issue convertible notes in an aggregate amount not to exceed \$15,000. In 2011 and 2012, under the December 2011 Note and Warrant Agreement, the Company issued convertible notes (the "2011-2012 Notes")

with a total principal amount of \$11,444 to related parties that held investments in the Company. The 2011-2012 Notes included warrants to purchase 26,000 shares of the Company's common stock at \$0.20 per share. The 2011-2012 Notes were convertible into shares of the Company's stock under various methods as stipulated in the agreement. In June 2013, the Company executed another Note and Warrant Purchase Agreement (the "June 2013 Note and Warrant Agreement") with certain existing lenders. Under the June 2013 Note and Warrant Agreement, the lenders agreed to loan to the Company up to \$1,500 in exchange for convertible notes (the "June 2013 Notes"). The Company issued June 2013 Notes for an

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aggregate amount of \$899. In addition, the Company agreed to issue warrants to purchase shares of the Company's common stock upon the request of a majority of the noteholders. The June 2013 Notes were convertible into shares of the Company's stock using methods described in the agreement. In addition, the June 2013 Notes included conversion of the entire outstanding principal and interest balance into equity securities upon the closing of any equity financing at the option of the noteholders.

On December 11, 2013, the noteholders elected to convert the June 2013 Notes into shares of Series D-2 convertible preferred stock. Also on December 11, 2013, the noteholders elected to convert the 2011-2012 Notes into shares of Series D-1 and Series D-2 convertible preferred stock. There was no outstanding principal or accrued interest associated with the 2011-2012 Notes and June 2013 Notes as of September 30, 2015 and as of December 31, 2014.

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## 4. Commitments and Contingencies

## Leases

The Company has relocated its corporate headquarters and operating activities to Jersey City, New Jersey and leases its headquarters facilities under a long-term non-cancelable operating lease. On July 13, 2015, the Company entered into a sublease (the "Sublease") that became effective July 22, 2015, to sublet certain premises consisting of 10,141 square feet of space (the "Subleased Premises") located at 101 Hudson Street, Jersey City, New Jersey from Optimer Pharmaceuticals, Inc. The term of the Sublease commenced on August 1, 2015 (the "Commencement Date") and is scheduled to expire on July 30, 2018. No base rent was due under the Sublease until one month after the Commencement Date. Under the Sublease, the Company is obligated to pay monthly base rent of approximately \$25 per month, which amount increases by 3% annually on each anniversary of the Commencement Date. In addition, the Company was required to fund a security deposit with the sublandlord in the amount of \$74.

Pursuant to the Purchase Agreement, Accuratus assumed the Company's post-closing obligation under its facility lease in Durham, North Carolina and the Company was released from any and all post-closing liability under the Durham, North Carolina facility operating lease (see Note 13).

Rent expense was approximately \$86 and \$522 for the three and nine months ended September 30, 2015, respectively, and \$235 and \$702 for the three and nine months ended September 30, 2014, respectively. Future minimum lease payments for all operating leases as of September 30, 2015, are as follows:

|                               |       |
|-------------------------------|-------|
| 2015 (remaining three months) | \$97  |
| 2016                          | 298   |
| 2017                          | 307   |
| 2018                          | 182   |
| 2019                          | —     |
| Thereafter                    | —     |
| Total                         | \$884 |

## License Arrangement with Potential Future Expenditures

As of September 30, 2015, the Company had a license arrangement with Merck Sharp & Dohme Corp., or Merck, that involves potential future expenditures. Under the license arrangement, the Company exclusively licensed from Merck its rights to SCY-078 in the field of human health. SCY-078 is the Company's lead product candidate. Pursuant to the terms of the license agreement, Merck is eligible to receive milestone payments from the Company that could total \$19,000 upon occurrence of specific events, including initiation of a phase 3 clinical study, new drug application, and marketing approvals in each of the U.S., major European markets and Japan. In addition, Merck is eligible to receive tiered royalties from the Company based on a percentage of worldwide net sales of SCY-078. The aggregate royalty percentages are mid- to high-single digits.

In December 2014, the Company and Merck entered into an amendment to the license agreement that deferred the remittance of a milestone payment due to Merck, such that no amount would be due upon initiation of the first phase 2 clinical trial of a product containing the SCY-078 compound (the "Deferred Milestone"). The amendment also increased, in an amount equal to the Deferred Milestone, the milestone payment that would be due upon initiation of the first Phase 3 clinical trial of a product containing the SCY-078 compound. Except as described above, all other terms and provisions of the license agreement remain in full force and effect.

The Company has two additional licensing agreements for other compounds that could require it to make payments of up to \$2,300 upon achievement of certain milestones by the Company.

## Clinical Development Arrangements

The Company has entered into, and expects to continue to enter into, contracts in the normal course of business with various third parties who support its clinical trials, preclinical research studies, and other services related to its development activities. The scope of the services under these agreements can generally be modified at any time, and the agreement can be terminated by either party after a period of notice and receipt of written notice.



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### Other Arrangements

The Company entered into an agreement with a third party firm to assist the Company in exploring the divestiture of its Services Business (see Note 13). Pursuant to the terms of the agreement, in the event that the Company was able to complete a divestiture of its contract research and development services business to a third-party, the Company was obligated to pay a success fee to the third party firm for the greater of \$500 or 4% of the transaction consideration. As described in Note 13, the Company completed the sale of the Company's Services Business pursuant to an Asset Purchase Agreement, dated July 17, 2015. The Company paid and expensed an initial retainer of \$50 prior to the closing of the Service Business sale transaction. In July 2015, the Company paid the \$450 remaining success fee to the third-party firm in connection with the closing of the sale transaction.

Certain of the Company's employees continue to operate from the Durham facility immediately after the closing for a period of up to six months pursuant to a facility license agreement between the Company and Accuratus dated July 17, 2015. Under the facility license agreement, the Company is obligated to pay monthly license fee of approximately \$8 per month. In addition, under a Transition Services Agreement, Accuratus will provide accounting, IT, payroll, personnel and human resources support, and equity compensation plan administration support services to the Company at rates ranging from one hundred to two hundred dollars per hour for a period of time not to extend beyond December 31, 2015.

In connection with the sale of the Services Business, the Company and Accuratus also entered into a Commitment to Services Agreement (the "Services Agreement") pursuant to which Accuratus will provide the Company with certain contract research and development services. The material terms of the Services Agreement are described in Note 13.

### Compensatory Arrangements with Employees and Officers

The Company has entered into certain compensatory arrangements and commitments with employees and officers, the material terms of which are described in Note 12.

### 5. Convertible Preferred Stock

The Company issued multiple series of convertible preferred stock between 2000 and January 2014. In March 2014, the Company amended its amended and restated certificate of incorporation to require the automatic conversion of all series of convertible preferred stock into common stock upon the completion of a public offering of common stock with gross proceeds of at least \$20,000. In May 2014, upon completion of the IPO, all outstanding shares of convertible preferred stock were converted into an aggregate of 1,691,884 shares of common stock at their respective conversion prices.

#### Warrants Associated with Preferred Stock Issuances

In July 2006, the Company issued warrants to purchase 196,923 shares of Series C-1 Convertible Preferred Stock, which converted into the right to purchase 14,033 shares of our common stock in connection with our IPO, however, we refer to these warrants as our Series C-1 Preferred warrants. The Series C-1 Preferred warrants were issued in conjunction with a loan financing agreement with an original exercise price of \$3.25 per share of Series C-1 Preferred, which converted into an exercise price of \$45.61 per share of common stock in connection with our IPO. These warrants remain outstanding as of September 30, 2015 and will expire on May 7, 2019, which is the five year anniversary of the Company's IPO. The fair value at the date of grant for these instruments was \$459, which was recorded as a debt discount. The debt discount related to these warrants was fully amortized as of December 31, 2010. The Company determined that the warrants should be recorded as a derivative liability and stated at fair value at each reporting period. The Company recorded other income associated with the fair value adjustment for these warrants of \$0 for both the three and nine months ended September 30, 2015, and \$0 and \$37 for the three and nine months ended September 30, 2014, respectively.

On December 11, 2013, the Company entered into an agreement to sell 1,785,712 shares of Series D-2 Convertible Preferred Stock ("Series D-2 Preferred") at \$1.40 per share for an aggregate price of \$2,500 (the "Series D-2 Purchase Agreement"), less issuance costs of \$95. The Series D-2 Purchase Agreement included warrants to purchase 87,532 shares of the Company's common stock at \$0.20 per share. The fair value of the warrants on the date of issuance was



\$4,214, which was recorded as a discount to the Series D-2 Preferred. The fair value of the warrants was \$1,714 above the face amount of the Series D-2 Preferred and this excess was expensed to derivative fair value adjustment at issuance. As described in Note 6, the warrants were classified as a derivative liability and were stated at fair value at each reporting period end date prior to being exercised in May 2014 in conjunction with the Company's IPO. On January 31, 2014, the Company sold 388,641 shares of Series D-2 Preferred to related parties under the Series D-2 Purchase Agreement at \$1.40 per share, for an aggregate price of \$544. The sale also included warrants to purchase

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19,048 shares of the Company's common stock at \$0.20 per share. The fair value of the warrants on the date of issuance was \$906. The fair value of the warrants was \$362 above the face amount of the Series D-2 Preferred and this excess was expensed to derivative fair value adjustment at issuance. As described in Note 6, the warrants were classified as a derivative liability and were stated at fair value at each reporting period end date prior to being exercised in May 2014 in conjunction with the Company's IPO.

## 6. Common Stock

## Authorized, Issued, and Outstanding Common Shares

The Company's common stock has a par value of \$0.001 per share and consists of 125,000,000 authorized shares as of September 30, 2015, and December 31, 2014; 13,905,599 and 8,512,103 shares were issued and outstanding at September 30, 2015, and December 31, 2014, respectively. The following table summarizes common stock share activity for the nine months ended September 30, 2015:

|                                                          | Shares of<br>Common Stock |
|----------------------------------------------------------|---------------------------|
| Balance, December 31, 2014                               | 8,512,103                 |
| Common stock issued through April 2015 Offering          | 5,376,622                 |
| Common stock issued through employee stock purchase plan | 16,874                    |
| Balance, September 30, 2015                              | 13,905,599                |

## Shares Reserved for Future Issuance

The Company had reserved shares of common stock for future issuance as follows:

|                                                                          | As of<br>September 30,<br>2015 | As of<br>December 31,<br>2014 |
|--------------------------------------------------------------------------|--------------------------------|-------------------------------|
| Outstanding stock options                                                | 1,207,697                      | 615,322                       |
| Outstanding Series C-1 Preferred warrants                                | 14,033                         | 14,033                        |
| For possible future issuance under 2014 Equity Incentive Plan (Note 7)   | 564,445                        | 180,610                       |
| For possible future issuance under Employee Stock Purchase Plan (Note 7) | 50,283                         | 37,746                        |
| For possible future issuance under 2015 Inducement Plan (Note 7)         | 325,000                        | —                             |
| Total common shares reserved for future issuance                         | 2,161,458                      | 847,711                       |

## Common Stock Warrants

The Company had outstanding common stock warrants issued in connection with the Note and Warrant Purchase Agreements (see Note 3) and in connection with certain convertible preferred stock agreements (see Note 5).

The December 2011 Note and Warrant Purchase Agreement included warrants to purchase 26,000 shares of the Company's common stock at \$0.20 per share. The warrants could be exercised for shares of common stock, in accordance with their terms. The number of shares of common stock that could be purchased by exercising the warrants would vary based on the event that occurred and would be calculated in accordance with the December 2011 Note and Warrant Purchase Agreements (see Note 3).

On December 11, 2013, holders of the June 2013 Notes exercised their rights under the June 2013 Note and Warrant Agreement to receive warrants to purchase shares of the Company's common stock. As a result of this exercise, the Company issued warrants to purchase 88,987 shares of the Company's common stock to the holders of the June 2013 Notes at an exercise price of \$0.20 per share. These warrants were exercisable until June 28, 2018, and were exercised in connection with the IPO.

On December 11, 2013, in connection with the Series D-2 Convertible Preferred Stock offering, the Company issued warrants to purchase 87,532 shares of the Company's common stock at an exercise price of \$0.20 per share. These warrants were exercisable until December 11, 2018, and were exercised in connection with the IPO. In addition, as a result of the conversion of the principal and interest outstanding on the 2011-2012 Notes into Series D-1 Preferred and Series D-2 Preferred



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(see Note 3), in accordance with the amended terms of the agreement, the number of common shares underlying the warrants issued in connection with the 2011-2012 Notes was increased by 54,120 to a total of 80,120. In connection with the consummation of the IPO in May 2014, the outstanding common stock warrants were exercised at an exercise price of \$0.20 per share and the holders received 275,687 shares of common stock. All previously described warrants met the definition of a derivative financial instrument and were accounted for as derivatives. The warrants were stated at fair value at each reporting period end date prior to being exercised in May 2014 in conjunction with the Company's IPO. The combined fair value of the common stock warrant derivative liabilities, including warrants issued with the sale of Series D-2 Preferred, was \$12,200 as of December 31, 2013, and then decreased to \$9,998 as of March 31, 2014. The combined fair value of the common stock warrant derivative liabilities continued to decrease in the second quarter of 2014 to \$2,701 as of May 2, 2014, and this amount was settled to additional paid in capital on that date as the warrants were exercised in conjunction with the Company's IPO. The fair value adjustment of the long-term derivative liability for common stock warrants was recorded as other income in the amounts of \$0 for both the three and nine months ended September 30, 2015, respectively, and \$0 and \$10,405 for the three and nine months ended September 30, 2014, respectively.

## 7. Stock-based Compensation

### 2009 Stock Option Plan

The Company had a share-based compensation plan (the "2009 Stock Option Plan") under which the Company granted options to purchase shares of common stock to employees, directors, and consultants as either incentive stock options or nonqualified stock options. Incentive stock options could be granted with exercise prices not less than 100% to 110% of the fair market value of the common stock. Options granted under the plan generally vest over three to four years and expire in 10 years from the date of grant.

### 2014 Equity Incentive Plan

In February 2014, the Company's board of directors adopted the 2014 Equity Incentive Plan, or the 2014 Plan, which was subsequently ratified by its stockholders and became effective on May 2, 2014 (the "Effective Date"). The 2014 Plan is the successor to and continuation of the 2009 Stock Option Plan. As of the Effective Date, no additional awards will be granted under the 2009 Stock Option Plan, but all stock awards granted under the 2009 Stock Option Plan prior to the Effective Date will remain subject to the terms of the 2009 Stock Option Plan. All awards granted on and after the Effective Date will be subject to the terms of the 2014 Plan. The 2014 Plan provides for the grant of the following awards: (i) incentive stock options, (ii) nonstatutory stock options, (iii) stock appreciation rights, (iv) restricted stock awards, (v) restricted stock unit awards, and (vi) other stock awards. Employees, directors, and consultants are eligible to receive awards.

Under the 2014 Plan, the aggregate number of shares of common stock that could be issued from and after the Effective Date (the "share reserve") could not exceed the sum of (i) 257,352 new shares, (ii) the shares that represented the 2009 Stock Option Plan's available reserve on the Effective Date, and (iii) any returning shares from the 2009 Stock Option Plan. Under the 2014 Plan, the share reserve will automatically increase on January 1st of each year, for a period of not more than 10 years, commencing on January 1, 2015, and ending on January 1, 2024, in an amount equal to 4.0% of the total number of shares of capital stock outstanding on December 31st of the preceding calendar year. The board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than would otherwise occur.

On June 18, 2014, the Company's board of directors and compensation committee approved an amendment of the 2014 Plan, subject to stockholder approval, to increase the aggregate number of shares of the Company's common stock that may be issued under the 2014 Plan by an additional 351,653 shares. All other material terms of the 2014 Plan remained unchanged. The Company's stockholders approved the 2014 Plan amendment on September 11, 2014.

Pursuant to the terms of the 2014 Plan, on January 1, 2015, the Company automatically added 340,484 shares to the total number of shares of common stock available for future issuance under the 2014 Plan.

On February 25, 2015, the Company's board of directors approved an amendment of the 2014 Plan, subject to stockholder approval, to increase the aggregate number of shares of common stock that may be issued pursuant to

awards under the 2014 Plan by an additional 510,726 shares. The Company's stockholders approved the 2014 Plan amendment on June 4, 2015. All other material terms of the 2014 Plan otherwise remain unchanged.

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### Stock Option Grants

On April 1, 2015, the Company granted options to purchase 425,967 shares of common stock to officers and other key employees, including an award to Dr. Marco Taglietti, the Company's new Chief Executive Officer, to purchase 330,000 shares of the Company's common stock. All options granted on April 1, 2015, have a 10-year term. For Dr. Taglietti's grant, one-fourth of the shares subject to the option shall vest on the one-year anniversary of the date of grant with the remainder vesting in equal monthly installments for 36 months thereafter, provided Dr. Taglietti continues to provide service to the Company. For all other April 1, 2015 officer and key employee grants, the shares subject to the options vest in equal monthly installments for 48 months as measured from the date of grant. As of September 30, 2015, there were 564,445 shares of common stock available for future issuance under the 2014 Plan.

### Option Amendments

During the interim nine-month period ended September 30, 2015, the following events resulted in the amendment to terms of outstanding stock option awards:

On June 4, 2015, the Company's board of directors approved an extension to the existing 90-day post-employment option exercise period to a period ranging from 36 to 48 months for three directors who resigned from the board effective June 4, 2015. The directors held outstanding options to purchase 48,283 shares of the Company's common stock at a weighted average exercise price of \$9.01 per share. All outstanding options were fully vested prior to June 4, 2015.

In connection with the Company's sale of its Services Business (see Note 13), the Company designed a compensatory plan to promote the retention of services of non-executive employees supporting that business (the "Services Business Plan"). The complete terms of the Service Business Plan are described in Note 12. The Company terminated certain employees in June 2015 (the "June 2015 Terminated Employees") who became eligible for severance benefits pursuant to the terms of the Services Business Plan. The outstanding stock options held by the June 2015 Terminated Employees were modified to provide: (i) accelerated vesting of all unvested stock options as of the termination date and (ii) an extension to the existing 90-day post-employment option exercise period, which varies for each employee based upon years of service, with a maximum exercise period of 48 months. As of June 30, 2015, the June 2015 Terminated Employees held outstanding options to purchase 17,715 shares of the Company's common stock at a weighted average exercise price of \$9.64 per share, including aggregate unvested options to purchase 8,331 shares at a weighted average exercise price of \$9.64 per share.

As described in Note 12, Charles F. Osborne, Jr., the Company's former chief financial officer, resigned from the Company effective June 30, 2015. The Company's compensation committee of the board of directors approved the following modifications to Mr. Osborne's outstanding options to purchase the Company's common stock: (i) accelerated vesting of all unvested stock options as of June 30, 2015, and (ii) an extension to the existing 90-day post-employment option exercise period to 36 months. As of June 30, 2015, Mr. Osborne held outstanding options to purchase an aggregate of 74,490 shares of the Company's common stock at a weighted average exercise price of \$9.53 per share, including unvested options to purchase 50,814 shares at a weighted average exercise price of \$9.49 per share.

As described in Note 12, the Company designed a compensatory plan for its non-executive employees in connection with the relocation of its operations to Jersey City, New Jersey (the "Retention Plan"). Pursuant to the terms of the Retention Plan, all stock options held by non-executive employees eligible under the Retention Plan were modified to provide: (i) accelerated vesting of all unvested stock options as of December 31, 2015, and (ii) an extension to the existing 90-day post-employment option exercise period, which varies for each employee based upon years of service, with a maximum exercise period of 48 months. As of September 30, 2015, the retained employees eligible for participation in the Retention Plan held outstanding options to purchase 121,550 shares of the Company's common stock at a weighted average exercise price of \$9.13 per share, including aggregate unvested options to purchase 85,990 shares at a weighted average exercise price of \$8.95 per share.

In July 2015, pursuant to the Service Business Plan described in Note 12, the stock options held by each non-executive employee of the Services Business were modified immediately prior to the closing of the sale

transaction in July 2015 to provide: (i) accelerated vesting of all unvested stock options as of the closing of the sale transaction and (ii) an extension to the existing 90-day post-employment option exercise period, which varies for each employee based upon years of service, with a maximum exercise period of 48 months. As of July 16, 2015, the non-executive employees of the Services Business held outstanding options to purchase 37,517 shares of the Company's common stock at a weighted average exercise price of \$9.62 per share, including aggregate unvested options to purchase 23,052 shares at a weighted average exercise price of \$9.61 per share.

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On July 21, 2015, Yves J. Ribeill, Ph.D., President and a member of the Company's board of directors, resigned as President. The Company and Dr. Ribeill entered into a Separation Agreement which included the following modifications to Dr. Ribeill's outstanding options to purchase the Company's common stock: (i) accelerated vesting of all unvested stock options as of July 21, 2015, and (ii) an extension to the existing 90-day post-employment option exercise period to 48 months. As of July 23, 2015, Dr. Ribeill held 84,613 vested options and 183,268 unvested options to purchase shares of the Company's common stock at a weighted average exercise price of \$9.61 and \$9.41 per share, respectively.

On September 24, 2015, Edward E. Penhoet, Ph.D. resigned from the Company's board of directors. The Company's board of directors approved the following modifications to Dr. Penhoet's outstanding options to purchase the Company's common stock: (i) accelerated vesting of all unvested stock options as of September 24, 2015, and (ii) an extension to the existing 90-day post-employment option exercise period to 36 months. As of September 24, 2015, Dr. Penhoet held outstanding options to purchase 12,280 shares of the Company's common stock at a weighted average exercise price of \$8.64 per share, including aggregate unvested options to purchase 8,800 shares at a weighted average exercise price of \$8.65 per share.

The Company determined the additional compensation cost associated with the previously described modifications pursuant to applicable guidance in FASB ASC Topic 718, Compensation—Stock Compensation. The additional compensation cost was determined by calculating the difference between (a) the estimated fair value of each option award immediately prior to the modifications and (b) the estimated fair value of each option award immediately after the modifications. The fair value of each option award immediately prior to and immediately after modification was estimated using the Black-Scholes option-pricing model to determine an incremental fair value, consistent with and in accordance with the Company's existing accounting policy for stock compensation (see Note 1). Using the Black-Scholes option-pricing model, the weighted-average incremental fair value of outstanding modified option awards was \$3.78 per option share. The total additional compensation cost associated with the previously described modifications was determined to be \$1,964, of which \$466 and \$1,321 was expensed in the quarterly periods ended June 30, 2015, and September 30, 2015, respectively. The remaining additional compensation cost is associated with future service periods and will be recognized as those services are performed.

### 2015 Inducement Plan

On March 26, 2015, the Company's board of directors adopted the 2015 Inducement Plan, or the 2015 Plan. The 2015 Plan provides for the grant of nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to persons not previously employees or directors of the Company, or following a bona fide period of non-employment, as an inducement material to the individuals' entering into employment with the Company within the meaning of NASDAQ Listing Rule 5635(c)(4). The 2015 Plan has a share reserve covering 450,000 shares of common stock. During the quarter ended June 30, 2015, the Company granted an option to purchase 125,000 shares of the Company's common stock under to the 2015 Inducement Plan. As of September 30, 2015, there were 325,000 shares of common stock available for future issuance under the 2015 Plan.

### 2014 Employee Stock Purchase Plan

In February 2014, the Company's board of directors adopted the 2014 Employee Stock Purchase Plan ("ESPP"), which was subsequently ratified by the Company's stockholders and became effective on May 2, 2014. The purpose of the ESPP is to provide means by which eligible employees of the Company and of certain designated related corporations may be given an opportunity to purchase shares of the Company's common stock, and to seek and retain services of new and existing employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. Common stock that may be issued under the ESPP will not exceed 47,794 shares, plus the number of shares of common stock that are automatically added on January 1st of each year for a period of ten years, commencing on January 1, 2015, and ending on January 1, 2024, in an amount equal to the lesser of (i) 0.8% of the total number of shares of outstanding common stock on December 31 of the preceding calendar year, and (ii) 29,411 shares of common stock. Similar to the 2014 Plan, the board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than



would otherwise occur. The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code.

In the quarterly period ended March 31, 2015, the number of shares of common stock available for issuance under the ESPP was automatically increased by 29,411 shares pursuant to the terms of the ESPP and the Company issued 15,107 shares of common stock under the ESPP. During the quarterly period ended September 30, 2015, the Company issued 1,767 shares of common stock under the ESPP. As of September 30, 2015, there were 50,283 shares of common stock available for future issuance under the ESPP.

Table of Contents**Compensation Cost**

The compensation cost that has been charged against income for stock awards under the 2009 Stock Option Plan, the 2014 Plan, the 2015 Plan, and the ESPP was \$1,541 and \$2,656 for the three and nine months ended September 30, 2015, respectively, and \$455 and \$837 for the three and nine months ended September 30, 2014, respectively. The total income tax benefit recognized in the statements of operations for share-based compensation arrangements was \$0 for the three and nine months ended September 30, 2015 and 2014. Cash received from options exercised was \$0 for both the three and nine months ended September 30, 2015, and \$0 and \$9 for the three and nine months ended September 30, 2014.

Stock-based compensation expense related to stock options is included in the following line items in the accompanying statements of operations:

|                                                                                              | Three Months Ended September 30, |       | Nine Months Ended September 30, |       |
|----------------------------------------------------------------------------------------------|----------------------------------|-------|---------------------------------|-------|
|                                                                                              | 2015                             | 2014  | 2015                            | 2014  |
| Research and development                                                                     | 128                              | 110   | 242                             | 272   |
| Selling, general and administrative                                                          | 1,306                            | 256   | 2,206                           | 426   |
| Discontinued operations (within cost of revenue in discontinued operations, 107 see Note 13) |                                  | 89    | 208                             | 139   |
| Total                                                                                        | \$1,541                          | \$455 | \$2,656                         | \$837 |

**8. Income Taxes**

The Company applies intraperiod tax allocation guidance pursuant to FASB ASC 740, Income Taxes (Topic 740) to allocate income tax (expense) benefit between pre-tax income (loss) from continuing operations and discontinued operations. For periods in which the Company reports pre-tax income from discontinued operations for financial reporting purposes and pre-tax loss from continuing operations, the Company presents income from discontinued operations net of income tax expense attributable to its discontinued operations using the estimated annual effective tax rate of the Services Business. The Company also recognizes a corresponding income tax benefit on its loss from continuing operations for the same affected period. After applying the intraperiod tax allocation policy described above, the Company did not record a federal or state income tax benefit for the three and nine month periods ended September 30, 2015. After applying the intraperiod tax allocation policy described above, the Company recorded an income tax benefit of \$338 and \$909 for the three and nine month periods ended September 30, 2014.

**9. Net Loss Per Share**

The Company uses the two-class method to compute net loss per share because the Company has issued securities, other than common stock, that contractually entitle the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Holders of each series of the Company's convertible preferred stock were entitled to participate in dividends, when and if declared by the board of directors, that were made to common stockholders, and as a result were considered participating securities.

Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the participating securities have no obligation to fund losses. Diluted net loss per common share is computed under the two-class method by using the weighted average number of shares of common stock outstanding, plus, for periods with net income attributable to common stockholders, the potential dilutive effects of stock options and warrants. In addition, the Company analyzes the potential dilutive effect of the outstanding participating securities when calculating diluted earnings per share. Under the "treasury stock" method, it is

assumed that the warrants and options were exercised at the beginning of the period and that the funds obtained from the exercise were used to reacquire the Company's common stock at the average market price for the period and includes those securities when they are dilutive. Under the "if-converted" method, it is assumed that the outstanding participating securities convert into common stock at the beginning of the period. The Company reports the more dilutive of the approaches as its diluted net income or net loss per share during the period.

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The following table summarizes the computation of basic and diluted net loss per share attributable to the Company's common stockholders:

|                                                                                                             | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |              |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------|------------------------------------|--------------|
|                                                                                                             | 2015                                | 2014        | 2015                               | 2014         |
| Income (loss) attributable to common stock - basic:                                                         |                                     |             |                                    |              |
| Loss from continuing operations                                                                             | \$ (7,529                           | ) \$ (4,200 | ) \$ (19,950                       | ) \$ (2,225  |
| Deemed dividend for beneficial conversion feature on Series D-2 Preferred                                   | —                                   | —           | —                                  | (909         |
| Deemed dividend for antidilution adjustments to convertible preferred stock                                 | —                                   | —           | —                                  | (214         |
| Accretion of convertible preferred stock                                                                    | —                                   | —           | —                                  | (510         |
| Allocation of net income to convertible preferred stockholders                                              | —                                   | —           | —                                  | —            |
| Loss from continuing operations attributable to common stock - basic                                        | (7,529                              | ) (4,200    | ) (19,950                          | ) (3,858     |
| Income (loss) from discontinued operations, net of income tax expense, attributable to common stock - basic | (826                                | ) 396       | (4,285                             | ) 1,066      |
| Net loss attributable to common stock - basic                                                               | \$ (8,355                           | ) \$ (3,804 | ) \$ (24,235                       | ) \$ (2,792  |
| Income (loss) attributable to common stock - diluted:                                                       |                                     |             |                                    |              |
| Loss from continuing operations attributable to common stock - basic                                        | \$ (7,529                           | ) \$ (4,200 | ) \$ (19,950                       | ) \$ (3,858  |
| Derivative fair value adjustment                                                                            | —                                   | —           | —                                  | (10,080      |
| Loss from continuing operations attributable to common stock - diluted                                      | (7,529                              | ) (4,200    | ) (19,950                          | ) (13,938    |
| Loss from discontinued operations, net of income tax expense, attributable to common stock - diluted        | (826                                | ) 396       | (4,285                             | ) 1,066      |
| Net loss attributable to common stock - diluted                                                             | \$ (8,355                           | ) \$ (3,804 | ) \$ (24,235                       | ) \$ (12,872 |
| Weighted-average common shares outstanding:                                                                 |                                     |             |                                    |              |
| Weighted-average common shares outstanding - basic                                                          | 13,904,331                          | 8,504,785   | 11,576,498                         | 4,703,278    |
| Allocation of common stock warrants as participating securities                                             | —                                   | —           | —                                  | 273,687      |
| Weighted-average common shares outstanding - diluted                                                        | 13,904,331                          | 8,504,785   | 11,576,498                         | 4,976,965    |
| Income (loss) per share - basic:                                                                            |                                     |             |                                    |              |
| Continuing operations                                                                                       | \$ (0.54                            | ) \$ (0.50  | ) \$ (1.72                         | ) \$ (0.82   |
| Discontinued operations                                                                                     | (0.06                               | ) 0.05      | (0.37                              | ) 0.23       |
| Net loss per share - basic                                                                                  | \$ (0.60                            | ) \$ (0.45  | ) \$ (2.09                         | ) \$ (0.59   |
| Income (loss) per share - diluted:                                                                          |                                     |             |                                    |              |
| Continuing operations                                                                                       | \$ (0.54                            | ) \$ (0.50  | ) \$ (1.72                         | ) \$ (2.80   |
| Discontinued operations                                                                                     | (0.06                               | ) 0.05      | (0.37                              | ) 0.21       |

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|                                       |         |           |           |           |   |
|---------------------------------------|---------|-----------|-----------|-----------|---|
| Net income (loss) per share - diluted | \$(0.60 | ) \$(0.45 | ) \$(2.09 | ) \$(2.59 | ) |
|---------------------------------------|---------|-----------|-----------|-----------|---|

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The following securities, presented on a common stock equivalent basis, have been excluded from the calculation of weighted average common shares outstanding because their effect is anti-dilutive.

|                               | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|-------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                               | 2015                                | 2014    | 2015                               | 2014    |
| Convertible preferred stock:  |                                     |         |                                    |         |
| Series A Preferred            | —                                   | —       | —                                  | 6,149   |
| Series B Preferred            | —                                   | —       | —                                  | 131,685 |
| Series C Preferred            | —                                   | —       | —                                  | 783,515 |
| Series C-2 Preferred          | —                                   | —       | —                                  | 173,213 |
| Series D-1 Preferred          | —                                   | —       | —                                  | 296,773 |
| Series D-2 Preferred          | —                                   | —       | —                                  | 300,549 |
| Series C-1 Preferred warrants | 14,033                              | 14,033  | 14,033                             | 14,033  |
| Stock options                 | 1,207,697                           | 625,627 | 1,207,697                          | 625,627 |
| ESPP                          | —                                   | 59,203  | —                                  | 59,203  |

## 10. Related-Party Transactions

The Company had transactions with related parties as follows:

|                                             | Three Months Ended September<br>30, |         | Nine Months Ended September<br>30, |         |
|---------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                             | 2015                                | 2014    | 2015                               | 2014    |
| Revenue                                     | \$165                               | \$1,822 | \$2,140                            | \$5,466 |
| Selling, general and administrative expense | \$—                                 | \$—     | \$—                                | \$500   |

Sanofi owns 100% of a subsidiary that is a customer of the Company's former Services Business, which is presented in discontinued operations in the accompanying statements of operations (see Note 13). Both Sanofi and the subsidiary have an investment in the Company. The Company's related-party revenue with the subsidiary composed 29% and 29% total revenue in discontinued operations for the three and nine months ended September 30, 2015, respectively, and 42% and 40% of total revenue in discontinued operations for the three and nine months ended September 30, 2014, respectively.

In May 2014, the Company paid a \$500 success fee to Burrill Securities, an affiliate of Burrill Biotechnology Capital Fund, L.P., a holder of the Company's capital stock, pursuant to an engagement letter. The fee was recognized as general and administrative expense in the accompanying statements of operations.

## 11. Fair Value Measurements

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable, unbilled services, prepaid expenses and other current assets, accounts payable, and accrued expenses approximate their respective fair values due to the short-term nature of such instruments.

## Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

As discussed in Note 13, the Company met the relevant criteria for reporting the Service Business as held for sale on May 4, 2015 (the "Measurement Date"), and as a result, assessed the asset group for impairment pursuant to FASB Topic 360, Property, Plant, and Equipment. The net carrying value of the Services Business asset group was compared to its fair value as of May 4, 2015. The Company determined that the selling price paid by Accuratus to acquire the Services Business asset group was the best estimate of fair value, which the Company concluded was a Level 2 input. The Company determined that the Services Business asset group's net carrying value exceeded its fair value by \$572 on the Measurement Date. The Company also estimated selling costs directly attributable to the sale of the Services Business to be \$778. As a result, the Company recorded a \$1,350 impairment charge on property and equipment assets classified as held for sale in the quarterly period ended June 30, 2015. The Company subsequently recorded a \$73 loss

on disposal, after the effects of \$764 of actual selling costs, in

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the quarterly period ended September 30, 2015, due to (i) a difference between estimated and final direct selling costs and (ii) a change in estimated working capital of the Services Business between June 30, 2015 and the effective date of the sale on July 17, 2015.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. This determination requires significant judgments to be made.

As of September 30, 2015, and December 31, 2014, there were no assets or liabilities measured at fair value on a recurring basis.

The Company's derivative liabilities were the only balance sheet amounts that were measured at fair value on a recurring basis. The fair value of these warrant derivatives was based on a valuation of the Company's common stock. In order to determine the fair value of the Company's common stock, the Company used a probability-weighted expected return method, or PWERM. Significant inputs for the PWERM included an estimate of the Company's equity value, a weighted average cost of capital and an estimated probability and timing for each valuation scenario.

A reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

|                                                                          | Nine months ended<br>September 30, 2014 |
|--------------------------------------------------------------------------|-----------------------------------------|
| Balance at beginning of period                                           | \$12,237                                |
| Issuance of warrants                                                     | 544                                     |
| Excess of fair value of warrants over proceeds                           | 362                                     |
| Adjustment to fair value                                                 | (10,442)                                |
| Reclassification to additional paid-in capital upon exercise of warrants | (2,701)                                 |
| Balance at end of period                                                 | \$—                                     |

## 12. Compensatory Plan Obligations

### Compensatory Plan with Services Business Employees

In connection with the Company's sale of its Services Business, which is more fully described in Note 13, the Company designed a compensatory plan to promote the retention of services of its non-executive employees supporting that business (the "Services Business Plan"). The Company's board of directors adopted, and the Company communicated, the material terms of the Services Business Plan prior to June 30, 2015, to all non-executive employees of the Services Business. The Services Business Plan terms provide for certain cash compensation payments, as well as modifications to the terms of currently outstanding stock options held by such non-executive employees, as more completely described below, upon the successful closing of the sale of the Services Business. The sale closed in July 2015 (see Note 13). The Services Business Plan meets the definition of an exit and disposal activity pursuant to FASB ASC 420--Exit and Disposal Cost Obligations and all related expenses incurred have been or will be presented in discontinued operations in the statements of operations in the period incurred.

The Services Business Plan provided that in the event a non-executive employee of the Services Business was not offered a comparable position by Accuratus, the Company would provide severance payments to such employees. The Company terminated certain employees in June 2015 (the "June 2015 Terminated Employees") who became eligible for severance benefits totaling approximately \$999 pursuant to the terms of the Services Business Plan, which was expensed in the quarterly period ended June 30, 2015. As of September 30, 2015, the remaining severance obligation for the June 2015 Terminated Employees was \$584 included in accrued severance and retention liabilities, current portion, and \$8 included in accrued severance and retention liabilities, net of current portion, in the accompanying balance sheet. The Services Business Plan also provided for certain amendments to the terms of the outstanding stock option awards held by the June 2015 terminated employees, which are described in Note 7.

In July 2015, pursuant to the Services Business Plan, the Company paid cash totaling approximately \$215 to certain non-executive employees of the Services Business representing an incentive payment upon the closing of the sale of



the Services Business. In addition, all non-executive employees of the Services Business will be eligible to receive a cash retention

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compensation payment from the Company on the earlier of (i) the six month anniversary of the closing of the sale transaction, provided that they remain employed by Accuratus as of such date, or (ii) the date of termination of such employee by Accuratus without good cause. Maximum cash retention compensation payments could total approximately \$814 under the Services Business Plan, if all service business employees remain eligible pursuant to the terms of the Services Business Plan. The Company incurred these obligations on the date of the sale of the Services Business in July 2015; therefore, the compensation expense associated with these cash payments and obligations was recognized during the quarterly period ended September 30, 2015. As of September 30, 2015, the remaining obligation of \$761 was included in accrued severance and retention liabilities, current portion. The Services Business Plan also includes certain amendments to the terms of the eligible employees' outstanding stock option awards, which are described in Note 7.

#### Compensatory Arrangement with Employees of the Company's Continuing Operations

In connection with the Company's planned relocation of its continuing operations to Jersey City, New Jersey, the Company designed a compensatory plan to promote the retention of services of non-executive employees supporting its continuing operations (the "Retention Plan"). The Company's board of directors adopted, and the Company communicated, the material terms of the Retention Plan prior to June 30, 2015, to all non-executive employees supporting the Company's continuing operations. The Retention Plan terms provide for certain cash compensation payments and severance payments, as well as modifications to the terms of currently outstanding stock options held by such non-executive employees, as more completely described below. The Company has concluded that the Retention Plan meets the definition of an exit and disposal activity pursuant to FASB ASC 420--Exit and Disposal Cost Obligations as of June 30, 2015, and all related expenses incurred have been and will be presented in continuing operations in the statements of operations.

The Retention Plan provides that non-executive employees are eligible to receive cash bonuses, severance payments and related benefit premiums that could total a maximum of approximately \$1,088, provided that all current employees remain employed through December 31, 2015 and are not terminated for cause. The Retention Plan also provides that if the Company and an employee agree upon a services termination date earlier than December 31, 2015 (the "Release Date"), the employee will remain eligible for all terms of the Retention Plan. The Company is accruing this obligation over the remaining future service period required by the employees through the earlier of the Release Date or December 31, 2015. During the three and nine months ended September 30, 2015, the Company recognized total expense of \$456 and \$622, respectively, which was included in research and development and selling, general, and administrative expenses in the accompanying statements of operations. The corresponding liability is included in accrued severance and retention obligations, current portion, in the accompanying balance sheet.

The Retention Plan also includes certain amendments to the terms of the eligible employees' outstanding stock option awards, which are described in Note 7.

#### Compensatory Arrangements with Former Executive Officers

Charles F. Osborne, Jr., the Company's former chief financial officer, resigned from the Company effective June 30, 2015. The Company's compensation committee of the board of directors approved a compensatory arrangement for Mr. Osborne that provided for certain payments and benefits, including: (i) a cash payment of approximately \$138 upon his resignation on June 30, 2015; (ii) cash severance payments totaling approximately \$179, which was equal to seven months of Mr. Osborne's then effective base salary, paid over seven months commencing with the first payroll period following the resignation date; (iii) a payment representing a contribution Mr. Osborne can use towards continuing COBRA premiums for medical, dental, and vision group health coverage for a period up to seven months after the resignation date; and (iv) certain amendments to the terms of Mr. Osborne's outstanding stock option awards (see Note 7). The cash severance payments and related benefit premiums and payroll taxes totaled approximately \$335 and were expensed in the quarterly period ended June 30, 2015. As of September 30, 2015, the remaining obligation of \$104 is included in accrued severance and retention liabilities, current portion, in the accompanying balance sheet. Yves J. Ribeill, Ph.D., President and a member of the Company's board of directors, resigned as President effective July 21, 2015. Dr. Ribeill continues to serve on the board of directors. The Company and Dr. Ribeill entered into an agreement, effective July 21, 2015, (the "Separation Agreement"), providing for certain payments and benefits to Dr.

Ribeill, including: (i) a cash payment of approximately \$100 upon the effective date of his resignation; (ii) cash severance payments totaling approximately \$900, paid over 12 months commencing with the first payroll period following the resignation date; (iii) a payment representing a contribution Dr. Ribeill can use towards continuing COBRA premiums for medical, dental, and vision group health coverage after the resignation date; and (iv) certain amendments to the terms of Dr. Ribeill's outstanding stock option awards (see Note 7). The cash severance payments and related benefit premiums and payroll taxes totaled approximately \$1,046 as of July 21, 2015, which was recognized as expense in the quarterly period ended September 30, 2015. As of September 30, 2015, the remaining obligation of \$730 is included in accrued severance and retention liabilities, current portion, in the accompanying balance sheet.

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## 13. Sale of the Services Business, Discontinued Operations

On May 4, 2015, the Company's board of directors directed management to pursue a plan to sell the Service Business to Accuratus, representing a strategic shift in the Company's operations. The Company met the relevant criteria for reporting the service business as held for sale and in discontinued operations in the second quarter of 2015, pursuant to FASB Topic 205-20, Presentation of Financial Statements--Discontinued Operations, and FASB Topic 360, Property, Plant, and Equipment. The Company assessed the Services Business net asset group for impairment pursuant to FASB Topic 360 and recorded a \$1,350 impairment charge on classification of property and equipment assets as held for sale in the quarterly period ended June 30, 2015. The fair value measurement used to determine the impairment charge has been described in Note 11.

## Sale of the Services Business

On July 21, 2015, the Company completed the sale of the Services Business to Accuratus pursuant to the Purchase Agreement, with an effective date of July 17, 2015 for an aggregate purchase price of \$3,875, subject to a working capital adjustment of \$824, which reduced the proceeds at closing. In addition, a portion of the consideration payable at closing equal to \$500 was withheld and is subject to an escrow for a period of 12 months from the date of closing to satisfy indemnification obligations of the Company in connection with breaches of any representation and warranties and other customary obligations under the terms of the Purchase Agreement. The Company has not identified any breaches or other events that would cause a reduction in the escrow funds expected to be received by the Company. The escrow funds were recorded as a receivable included in prepaid expenses and other current assets in the accompanying balance sheets. The net cash consideration received by the Company upon closing in July 2015 was \$2,549, after adjusting for the items described above and a nominal escrow fee.

The following table describes the net proceeds from the sale and the assets and liabilities sold, net of impairment charges and loss on disposal:

|                                                                            | July 16, 2015 |
|----------------------------------------------------------------------------|---------------|
| Net proceeds from sale of the Services Business                            |               |
| Net cash consideration received at closing                                 | \$2,549       |
| Consideration in escrow                                                    | 500           |
| Total consideration                                                        | 3,049         |
| Less: selling costs                                                        | 764           |
| Proceeds from sale, net of selling costs                                   | \$2,285       |
| Services Business assets and liabilities disposed of on July 16, 2015      |               |
| Accounts and unbilled receivables, net                                     | \$1,470       |
| Prepaid expenses and other current assets                                  | 713           |
| Property and equipment, net of accumulated depreciation                    | 4,900         |
| Other assets                                                               | 59            |
| Assets of Services Business, net                                           | \$7,142       |
| Accounts payable and accrued expenses                                      | \$616         |
| Deferred revenue                                                           | 1,657         |
| Deferred rent                                                              | 1,161         |
| Liabilities related to assets of the Services Business                     | \$3,434       |
| Assets of the Services Business, net of liabilities                        | \$3,708       |
| Less: Impairment charge recognized upon classification as held for sale    | 1,350         |
| Less: Loss on disposal                                                     | 73            |
| Assets of the Services Business, net of liabilities and impairment charges | \$2,285       |



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## Continuing Involvement with Accuratus

As a condition to the execution of the Purchase Agreement, Accuratus assumed the Company's post-closing obligation under its facility lease in Durham, North Carolina (see Note 4). The Company and its retained employees will continue to operate from the Durham facility immediately after the closing for a period of up to six months pursuant to a facility license agreement. In addition, under a Transition Services Agreement, Accuratus will provide accounting, IT, payroll, personnel and human resources support, and equity compensation plan administration support services to the Company at rates ranging from one hundred to two hundred dollars per hour for a period of time not to extend beyond December 31, 2015.

The Company and Accuratus also entered into the Services Agreement pursuant to which Accuratus will provide the Company with certain contract research and development services for 18 months (the "Initial Term") following the closing of the sale of the Services Business for a minimum purchase obligation of at least \$3,300 due from the Company over the Initial Term of the Services Agreement. The purpose of the Services Agreement is to replace services that were previously provided internally by employees of the Company prior to the sale of the Services Business. The employees performing these services became employees of Accuratus in connection with this sale transaction.

In the quarterly period ended September 30, 2015, the Company recognized \$667 of expense for services provided by Accuratus under the Services Agreement, which is included in research and development expense in the accompanying unaudited interim statements of operations.

## Discontinued Operations and Assets Held for Sale

The following table presents a reconciliation of the carrying amounts of assets and liabilities of the Services Business to assets held for sale, net in the balance sheets:

|                                                                              | December 31, 2014 |
|------------------------------------------------------------------------------|-------------------|
| Carrying amounts of assets included as part of discontinued operations:      |                   |
| Accounts and unbilled receivables, net                                       | \$1,501           |
| Prepaid expenses and other current assets                                    | 289               |
| Property and equipment, net                                                  | 4,835             |
| Other assets                                                                 | 76                |
| Assets of discontinued operations, net                                       | \$6,701           |
| Carrying amounts of liabilities included as part of discontinued operations: |                   |
| Accounts payable and accrued expenses                                        | \$681             |
| Deferred revenue                                                             | 445               |
| Deferred rent                                                                | 1,294             |
| Liabilities related to assets of discontinued operations                     | \$2,420           |

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The following table presents revenue, (expenses), gains, and (losses) attributable to discontinued operations:

|                                                                                                                                     | Three months ended September 30, |          | Nine months ended September 30, |           |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                                                                                                                     | 2015                             | 2014     | 2015                            | 2014      |
| Major line items constituting income (loss) of discontinued operations:                                                             |                                  |          |                                 |           |
| Total revenue                                                                                                                       | \$560                            | \$4,319  | \$7,408                         | \$13,535  |
| Cost of revenue                                                                                                                     | (466                             | ) (3,660 | ) (7,296                        | ) (11,800 |
| Research and development                                                                                                            | (7                               | ) —      | (860                            | ) —       |
| Selling, general, and administrative                                                                                                | —                                | 75       | —                               | 75        |
| Gain on insurance recovery                                                                                                          | —                                | —        | —                               | 165       |
| Severance and exit costs (Note 12)                                                                                                  | (1,061                           | ) —      | (2,114                          | ) —       |
| Impairment charge from classification of assets as held for sale                                                                    | —                                | —        | (1,350                          | ) —       |
| Gain (loss) on disposal, net of associated transaction costs of \$764 for the three and nine month periods ended September 30, 2015 | 148                              | —        | (73                             | ) —       |
| Income tax expense                                                                                                                  | —                                | (338     | ) —                             | (909      |
| Income (loss) from discontinued operations, net of income tax expense                                                               | \$(826                           | ) \$396  | \$(4,285                        | ) \$1,066 |

The following table presents depreciation, capital expenditures, and significant operating and investing non-cash items related to the discontinued operations:

|                                                              | Nine months ended September 30, |        |
|--------------------------------------------------------------|---------------------------------|--------|
|                                                              | 2015                            | 2014   |
| Depreciation expense                                         | \$391                           | \$841  |
| Purchases of property and equipment                          | (547                            | ) (632 |
| Stock-based compensation                                     | 208                             | 139    |
| Changes in deferred rent                                     | (133                            | ) (97  |
| Equipment purchases in accounts payable and accrued expenses | —                               | 11     |

#### 14. Subsequent Events

##### Equity Compensation Plan Activities

Subsequent to September 30, 2015, the Company's board of directors took certain actions that affected the number of outstanding stock options and options available for grant under the 2015 Inducement Plan, as follows:

On October 1, 2015, the Company granted options to purchase 60,000 shares of common stock to a newly hired vice president under the 2015 Inducement Plan at a per share exercise price of \$6.64. The options have a ten-year term, with one-fourth of the shares subject to the option vesting on the one-year anniversary of the date of grant and the remainder vesting in equal monthly installments for 36 months thereafter, provided the vice president continues to provide service to the Company.

On November 2, 2015, the Company granted options to purchase 100,000 shares of common stock to a newly hired Chief Financial Officer under the 2015 Inducement Plan at a per share exercise price of \$6.53. The options have a ten-year term, with one-fourth of the shares subject to the option vesting on the one-year anniversary of the date of grant and the remainder vesting in equal monthly installments for 36 months thereafter, provided the vice president continues to provide service to the Company.





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Shelf Registration Filing

On October 30, 2015, the Company filed a shelf registration statement on Form S-3 with the SEC. The registration statement contained two prospectuses:

a base prospectus which covers the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$150,000 of the Company's common stock, preferred stock, debt securities and warrants, including common stock or preferred stock upon conversion of debt securities, common stock upon conversion of preferred stock, or common stock, preferred stock or debt securities upon the exercise of warrants, and

a prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$40,000 of the Company's common stock that may be issued and sold under a sales agreement with Cowen and Company, LLC (the "Sales Agreement Prospectus").

The common stock that may be offered, issued and sold by the Company under the Sales Agreement Prospectus is included in the \$150,000 of securities that may be offered, issued and sold by the Company under the base prospectus. Upon termination of the sales agreement with Cowen and Company, LLC, any portion of the \$40,000 included in the Sales Agreement Prospectus that is not sold pursuant to the sales agreement will be available for sale in other offerings pursuant to the base prospectus and a corresponding prospectus supplement, and if no shares are sold under the sales agreement, the full \$150,000 of securities may be sold in other offerings pursuant to the base prospectus.

Termination of License Agreement

In August 2012, the Company entered into a license agreement with Dechra Ltd. ("Dechra"), a UK listed international veterinary pharmaceutical business, granting Dechra rights to the Company's proprietary compound, SCY-641, in the field of animal health, including dog dry eye, under which the Company was entitled to receive potential milestone and royalty payments. Dechra was granted worldwide animal health rights and was responsible for the remaining clinical development and commercialization of SCY-641 in the animal health field. Under the agreement, Dechra was required to use reasonable efforts to commercialize SCY-641. The Company received an upfront fee in 2012 and was eligible to receive potential milestone payments as well as royalty payments on the total net sales of the product.

Pursuant to the agreement, Dechra had the right to relinquish the license and terminate the agreement at any time it determined in its reasonable business judgment that it was impossible to carry out further development or marketing of the product by giving the Company at least six months prior written notice. In November 2015, Dechra notified the Company of its intention to terminate the license agreement for the development of SCY-641 effective May 2016.

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

Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of results that may occur in future interim periods or future fiscal years. Some of the statements under in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. These forward-looking statements are based on management's beliefs and assumptions and on information currently available to our management and involve significant elements of subjective judgment and analysis. Words such as "expects," "will," "anticipate," "target," "goal," "intend," "plan," "believe," "seek," "estimate," "potential," "should," "could," variations of such similar expressions are intended to identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed under the heading "Risk Factors" in Item 1A of Part II of this Quarterly Report on Form 10-Q. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this Quarterly Report on Form 10-Q.

#### Overview

We are a pharmaceutical company committed to the development and commercialization of novel anti-infectives to address significant unmet therapeutic needs. We are developing our lead product candidate, SCY-078, as a novel oral and intravenous (IV) drug for the treatment of serious and life-threatening invasive fungal infections in humans. SCY-078 has been shown to be effective in vitro and in vivo in animal models against a broad range of *Candida* and *Aspergillus* fungal species, including drug resistant strains. These important pathogens account for approximately 85% of invasive fungal infections in the United States and Europe. SCY-078 was shown to be sufficiently safe and well-tolerated in multiple Phase 1 studies to support progression to Phase 2 studies. We are currently conducting a multicenter Phase 2 study with primary endpoints of safety, tolerability, and pharmacokinetics of the oral formulation of SCY-078 as step-down treatment in patients initially treated with echinocandin therapy for invasive *Candida* infections, which are serious and life threatening infections. The enrollment into the study continues but has been slower than anticipated. New investigational sites have been opened in the US and we are opening additional investigational sites in Latin America and Europe. Investigational sites are currently operating under the latest protocol amendment, which was designed to facilitate enrollment, and we continue to consider whether further protocol amendments may be appropriate. We expect these measures to increase enrollment into the study. In addition, as we collect data on the enrolled patients, we will continue to assess the actual number of patients required to achieve the study objectives. We expect to complete the study and to report top line data in the first half of 2016. We also recently initiated enrollment in the first Phase 1 study of an IV formulation of SCY-078.

In addition, we are investigating the potential clinical utility of SCY-078 in other areas of unmet medical need such as genital infections caused by *Candida* spp. (vulvovaginal candidiasis, VVC). VVC is a highly prevalent condition with limited therapeutic options for infections caused by azole-resistant *Candida* spp. We plan to initiate a Phase 2 study evaluating the safety and efficacy of orally administered SCY-078 in this indication in the fourth quarter of 2015. We expect top line results in the first half of 2016. We also expect the data from this study to provide a confirmation of the potential therapeutic effect of orally administered SCY-078 in a clinical condition caused by *Candida* spp. and, along with the other clinical and nonclinical data from ongoing and planned activities, will contribute to the package of information that will support subsequent phases of development.

As a spinout from Aventis S.A., or Aventis in 2000, we began as a chemistry and animal health services company, providing contract research services to third parties. Through the provision of these contract research and development services, we built significant expertise in parasitic infections and drug discovery, including expanded animal health capabilities. This contract research and development services business, which we refer to as our services business, generated substantially all of our revenues until we completed the sale of the services business to Accuratus Lab Services, Inc. in July 2015, as described further in the "Recent Developments" section below. Since our formation, we have discovered a number of proprietary compounds, primarily within our cyclophilin inhibitor platform. Our two lead compounds from our cyclophilin inhibitor platform include SCY-641, a compound licensed to Dechra Ltd. in

2012 for clinical development for the treatment of dog dry eye, and SCY-635, a compound licensed to Waterstone in October 2014 for the treatment of viral diseases in humans. In November 2015, Dechra notified us of its intention to terminate its license agreement for the development of SCY-641 effective May 2016. The successful sale of our services business, as well as the licensing of the two lead compounds from our cyclophilin inhibitor platform, allows us to focus our resources on the development of SCY-078.

In 2013, we exclusively licensed SCY-078 from Merck Sharp & Dohme, or Merck, in the field of human health, and Merck transferred to us the investigational new drug application on file with the U.S. Food and Drug Administration, or the FDA, as well as all data Merck had developed for the compound, plus active pharmaceutical ingredient and tablets. In 2014, Merck assigned all the patents related to SCY-078 to us.

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We are an emerging growth company. Under the Jumpstart Our Business Startups Act of 2012, or JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time of those standards apply to private companies. We have irrevocably elected not to adopt this exemption from new or revised accounting standards, and therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

### Recent Developments

#### SCY-078 Development

We are currently conducting a multicenter Phase 2 study with primary endpoints of safety, tolerability, and pharmacokinetics of the oral formulation of SCY-078 as step-down treatment in patients initially treated with echinocandin therapy for invasive Candida infections. The enrollment into the study continues but has been slower than anticipated. New investigational sites have been opened in the US and we are opening additional investigational sites in Latin America and Europe. Investigational sites are currently operating under the latest protocol amendment, which was designed to facilitate enrollment, and we continue to consider whether further protocol amendments may be appropriate. We expect these measures to increase enrollment into the study. In addition, as we collect data on the enrolled patients, we will continue to assess the actual number of patients required to achieve the study objectives. We expect to complete the study and to report top line data in the first half of 2016.

We have developed an IV formulation of SCY-078. We submitted to the FDA the data package, including data from our IND-enabling studies, to support the start of the first Phase 1 study with the IV formulation. The FDA has accepted our data package and we have recently initiated enrollment in the first Phase 1 study.

The oral formulation of SCY-078 has been granted QIDP designation and fast track designation by the FDA. We recently submitted applications to the FDA for QIDP designation and fast track designation for the IV formulation of SCY-078. The fast track designation, coupled with the QIDP designation, allows for a potentially accelerated path to approval and underscores the FDA's understanding of the critical need for new and varied treatments for life-threatening invasive fungal infections.

We are also investigating the potential clinical utility of SCY-078 in other areas of unmet medical need such as genital infections caused by Candida spp. (vulvovaginal candidiasis, VVC). VVC is a highly prevalent condition with limited therapeutic options for infections caused by azole-resistant Candida spp. We plan to initiate a Phase 2 study evaluating the safety and efficacy of orally administered SCY-078 in this indication in the fourth quarter of 2015. We expect top line results in the first half of 2016. We also expect the data from this study to provide a confirmation of the potential therapeutic effect of orally administered SCY-078 in a clinical condition caused by Candida spp. and, along with the other clinical and nonclinical data from ongoing and planned activities, will contribute to the package of information that will support subsequent phases of development.

#### Sale of Our Contract Research and Development Services Business

As part of our strategic objective to focus our resources on the development of SCY-078, our board of directors directed our management to explore the divestiture of our contract research and development services business (the “Services Business”) which was no longer strategic to our business and did not provide any meaningful results of operations or operating capital to fund our core strategic objective in 2015. We engaged a third party firm which assisted us in evaluating several divestiture options (i.e. a third-party sale, spin-off, management buy-out transaction, or shut-down process). On May 4, 2015, our board of directors completed its evaluation of the various divestiture options and directed management to pursue a plan to sell the Services Business to Accuratus Lab Services, Inc., (“Accuratus”) a private-equity backed process chemistry, formulation, manufacturing and analytical development services provider. In connection with this action, we met the relevant criteria for reporting the Services Business as held for sale and in discontinued operations beginning in the second quarter of 2015.

On July 21, 2015, we completed the sale of the Services Business to Accuratus pursuant to an Asset Purchase Agreement with an effective date of July 17, 2015, for an aggregate purchase price of \$3.9 million, subject to a working capital adjustment of \$0.8 million, which reduced the proceeds at closing. In addition, a portion of the consideration payable at closing equal to \$0.5 million was withheld and is subject to an escrow for a period of 12

months from the date of closing to satisfy our indemnification obligations in connection with breaches of any representation and warranties and other customary obligations under the terms of the Agreement. We have not identified any breaches or other events that would cause a reduction in the escrow funds we expect to receive. The escrow funds were recorded as a receivable included in prepaid expenses and other current assets in the accompanying balance sheets. The net cash consideration received by us upon closing in July 2015 was \$2.5 million, after adjusting for the items described above and a nominal escrow fee.

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As a condition to the execution of the Purchase Agreement, Accuratus assumed our post-closing obligation under our facility lease in Durham, North Carolina.

In connection with the adoption of the Services Business Plan described in Note 12 of the accompanying unaudited interim financial statements in Item 1 of this Form 10-Q, we terminated certain employees in June 2015 (the "June 2015 Terminated Employees") who became eligible for severance benefits totaling approximately \$1.0 million. We incurred these severance benefit obligations in the quarterly period ended June 30, 2015 and, therefore, we recognized the expense in the quarter ended June 30, 2015, in discontinued operations in the unaudited interim statements of operations. The Services Business Plan also provided for certain amendments to the terms of the outstanding stock option awards held by the June 2015 Terminated Employees, which are described in Note 7 of the accompanying unaudited interim financial statements in Item 1 of this Form 10-Q.

Also in connection with the Services Business Plan, we paid cash totaling approximately \$0.2 million to certain non-executive employees of the Services Business as an incentive payment upon the closing of the sale of the Services Business in July 2015. In addition, cash retention compensation payments of up to approximately \$0.8 million will be paid by us, if all Service Business employees remain eligible pursuant to the terms of the Services Business Plan. We incurred these obligations on the date of the sale of the Services Business in July 2015; therefore, the compensation expense associated with these obligations was recognized during the quarterly period ended September 30, 2015, in discontinued operations in the accompanying unaudited interim statements of operations.

We expect the sale of our Services Business will have a minimal impact on our reported loss from continuing operations in 2015 and will not have a significant effect on our cash forecast.

For additional information pertaining to the sale of the Services Business and our adoption of the Services Business Plan, including an impairment charge and other non-cash charges, see Notes 11, 12 and 13 of the accompanying unaudited interim financial statements in Item 1 of this Form 10-Q as well as other related disclosures made within our Form 8-K filed with the SEC on July 23, 2015, and our Form 10-Q filed with the SEC on August 19, 2015. For information regarding the Commitment to Services Agreement (the "Services Agreement") that we also entered into with Accuratus, see the section directly below entitled "Commitment to Services Agreement".

### Commitment to Services Agreement

On July 17, 2015, we entered into the Services Agreement with Accuratus, described in Note 13 of the accompanying unaudited interim financial statements in Item 1 of this Form 10-Q, pursuant to which Accuratus will provide us with certain contract research and development services for 18 months (the "Initial Term") following the closing of the sale of the Services Business for a minimum purchase obligation of at least \$3.3 million due from us over the Initial Term of the Services Agreement. The purpose of the Services Agreement is to replace necessary development services that were previously provided internally by our employees prior to the sale of the Services Business. The employees performing these services became employees of Accuratus in connection with this sale transaction. In the quarterly period ended September 30, 2015, we recognized \$0.7 million of expense for services provided by Accuratus under the Services Agreement, which is included in research and development expense in the accompanying unaudited interim statements of operations.

### Relocation of Headquarters and Operations, New Facilities Lease, Compensatory Arrangements with Employees

In connection with the sale of the Services Business, we have relocated our corporate headquarters and operating activities to Jersey City, New Jersey. On July 13, 2015, we entered into a sublease (the "Sublease") that became effective July 22, 2015, to sublet certain premises consisting of 10,141 square feet of space (the Subleased Premises) located at 101 Hudson Street, Jersey City, New Jersey from Optimer Pharmaceuticals, Inc. The term of the Sublease commenced on August 1, 2015 (the Commencement Date) and is scheduled to expire on July 30, 2018. No base rent was due under the Sublease until one month after the Commencement Date. Under the Sublease, we are obligated to pay monthly base rent of approximately \$25,000 per month, which amount increases by 3% annually on each anniversary of the Commencement Date. In addition, we were required to fund a security deposit with the sublandlord in the amount of \$74,000.

In connection with our planned relocation, we designed a compensatory plan to promote the retention of services of non-executive employees supporting our continuing operations (the "Retention Plan"). The Retention Plan terms

provide for certain cash compensation payments and severance payments, as well as modifications to the terms of currently outstanding stock options held by such non-executive employees. The Retention Plan provides that non-executive employees are eligible to receive cash bonuses, severance payments and related benefit premiums that could total a maximum of approximately \$1.1 million, provided that all employees remain employed through December 31, 2015 and are not terminated for cause. The Retention Plan also provides that if we and an employee agree upon a services termination date earlier than December 31, 2015 (the "Release Date"), the employee will remain eligible for all terms of the Retention Plan. We are accruing this obligation over the remaining future service period required by the employees through the earlier of the Release Date or December 31, 2015. During the nine months ended September 30, 2015, we recognized total expense of \$0.6 million, which was included in

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research and development and selling, general, and administrative expenses in the accompanying statement of operations. The corresponding liability is included in accrued severance and retention obligations, current portion, in the accompanying unaudited interim balance sheet.

### Departure of and Compensatory Arrangement with Executive Officer

Yves J. Ribeill, Ph.D., President and a member of our board of directors, resigned as President effective July 21, 2015. Dr. Ribeill continues to serve on the board of directors. We entered into an agreement with Dr. Ribeill, effective July 21, 2015, (the "Separation Agreement"), providing certain payments and benefits to Dr. Ribeill, including: (i) a cash payment of approximately \$0.1 million upon the effective date of his resignation; (ii) cash severance payments totaling approximately \$0.9 million, paid over 12 months commencing with the first payroll period following the resignation date; (iii) a payment representing a contribution Dr. Ribeill can use towards continuing COBRA premiums for medical, dental, and vision group health coverage after the resignation date; and (iv) certain amendments to the terms of Dr. Ribeill's outstanding stock option awards described more fully in Note 7 to the accompanying interim financial statements in Item 1. The cash severance payments and related benefit premiums and payroll taxes totaled approximately \$1.0 million as of July 21, 2015, which was recognized as expense in the quarterly period ended September 30, 2015. As of September 30, 2015, the remaining obligation of \$0.7 million is included in accrued severance and retention liabilities, current portion, in the accompanying unaudited interim balance sheet.

### Equity Compensation Plan Activity

Our board of directors took certain actions that affected the number of outstanding stock options and options available for grant under the 2015 Inducement Plan, as follows:

On October 1, 2015, we granted options to purchase 60,000 shares of common stock to a newly hired vice president under the 2015 Inducement Plan. The options have a ten-year term, with one-fourth of the shares subject to the option vesting on the one-year anniversary of the date of grant and the remainder vesting in equal monthly installments for 36 months thereafter, provided the vice president continues to provide service to us.

On November 2, 2015, we granted options to purchase 100,000 shares of common stock to a newly hired Chief Financial Officer under the 2015 Inducement Plan. The options have a ten-year term, with one-fourth of the shares subject to the option vesting on the one-year anniversary of the date of grant and the remainder vesting in equal monthly installments for 36 months thereafter, provided the officer continues to provide service to us.

### Shelf Registration Filing

On October 30, 2015, we filed a shelf registration statement on Form S-3 with the SEC. The registration statement contained two prospectuses:

a base prospectus which covers the offering, issuance and sale by us of up to a maximum aggregate offering price of \$150 million of our common stock, preferred stock, debt securities and warrants, including common stock or preferred stock upon conversion of debt securities, common stock upon conversion of preferred stock, or common stock, preferred stock or debt securities upon the exercise of warrants

a prospectus covering the offering, issuance and sale by us of up to a maximum aggregate offering price of \$40 million of our common stock that may be issued and sold under a sales agreement with Cowen and Company, LLC (the "Sales Agreement Prospectus").

The common stock that may be offered, issued and sold by us under the Sales Agreement Prospectus is included in the \$150 million of securities that may be offered, issued and sold by us under the base prospectus. Upon termination of the sales agreement with Cowen and Company, LLC, any portion of the \$40 million included in the Sales Agreement Prospectus that is not sold pursuant to the sales agreement will be available for sale in other offerings pursuant to the base prospectus and a corresponding prospectus supplement, and if no shares are sold under the sales agreement, the full \$150 million of securities may be sold in other offerings pursuant to the base prospectus.

### Termination of License Agreement

In August 2012, we entered into a license agreement with Dechra Ltd. ("Dechra"), a UK listed international veterinary pharmaceutical business, granting Dechra rights to our proprietary compound, SCY-641, in the field of animal health, including dog dry eye, under which we were entitled to receive potential milestone and royalty payments. Dechra was granted worldwide animal health rights and was responsible for the remaining clinical development and



commercialization of SCY-641 in the animal health field. Under the agreement, Dechra was required to use reasonable efforts to commercialize SCY-641. We received an upfront fee in 2012 and we were eligible to receive potential milestone payments as well as royalty payments on the total net sales of the product. Pursuant to the agreement, Dechra had the right to relinquish the license and terminate the agreement at any time it determined in its reasonable business judgment that it was impossible to carry out further development

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or marketing of the product by giving us at least six months prior written notice. In November 2015, Dechra notified us of its intention to terminate the license agreement for the development of SCY-641 effective May 2016. We do not expect the termination of this license agreement to have a significant effect on our cash forecast.

**Collaborations and Licensing Agreements**

We have signed a number of licensing and collaboration agreements with partners in human and animal health, including: (1) Merck, a pharmaceutical company, under which we exclusively licensed from Merck its rights to SCY-078 in the field of human health, and agreed to pay Merck milestones upon the occurrence of specified events and will pay tiered royalties based on worldwide sales of SCY-078 when and if it is approved (in 2014, Merck assigned the patents to us related to SCY-078 that it had exclusively licensed to us and, as contemplated by the agreement, we will continue to pay milestones and royalties); (2) Merial Limited, a wholly owned subsidiary of Sanofi, under which we provided contract research and screening services in the field of animal health on a fee for service basis prior to the sale of our Services Business; (3) R-Pharm, CJSC, a leading supplier of hospital drugs in Russia, granting them exclusive rights in the field of human health to develop and commercialize SCY-078 in Russia and several smaller non-core markets, under which we are entitled to receive potential milestones and royalties and reimbursement for certain development costs incurred by us; (4) Dechra Ltd., or Dechra, a UK listed international veterinary pharmaceutical business, granting Dechra rights to SCY-641 in the field of animal health, including dog dry eye, under which we are entitled to receive potential milestones and royalties; and (5) Waterstone, an international pharmaceutical business, granting Waterstone exclusive worldwide rights to development and commercialization of SCY-635, and two additional compounds at Waterstone's option, for the treatment of viral diseases in humans, under which we are entitled to receive potential milestones and royalties. In November 2015, Dechra notified us of its intention to terminate its license agreement for the development of SCY-641 effective May 2016.

In connection with the sale of our Services Business in July 2015, as described above in the "Recent Developments" section, we assigned the research services agreement described above with Merial Limited, as well as our research services agreement with Elanco Animal Health and all other contracts directly associated with the Services Business, to Accuratus. All other licensing and collaboration agreements described above are part of our continuing operations and were not associated with or assigned in connection with the sale of the Services Business.

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## Components of Operating Results

## Revenue

Historically, we derived the majority of our revenue from providing contract research and development services under fee for service arrangements, which were provided by our Services Business that we sold in July 2015 (see "Recent Developments" above). The revenue generated from our Services Business has been presented in discontinued operations in the accompanying statements of operations and will result in a significant decrease in our reported revenues. In addition to our contract research and development services revenue, we have received upfront and milestone payments in connection with our collaboration and licensing agreements that are associated with our continuing operations. Further, we expect that any revenue we generate will fluctuate from quarter to quarter as a result of the variability in the achievement of collaboration milestones and the consummation of new licensing arrangements. We do not expect to generate revenue from product sales for at least the next several years. If we or our collaborators fail to complete the development of product candidates in a timely manner or obtain their regulatory approval, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected.

Our revenue recognition policy is described within Note 2 to our unaudited interim financial statements in Item 1 of this quarterly report.

## Research and Development Expense

Research and development expense consists of expenses incurred while performing research and development activities to discover, develop, or improve potential product candidates we seek to develop. This includes conducting preclinical studies and clinical trials, manufacturing and other development efforts, and activities related to regulatory filings for product candidates. We recognize research and development expenses as they are incurred. Our research and development expense primarily consists of:

- costs related to executing preclinical and clinical trials, including related drug formulation, manufacturing and other development;
- salaries and personnel-related costs, including benefits and any stock-based compensation for personnel in research and development functions;
- fees paid to consultants and other third parties who support our product candidate development and intellectual property protection;
- other costs in seeking regulatory approval of our products; and
- allocated overhead.

The table below summarizes the total costs incurred for each of our key research and development projects during the periods presented:

|                                | For the Three Months<br>Ended September 30,<br>2015 |         | For the Nine Months<br>Ended September 30,<br>2015 |         |
|--------------------------------|-----------------------------------------------------|---------|----------------------------------------------------|---------|
|                                | 2014                                                |         | 2014                                               |         |
|                                | (dollars in thousands)                              |         | (dollars in thousands)                             |         |
| SCY-078                        | \$3,434                                             | \$2,383 | \$10,360                                           | \$4,422 |
| Cyclophilin Inhibitor Platform | 24                                                  | 95      | 165                                                | 1,199   |
| Total research and development | \$3,458                                             | \$2,478 | \$10,525                                           | \$5,621 |

Our SCY-078 project was the only significant research and development project during the periods presented. We plan to increase our research and development expense for the foreseeable future as we continue our effort to develop SCY-078 and to potentially develop our other product candidates, subject to the availability of additional funding. We do not expect to incur any substantial research and development expenses related to our cyclophilin inhibitor platform in the near future.

The successful development of product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs required to complete the remaining development of any product candidates. This is due to the numerous risks and uncertainties associated with the development of product candidates.

Selling, General and Administrative Expense

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Selling, general and administrative expense consists primarily of salaries and personnel-related costs, including employee benefits and any stock-based compensation. This includes personnel in executive, finance, sales, human resources and administrative support functions. Other expenses include facility-related costs not otherwise allocated to cost of revenue or research and development expense, professional fees for accounting, auditing, tax and legal services, consulting costs for general and administrative purposes, information systems maintenance and marketing efforts.

### Other (Income) Expense

Substantially all of our other (income) expense recognized in the interim period ended September 30, 2014, consists of costs associated with:

- a related party guarantee of our outstanding credit facility;
- fair value adjustments to our derivative liability for warrants issued in conjunction with the related party convertible debt; and
- a loss on extinguishment of debt.

Interest paid on our outstanding bank debt composed substantially all of the remaining other (income) expense in the interim period ended September 30, 2014. A nominal amount of interest income has been earned on our cash and cash equivalents in the quarterly period ended September 30, 2015.

In April 2010, we entered into a \$15.0 million credit facility agreement with HSBC Bank USA, National Association, or HSBC, which we refer to as the 2010 Credit Agreement. This 2010 Credit Agreement was guaranteed by a related party. We concluded that the guarantee represented a deemed contribution and recognized the value of the guarantee as deferred financing costs. The value of the guarantee was determined based on the difference between the 2010 Credit Agreement's stated interest rate and the interest rate that would apply if there had been no guarantee from the related party. The value was determined to be \$6.3 million at the time the 2010 Credit Agreement was established and was amortized over the life of the 2010 Credit Agreement. On March 8, 2013, the 2010 Credit Agreement and related party guarantee were extended through 2014, under an amendment referred to as the 2013 Credit Agreement. At the time of the extension, we concluded that the value of the new guarantee was \$3.9 million. This amount was recorded as deferred financing costs and was being amortized through the year 2014.

Upon completion of our IPO on May 7, 2014, the entire outstanding balance of the 2013 Credit Agreement, amounting to \$15.0 million plus accrued interest, was paid in full using the proceeds from the IPO. We recorded a loss on the extinguishment of debt of \$1.4 million in the three month period ended June 30, 2014, as the remaining deferred financing costs associated with the 2013 Credit Agreement were written off. We had no outstanding debt as of September 30, 2015.

From December 2011 through June 2013, we issued convertible promissory notes totaling \$12.3 million to related parties. These notes accrued interest at a rate of 8% per year. The purchasers of the convertible notes also received warrants to purchase common stock. The promissory notes, and accrued interest, were converted into preferred stock in December 2013. The warrant fair values were accounted for as a debt discount and amortized over the stated term of the convertibles notes. We concluded that the warrants qualified as a derivative liability and the fair value of the warrants should be adjusted at each reporting period. The amortization of the debt discount was recorded in amortization of deferred financing costs and debt discount and the change in the derivative liability was recorded in derivative fair value adjustment.

The warrants to purchase common stock accounted for as derivatives were exercised in connection with the IPO. The combined fair values of the common stock warrant derivative liabilities was \$2.7 million as of May 2, 2014, and this amount was reclassified to additional paid-in capital.

### Income Tax (Expense) Benefit

Income tax (expense) benefit consists of U.S. federal and state income taxes. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses. However, in accordance with U.S. GAAP, for periods in which we reported pre-tax income from discontinued operations for financial reporting purposes and pre-tax loss from continuing operations, we presented income from discontinued operations net of income tax expense attributable to our discontinued operations using the estimated annual effective tax rate of

the Services Business. We also recognized a corresponding income tax benefit on our loss from continuing operations for the same affected period.

**Discontinued Operations**

Discontinued operations comprises revenues, costs, gains and losses directly attributable to our Services Business, which we divested through a sale transaction that closed in July 2015.

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Revenue included in discontinued operations comprises revenue from the provision of our contract research and development services, which were provided by our Services Business. Our revenue recognition policy is described within Note 2 to our unaudited interim financial statements in Item 1 of this quarterly report.

Cost of revenue included in discontinued operations primarily consists of salaries and personnel-related costs, including employee benefits and any stock-based compensation, incurred to generate our contract research and development services revenues. Additional expenses include facilities and equipment costs directly associated with generating revenue, allocated overhead, materials, contracted consultants and other direct costs. We allocate expenses associated with our facilities, information technology costs, and depreciation and amortization, between cost of revenue and operating expenses. Allocations are based on employee headcount or facility square footage utilization, and are determined by the nature of work performed.

Research and development expense included in discontinued operations consists of expenses incurred under an animal health research and development project being conducted by our Services Business to advance and secure intellectual property protection for certain existing proprietary technology in the field of animal health. Research and development expense incurred under this project totaled \$0.0 million and \$0.9 million for the three and nine months ended September 30, 2015, respectively, and \$0.0 million for both the three and nine months ended September 30, 2014. The nature of and accounting for research and development expenses included in discontinued operations is consistent with the research and development expenses included in continuing operations, as described above.

Gain on insurance recovery included in discontinued operations relates to a reimbursement received from our insurance carrier in the quarter ended June 30, 2014, for the replacement cost of a fixed asset that was damaged by severe weather. The asset's net book value was reduced upon occurrence of the damage. The proceeds received from the insurance recovery exceeded the net book value of the asset in the amount of \$0.2 million, which we recognized as a gain during the quarterly period ended June 30, 2014. This asset was directly associated with our Services Business and, as a result, the gain was included in discontinued operations.

Severance costs included in discontinued operations are exit and disposal costs directly attributable to the sale of the Services Business and incurred pursuant to the Services Business Plan, as described in "Recent Developments" above.

Impairment charge from classification of assets as held for sale included in discontinued operations relates to the carrying value of Services Business property and equipment, net that was in excess of fair value less cost to sell. As described in Note 13 to our unaudited interim financial statements in Item 1, we met the relevant criteria for reporting the Services Business as held for sale and in discontinued operations as of June 30, 2015, pursuant to FASB Topic 205-20, Presentation of Financial Statements--Discontinued Operations, and FASB Topic 360, Property, Plant, and Equipment. As a result, we were required to assess the Services Business asset group for impairment pursuant to FASB Topic 360. Our assessment identified an impairment charge of \$1.4 million that we recorded in the quarterly period ended June 30, 2015. To determine the impairment charge, pursuant to FASB Topic 360, the net carrying value of the Services Business asset group was compared to its fair value as of May 4, 2015. We determined that the selling price paid by Accuratus to acquire the Services Business asset group was the best estimate of fair value. Our valuation methodology is described further in Note 11 of the accompanying unaudited interim financial statements in Item I. We subsequently recorded a \$0.1 million loss on disposal in the quarterly period ended September 30, 2015, due to (i) a difference between estimated and final direct selling costs and (ii) a change in estimated working capital of the Services Business between June 30, 2015 and the effective date of the sale on July 17, 2015.

Income tax expense included in discontinued operations consists of U.S. federal and state income taxes. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses. However, in accordance with U.S. GAAP, for periods in which we reported pre-tax income from discontinued operations for financial reporting purposes and pre-tax loss from continuing operations, we presented income from discontinued operations net of income tax expense attributable to our discontinued operations using the estimated annual effective tax rate of the Services Business. We also recognized a corresponding income tax benefit on our loss from continuing operations for the same affected period.





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## Results of Operations for the Three Months Ended September 30, 2015 and 2014

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

|                                                                       | Three Months Ended    |                       | Period-to-Period |            |   |
|-----------------------------------------------------------------------|-----------------------|-----------------------|------------------|------------|---|
|                                                                       | September<br>30, 2015 | September<br>30, 2014 | Change           |            |   |
|                                                                       | Amount                | Amount                | Amount           | Percentage |   |
| Total revenue                                                         | \$64                  | \$61                  | \$3              | 4.9        | % |
| Operating expenses:                                                   |                       |                       |                  |            |   |
| Research and development                                              | 3,458                 | 2,478                 | 980              | 39.5       | % |
| Selling, general and administrative                                   | 4,143                 | 2,121                 | 2,022            | 95.3       | % |
| Total operating expenses                                              | 7,601                 | 4,599                 | 3,002            | 65.3       | % |
| Loss from operations                                                  | (7,537)               | (4,538)               | (2,999)          | 66.1       | % |
| Other (income) expense:                                               |                       |                       |                  |            |   |
| Interest (income) expense                                             | (8)                   | —                     | (8)              | *          |   |
| Total other (income) expense                                          | (8)                   | —                     | (8)              | *          |   |
| Loss from continuing operations before income tax                     | (7,529)               | (4,538)               | (2,991)          | 65.9       | % |
| Income tax benefit                                                    | —                     | 338                   | (338)            | (100.0)    | % |
| Loss from continuing operations                                       | (7,529)               | (4,200)               | (3,329)          | 79.3       | % |
| Income (loss) from discontinued operations, net of income tax expense | (826)                 | 396                   | (1,222)          | (308.6)    | % |
| Net loss                                                              | \$(8,355)             | \$(3,804)             | \$(4,551)        | 119.6      | % |

Revenue. For the three months ended September 30, 2015, revenue remained consistent when compared to the three months ended September 30, 2014. Revenue in both periods consisted of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm.

Research and Development. For the three months ended September 30, 2015, research and development expenses increased to \$3.5 million from \$2.5 million for the three months ended September 30, 2014. The increase of \$1.0 million, or 39.5%, was primarily due to a \$1.0 million increase in third-party service provider expenses associated with the development of SCY-078, including the preclinical development of our intravenous (IV) formulation, our ongoing Phase 2 clinical trial, and preparation for our Phase 1 IV and Phase 2 VVC clinical trials. Research and development employee compensation expense was unchanged on a net basis from period to period, but included a \$0.3 million increase related to expenses incurred pursuant to the Retention Plan described in "Recent Developments" section above, offset by a \$0.3 million decrease related to compensation expense for Services Business personnel supporting SCY-078 development in the third quarter of 2015 because such personnel were terminated in connection with the sale of the Services Business in July 2015. However, the former Services Business personnel continued to provide support for SCY-078 development following the July 2015 sale pursuant to the Services Agreement with Accuratus, including \$0.7 million of expense for services provided in the quarter ended September 30, 2015. This expense is included in the third-party research and development service expense increase described above.

Selling, General & Administrative. For the three months ended September 30, 2015, selling, general and administrative expenses increased to \$4.1 million from \$2.1 million for the three months ended September 30, 2014. The increase of \$2.0 million, or 95.3%, was primarily the result of a \$1.8 million increase in employee compensation expense and a \$0.2 million increase in professional services and other administrative expenses. The increase in employee compensation expense was primarily due to an increase in accrued severance and retention compensation costs totaling \$1.0 million and an increase in stock compensation expense of \$1.0 million, partially offset by a decrease in salary, bonus, and benefits expenses of \$0.2 million. The increase in severance and retention costs was associated with costs incurred pursuant to the Retention Plan and the Separation Agreement with Dr. Ribeill, as described in the "Recent Developments" section above. The increase in stock compensation expense is related to

incremental compensation expense incurred when stock options were modified in the third quarter of 2015 and option grants awarded subsequent to the third quarter of 2014. The decrease in salary, bonus, and benefits expenses were due to the reduction in selling, general, and administrative personnel headcount following the sale of the Services Business in July 2015.

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**Income Tax Benefit.** For the three months ended September 30, 2015, income tax benefit was \$0.0 million compared to \$0.3 million in the three months ended September 30, 2014. No income tax benefit was recognized in the three months ended September 30, 2015, because it is directly correlated to income tax expense in discontinued operations and there was no corresponding income tax expense in discontinued operations in 2015. In the three months ended September 30, 2014, we recognized an income tax benefit equal to the corresponding income tax expense on income from discontinued operations for the period. The components of the income or loss from discontinued operations in the two periods are described below.

**Discontinued Operations.** For the three months ended September 30, 2015, we incurred a loss from discontinued operations, net of income tax expense, of \$0.8 million compared to income from discontinued operations of \$0.4 million in the three months ended September 30, 2014. The loss from discontinued operations in the three months ended September 30, 2015 resulted from revenue of \$0.6 million, costs of revenue, research and development, and selling, general, and administrative costs in discontinued operations totaling \$0.5 million, a non-recurring severance charge of \$1.1 million associated with the termination of employees in connection with the exit and disposal of the Services Business, and a gain on disposal of \$0.1 million. The income from discontinued operations in the three months ended September 30, 2014, resulted from revenue of \$4.3 million, cost of revenues in discontinued operations of \$3.6 million, and income tax expense of \$0.3 million. The decreases in revenue and costs of revenue in discontinued operations between the two periods occurred because the Services Business was sold early in the third quarter of 2015, on July 17, 2015. The decrease in income tax expense between the two periods related to the change from income from discontinued operations in the 2014 period to loss from discontinued operations in 2015. Income tax expense was only reported in periods in which we reported pre-tax income from discontinued operations and pre-tax loss from continuing operations.

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## Results of Operations for the Nine Months Ended September 30, 2015 and 2014

The following table summarizes our results of operations for the nine months ended September 30, 2015 and 2014, together with the changes in those items in dollars and percentage (dollars in thousands):

|                                                                       | Nine Months Ended     |                       | Period-to-Period |            |   |
|-----------------------------------------------------------------------|-----------------------|-----------------------|------------------|------------|---|
|                                                                       | September<br>30, 2015 | September<br>30, 2014 | Change           |            |   |
|                                                                       | Amount                | Amount                | Amount           | Percentage |   |
| Total revenue                                                         | \$ 193                | \$ 192                | \$ 1             | 0.5        | % |
| Operating expenses:                                                   |                       |                       |                  |            |   |
| Research and development                                              | 10,525                | 5,621                 | 4,904            | 87.2       | % |
| Selling, general and administrative                                   | 9,628                 | 5,582                 | 4,046            | 72.5       | % |
| Total operating expenses                                              | 20,153                | 11,203                | 8,950            | 79.9       | % |
| Loss from operations                                                  | (19,960)              | (11,011)              | (8,949)          | 81.3       | % |
| Other (income) expense:                                               |                       |                       |                  |            |   |
| Amortization of deferred financing costs and debt discount            | —                     | 755                   | (755)            | (100.0)    | % |
| Loss on extinguishment of debt                                        | —                     | 1,389                 | (1,389)          | (100.0)    | % |
| Interest (income) expense                                             | (10)                  | 49                    | (59)             | (120.4)    | % |
| Derivative fair value adjustment                                      | —                     | (10,080)              | 10,080           | (100.0)    | % |
| Other expense                                                         | —                     | 10                    | (10)             | (100.0)    | % |
| Total other (income) expense                                          | (10)                  | (7,877)               | 7,867            | (99.9)     | % |
| Loss from continuing operations before income tax                     | (19,950)              | (3,134)               | (16,816)         | 536.6      | % |
| Income tax benefit                                                    | —                     | 909                   | (909)            | (100.0)    | % |
| Loss from continuing operations                                       | (19,950)              | (2,225)               | (17,725)         | 796.6      | % |
| Income (loss) from discontinued operations, net of income tax expense | (4,285)               | 1,066                 | (5,351)          | (502.0)    | % |
| Net loss                                                              | \$(24,235)            | \$(1,159)             | \$(23,076)       | 1,991.0    | % |

Revenue. For the nine months ended September 30, 2015, revenue remained consistent when compared to the nine months ended September 30, 2014. Revenue in both periods consisted of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm.

Research and Development. For the nine months ended September 30, 2015, research and development expenses increased to \$10.5 million from \$5.6 million for the nine months ended September 30, 2014. The increase of \$4.9 million, or 87.2%, was primarily the result of a \$4.7 million increase in third-party service expenses primarily related to the SCY-078 Phase 2 clinical trial and the preclinical development of intravenous SCY-078, and a \$0.4 million increase in employee compensation expense. These increases were partially offset by a \$0.2 million decrease in other administrative support costs. The increase in employee compensation expense was due to an increase of \$0.7 million related to former Services Business personnel devoting more time and effort to SCY-078 development in 2015 (until the Services Business sale in July 2015), partially offset by a \$0.3 million decrease in research and development employee salary, benefit, and severance costs due to workforce reduction activities occurring in June 2014 that did not recur in 2015. When scientific personnel in our former Services Business devoted time to research and development projects, the associated salaries and personnel-related costs for this effort were included in research and development expense, rather than in costs of revenues, which is included in discontinued operations.

Selling, General & Administrative. For the nine months ended September 30, 2015, selling, general and administrative expenses increased to \$9.6 million from \$5.6 million for the nine months ended September 30, 2014. The increase of \$4.0 million, or 72.5%, was primarily the result of a \$3.2 million increase in employee compensation expense and a \$1.0 million increase in professional services expenses directly associated with our continuing operations as a regulated, publicly traded company, partially offset by a \$0.2 million decrease in other administrative expenses. The

increase in employee compensation expense was primarily due to an increase in accrued severance and retention compensation costs totaling \$1.4 million, an

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increase in stock compensation expense of \$1.7 million, and an increase in other compensation costs of \$0.1 million. The increase in severance and retention costs was associated with costs incurred pursuant to the Retention Plan, the compensatory plan with Mr. Osborne, and the Separation Agreement with Dr. Ribeill, as described in the "Recent Developments" section above or in Note 12 to our unaudited interim financial statements in Item 1 of this quarterly report. The increase in stock compensation expense is related to incremental compensation expense incurred when stock options were modified in the third quarter of 2015 and option grants awarded subsequent to the third quarter of 2014. The decrease in salary, bonus, and benefits expenses was due to the reduction in selling, general, and administrative personnel headcount following the sale of the Services Business in July 2015.

**Amortization of Deferred Financing Costs and Debt Discount.** Amortization of deferred financing costs was \$0.8 million in the nine months ended September 30, 2014, which was associated with our 2013 Credit Agreement deferred financing costs. We amortized these deferred financing costs until May 2014, when we repaid the entire outstanding balance of the 2013 Credit Agreement totaling \$15.0 million plus accrued interest using the proceeds from the IPO. There was no amortization in the nine months ended September 30, 2015, because the 2013 Credit Agreement was repaid in full in May 2014.

**Loss on Extinguishment of Debt.** Loss on extinguishment of debt was \$1.4 million in the nine months ended September 30, 2014. As described in the preceding paragraph, the entire outstanding balance of the 2013 Credit Agreement was repaid in May 2014. The remaining unamortized balance of the deferred financing costs on the debt settlement date of \$1.4 million was immediately recognized as a loss on the extinguishment of debt in the nine months ended September 30, 2014. There was no loss incurred in the nine months ended September 30, 2015, because the 2013 Credit Agreement was repaid in full in May 2014.

**Derivative Fair Value Adjustment.** For the nine months ended September 30, 2015, derivative fair value adjustment was zero compared to \$10.1 million in the nine months ended September 30, 2014. The derivative fair value adjustment was a gain in the nine months ended September 30, 2014 and was due to the decrease in the estimated fair value of our common stock, from \$47.74 per share as of December 31, 2013, to \$10.00 per share as of May 2, 2014. The warrants to purchase common stock accounted for as derivatives were exercised in May 2014 in conjunction with the IPO, and therefore the remaining derivative liability was reclassified to additional paid in capital at that time. Therefore, no gain or loss was incurred during the nine months ended September 30, 2015.

**Income Tax Benefit.** For the nine months ended September 30, 2015, income tax benefit was \$0.0 million compared to \$0.9 million in the nine months ended September 30, 2014. No income tax benefit was recognized in the nine months ended September 30, 2015, because it is directly correlated to income tax expense in discontinued operations and there was no corresponding income tax expense in discontinued operations in 2015. In the nine months ended September 30, 2014, we recognized an income tax benefit equal to the corresponding income tax expense on income from discontinued operations for the period. The components of the income or loss from discontinued operations in the two periods are described below.

**Discontinued Operations.** For the nine months ended September 30, 2015, we incurred a loss from discontinued operations of \$4.3 million compared to income from discontinued operations of \$1.1 million in the nine months ended September 30, 2014. The loss from discontinued operations in the nine months ended September 30, 2015 resulted from revenue of \$7.4 million, costs of revenue, research and development, and selling, general, and administrative costs in discontinued operations totaling \$8.2 million, and non-recurring 2015 costs that included severance charges of \$2.1 million associated with the termination of employees in connection with the exit and disposal of the Services Business, an impairment charge on classification of assets as held for sale of \$1.4 million, and a loss on disposal of \$0.1 million. The income from discontinued operations in the nine months ended September 30, 2014 resulted from revenue of \$13.5 million, costs of revenue and selling, general, and administrative costs totaling \$11.7 million, a gain on insurance recovery of \$0.2 million, and income tax expense of \$0.9 million.

The decreases in revenue and costs of revenue in discontinued operations between the two periods occurred because the Services Business was sold early in the third quarter of 2015, on July 17, 2015. Also contributing to the decrease in revenue between the two periods was a decrease in animal health services caused by a reduction in the scope of services provided under our research services agreement with Merial beginning in January 2015, which resulted in a

\$1.8 million decrease in revenue under this agreement for the nine months ended September 30, 2015. The decrease in income tax expense between the two periods related to the change from income from discontinued operations in the 2014 period to loss from discontinued operations in 2015. Income tax expense was only reported in periods in which we reported pre-tax income from discontinued operations and pre-tax loss from continuing operations.

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## Liquidity and Capital Resources

## Sources of Liquidity

Through September 30, 2015, we have funded our operations through revenue from the provision of contract research and development services and from net proceeds from debt and equity issuances. Substantially all of our historical revenue was generated from the provision of our contract research and development services, which were provided by our Services Business that we divested through a sale transaction that closed in July 2015 (see "Recent Developments" above). As of September 30, 2015, we had cash and cash equivalents of approximately \$53.8 million, compared to \$32.2 million as of December 31, 2014. The increase in our cash and cash equivalents was primarily due to our April 2015 follow-on public offering, in which we sold an aggregate of 5,376,622 shares of common stock at a public offering price of \$7.70 per share. Net proceeds were approximately \$38.0 million, after deducting underwriting discounts and commissions and offering expenses totaling \$3.4 million. The cash increase generated by this offering was partially offset by continued development costs associated with our lead product candidate, SCY-078. We have incurred net losses since our inception, including the nine months ended September 30, 2015. As of September 30, 2015, our accumulated deficit was \$141.7 million.

We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development expenses will continue to increase and we will continue to incur selling, general and administrative expenses to support our operations. 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, or other third-party funding, strategic alliances and licensing or collaboration arrangements. We may offer shares of our common stock pursuant to our Form S-3 shelf registration statement filed with the SEC on October 30, 2015, or the related at-the-market facility filed under the Sales Agreement Prospectus on the same date.

## Cash Flows

The following table sets forth the significant sources and uses of cash for the nine months ended September 30, 2015 and 2014:

|                                                     | For the Nine Months Ended<br>September 30, |          |
|-----------------------------------------------------|--------------------------------------------|----------|
|                                                     | 2015                                       | 2014     |
|                                                     | (dollars in thousands)                     |          |
| Cash and cash equivalents, January 1                | \$32,243                                   | \$1,402  |
| Net cash used in operating activities               | (18,563)                                   | (7,751)  |
| Net cash provided by (used in) investing activities | 2,002                                      | (416)    |
| Net cash provided by financing activities           | 38,084                                     | 40,801   |
| Net increase in cash and cash equivalents           | 21,523                                     | 32,634   |
| Cash and cash equivalents, September 30             | \$53,766                                   | \$34,036 |

## Operating Activities

The \$10.8 million increase in net cash used in operating activities for the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014, was primarily due to increases in costs associated with SCY-078 development efforts and public reporting company operations. We expect that our research and development expenses will continue to increase as we pursue our SCY-078 development efforts described in the "Recent Developments" section above and we expect we will continue to incur selling, general and administrative expenses to support our operations.

Net cash used in operating activities of \$18.6 million for the nine months ended September 30, 2015, primarily consisted of the \$24.2 million net loss adjusted for non-cash charges, offset by a net favorable change in operating assets and liabilities of \$2.0 million, that included the non-cash component of an impairment charge on classification of assets as held for sale and on disposal of \$0.6 million, depreciation of \$0.4 million, and stock-based compensation expense of \$2.7 million. The non-cash impairment charge is a discrete, non-recurring event and depreciation expense decreased beginning in the third quarter of 2015 because the majority of that cost is associated with our lease



obligations for our Durham, N.C. facility that was transferred as part of the sale of the Services Business. The net favorable change in operating assets and liabilities included an increase in accrued but unpaid severance and retention costs of \$2.8 million partially offset by an increase in prepaid expenses and other assets of \$0.9 million. The accrued severance and retention costs are related to the Services Business Plan, the Retention Plan, and the resignations of our former chief financial officer and former president, as described further in the "Recent Developments" section above. We expect the majority of these severance and retention accruals to be relieved through cash payments occurring during the fourth quarter of 2015 and the first half of 2016. We also expect to recognize additional

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severance costs associated with the Retention Plan in the fourth quarter of 2015 as our retained employees continue to provide services to us and earn retention benefits pursuant to the Retention Plan. The increase in prepaid expenses and other assets is primarily due to (i) the timing and amount of prepayments for insurance policies and other third party services and (ii) a \$0.8 million increase in the receivable balance due from R-Pharm for reimbursable research and development expenditures. We expect to collect the outstanding receivable due from R-Pharm in the second half of 2015.

Net cash used in operating activities of \$18.6 million for the nine months ended September 30, 2015, includes \$2.3 million of net cash used in the operating activities of our Services Business, as reported within discontinued operations, that we do not expect to continue on a prospective basis following the July 2015 sale of the Services Business.

Net cash used in operating activities of \$7.8 million for the nine months ended September 30, 2014, primarily consisted of loss from continuing operations of \$2.2 million, adjusted by favorable non-cash charges for a loss on extinguishment of debt of \$1.4 million, income from discontinued operations, net of non-cash income tax expense, of \$1.1 million, depreciation of \$0.9 million, stock-based compensation expense of \$0.8 million, the amortization of deferred financing costs of \$0.8 million, and a favorable change in operating assets and liabilities of \$0.1 million. These favorable adjustments were offset by an adjustment for the non-cash gain on the change in fair value of derivative liabilities of \$10.1 million in the period, which was described in the "Components of Operating Results" section above.

### Investing Activities

Net cash from investing activities of \$2.0 million for the nine months ended September 30, 2015 consisted of \$2.5 million of cash proceeds received in July 2015 upon closing of the sale of our Services Business, partially offset by purchases of property and equipment of \$0.5 million. The cash proceeds from the sale were discrete, non-recurring cash flows in the period and that we do not expect to occur in future periods. Our cash used for purchases of property and equipment was substantially all related to our Services Business operations. As a result, we expect a decrease in future cash purchases of property and equipment, other than non-recurring capital expenditures to support continuing operations and associated with our pending relocation to New Jersey.

Net cash used for investing activities of \$0.4 million for the nine months ended September 30, 2014 consisted of purchases of property and equipment of \$0.6 million, partially offset by a receipt of \$0.2 million in proceeds from an insurance recovery during the second quarter of 2014.

### Financing Activities

Net cash provided by financing activities of \$38.1 million for the nine months ended September 30, 2015, consisted of gross proceeds of \$41.4 million from our April 2015 follow-on public offering, partially offset by related underwriting discounts and commissions and offering expenses totaling \$3.4 million. We also received proceeds from the issuance of shares of our common stock to employees under the terms of our employee stock purchase plan.

Net cash provided by financing activities of \$40.8 million for the nine months ended September 30, 2014, consisted of \$62.0 million of gross proceeds received from our IPO in May 2014 and \$0.5 million in proceeds raised from the issuance of shares of our D-2 preferred stock in January 2014, offset partially by a \$15.0 million payment to settle all outstanding borrowings under our 2013 Credit Agreement and 6.9 million of payments for deferred offering costs and underwriting discounts and commissions. We also received proceeds from (i) the conversion of common stock warrants in connection with our IPO and (ii) the issuance of shares of our common stock to employees under the terms of our employee stock purchase plan.

### Future Funding Requirements

To date, we have not generated any revenue from product sales. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize SCY-078. In addition, we expect our expenses to increase in connection with our ongoing development activities, particularly as we continue the research, development and clinical trials of, and seek regulatory approval for, product candidates. Although we successfully raised net proceeds of approximately \$38.0 million in a follow-on public offering in April 2015, we anticipate that we will need

substantial additional funding in connection with our continuing future operations.

As described in the "Recent Developments" section above, we completed the sale of our Services Business pursuant to an Asset Purchase Agreement, dated July 17, 2015, with Accuratus Lab Services, Inc. for an aggregate purchase price of \$3.9 million, subject to a pre-closing working capital adjustment of \$0.8 million. In addition, a portion of the consideration payable at closing equal to \$0.5 million was withheld and is subject to an escrow for a period of 12 months from the date of closing to satisfy our indemnification obligations in connection with breaches of any representation and warranties and other customary obligations under the terms of the Purchase Agreement. The resulting net proceeds received by us at closing in July 2015 totaled approximately \$2.5 million.

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Based upon our existing operating plan, we believe that our existing cash and cash equivalents will enable us to fund our operating expenses and capital expenditure requirements into the first half of 2017. We are currently evaluating our operating plan and assessing the potential cash utilization impact of SCY-078 development strategy updates and the relocation of our headquarters and operations, both of which are described in the "Recent Developments" section above. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development of product candidates. Our future capital requirements will depend on many factors, including:

- the progress, costs, and the clinical development of SCY-078;
- the outcome, costs and timing of seeking and obtaining FDA and any other regulatory approvals;
- the ability of product candidates to progress through clinical development successfully;
- our need to expand our research and development activities;
- the costs associated with the divestiture of our Services Business, including the costs associated with the Services Business Plan described in the "Recent Developments" section above;
- the costs associated with the relocation of our corporate headquarters and operating activities to Jersey City, New Jersey, including the costs associated with the Retention Plan described in the "Recent Developments" section above;
- the costs associated with securing, establishing and maintaining commercialization and manufacturing capabilities;
- our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;
- our need and ability to hire additional management and scientific and medical personnel;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems associated with our relocation to New Jersey; and
- the economic and other terms, timing and success of our existing licensing arrangements and any collaboration, licensing or other arrangements into which we may enter in the future.

Until such time, if ever, as we can generate substantial revenue from product sales, we expect to finance our cash needs through a combination of net proceeds from equity offerings, debt financings, or other third-party funding, marketing and distribution arrangements, or other collaborations, strategic alliances or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities as we did in April 2015, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through sales of assets, other third-party funding, marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

### Contractual Obligations, Commitments and Contingencies

We have had several material changes in our contractual obligations, commitments or contingencies since December 31, 2014, described as follows:

In May 2015, our board of directors approved, and we communicated, the material terms of our compensatory plan for the non-executive employees of our Services Business. The compensatory plan is designed to promote the retention of services of such non-executive employees in connection with such a potential sale. Our obligations under the compensatory plan were contingent upon the successful closing of the sale of the Services Business, which occurred in July 2015. The material terms of the compensatory plan are described in the "Recent Developments" section above.



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In May 2015, in connection with our planned relocation of our continuing operations to Jersey City, New Jersey, we designed a compensatory plan to promote the retention of services of non-executive employees supporting our continuing operations, which we refer to as the Retention Plan. The Retention Plan terms provide for certain cash compensation payments and severance payments, as well as modifications to the terms of currently outstanding stock options held by such non-executive employees. The material terms of the compensatory plan are described in the "Recent Developments" section above.

In May 2015, our compensation committee of the board of directors approved a compensatory arrangement for our former chief financial officer that provided for certain payments and benefits in connection with his resignation effective June 30, 2015. The material terms of the compensatory arrangement are described in the "Recent Developments" section above.

In July 2015, we entered into a compensatory arrangement for our former president that provided for certain payments and benefits in connection with his resignation effective July 21, 2015. The material terms of the compensatory arrangement are described in the "Recent Developments" section above.

In July 2015, we entered into a Commitment to Services Agreement with Accuratus pursuant to which Accuratus shall provide us with certain contract research and development services for eighteen months following the closing of the sale of the Services Business for a minimum, non-cancellable purchase price obligation on the part of us of at least \$3.3 million over the initial term of the Services Agreement.

In July 2015, as a condition to the execution of the Asset Purchase Agreement, Accuratus assumed our post-closing obligation under our facility lease in Durham, North Carolina. Certain of our employees will continue to operate from the Durham facility for a period of up to six months following the sale closing pursuant to a facility license and a transition services agreement. In addition, under a Transition Services Agreement, Accuratus will provide accounting, IT, payroll, personnel and human resources support, and equity compensation plan administration support services to us at rates ranging from one hundred to two hundred dollars per hour for a period of time not to extend beyond December 31, 2015.

In July 2015, in connection with the sale of the Services Business and our relocation of our continuing operations to Jersey City, New Jersey, we entered into the Sublease that became effective July 22, 2015, to sublet certain premises consisting of 10,141 square feet of space located at 101 Hudson Street, Jersey City, New Jersey from Optimer Pharmaceutical, Inc. The material terms of the Sublease are described in the "Recent Developments" section above.

In July 2015, in connection with the sale of the Services Business, contracts to provide services to Merial Limited and Elanco Animal Health, along with all other contracts directly associated with the Services Business, were assigned to Accuratus.

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### 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.

### Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our interim financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements, as well as the reported revenues and expenses during the reported periods. We evaluate these estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies have not changed from those described in our Annual Report on Form 10-K filed with the SEC on March 30, 2015 and Exhibit 99.1 to the Form 8-K filed with the SEC on October 30, 2015.

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

### Item 4. Controls and Procedures

#### Management's Evaluation of our Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

As of September 30, 2015, our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer have concluded based upon the evaluation described above that, as of September 30, 2015, our disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

On July 21, 2015, we completed the sale of our Services Business. Subsequent to the sale transaction, certain control activities associated with the discrete processes and transactions of our Services Business, including those control activities related to revenue recognition on Services Business contracts, were no longer performed because they were no longer applicable. Additionally, in connection with the recent changes in our principal executive officer and principal financial officer, we made certain enhancements relating to our internal control over financial reporting as part of our compliance with the internal control requirements of the Sarbanes-Oxley Act of 2002. Except for the previously described changes, during the quarter ended September 30, 2015, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.





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PART II. OTHER INFORMATION

Item 1A. Risk Factors

In evaluating our business, you should carefully consider the following risks, as well as the other information contained in this Quarterly Report on Form 10-Q. These risk factors could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Quarterly Report on Form 10-Q and those we may make from time to time. If any of the following risks actually occurs, our business, financial condition and operating results could be harmed. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not currently known to us, or that we currently see as immaterial, may also harm our business. The risks facing our business have not changed substantively from those discussed in our Annual Report on Form 10-K as filed with the SEC on March 30, 2015, except for those risk factors below designated by an asterisk (\*) and those risk factors relating to the Services Business that no longer apply to us as a result of the sale of the Services Business, which have been deleted.

Risks Relating to Our Financial Condition and Need for Additional Capital

We have never been profitable, we have no products approved for commercial sale, and to date we have not generated any revenue from product sales. As a result, our ability to curtail our losses and reach profitability is unproven, and we may never achieve or sustain profitability.\*

We are not profitable and do not expect to be profitable in the foreseeable future. We have incurred net losses in each year since our inception, including a net loss of approximately \$4.2 million for the year ended December 31, 2014. We incurred a net loss of \$24.2 million for the nine months ended September 30, 2015 and expect to incur a net loss for the year ending December 31, 2015. As of September 30, 2015, we had an accumulated deficit of approximately \$141.7 million. Although we have generated revenues through our contract research and development services, these revenues historically have not been sufficient to support our business, and so in addition we have financed our operations through the sale of convertible preferred stock, convertible debt, and common stock. On a prospective basis, our strategic focus, along with the commitment of our financial resources, will be directed towards the development of SCY-078, our lead product candidate. We have not generated any revenue from product sales. Although we had cash and cash equivalents of \$53.8 million as of September 30, 2015, there can be no assurances that we will be able to continue our operations on a long-term basis. We have suffered substantial losses from operations since inception and may require additional financing.

We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. The net losses we incur may fluctuate significantly from quarter to quarter. We anticipate that our expenses will increase substantially as we:

- continue the development of SCY-078;
- conduct ongoing and initiate new clinical trials for SCY-078;
- seek marketing approvals for SCY-078;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control and scientific personnel; and
- maintain and create additional infrastructure to support our operations as a public company.

In addition, our expenses could increase if we are required by the U.S. Food and Drug Administration, or the FDA, to perform studies in addition to, or that are larger than, those that we currently expect.

As a result of the foregoing, we expect to experience net losses and negative cash flows from operations for the foreseeable future, and we are unable to predict when, or if, we will be able to achieve profitability. Our losses and negative cash flows have had, and will continue to have, an adverse effect on our stockholders' equity, financial position and working capital.



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We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.\*

Our financial condition and operating results have varied significantly in the past and will continue to fluctuate from quarter to quarter or year to year due to a variety of factors, many of which are beyond our control. The following factors relating to our business, as well as factors described elsewhere in this quarterly report, may contribute to these fluctuations:

- the costs associated with developing SCY-078, which are difficult for us to predict;
- any delays in regulatory review and approval of SCY-078;
- delays in the timing of submission of a new drug application, or NDA, as well as commencement, enrollment and the timing of clinical testing, of SCY-078 or any other product candidates we may seek to develop;
- our ability to commercialize product candidates, both in the United States and overseas, if we are able to obtain regulatory approval to do so;
- the costs associated with obtaining and maintaining regulatory approval and ongoing company compliance and product compliance for SCY-078;
- market acceptance of SCY-078 and any future product candidates we may seek to develop;
- changes in regulations and regulatory policies;
- competition from existing products or new products that may emerge;
- the ability of patients or healthcare providers to obtain coverage of, or sufficient reimbursement for, any products we are able to develop;
- our ability to establish or maintain collaborations, licensing or other arrangements;
- costs related to, and outcomes of, potential litigation;
- potential product liability claims; and
- potential liabilities associated with hazardous materials.

Due to the various factors mentioned above, and others, the results of any quarterly or annual periods should not be relied upon as indications of future operating performance.

We may continue to require substantial additional capital, and if we are unable to raise capital when needed we would be forced to delay, reduce or eliminate our development program for SCY-078.\*

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. If the FDA requires that we perform additional studies beyond those that we currently expect, our expenses could increase beyond what we currently anticipate, the timing of the submission of the NDA could be delayed, and any potential product approval could be delayed. We believe that our existing cash and cash equivalents as of September 30, 2015, will be sufficient to meet our anticipated operating requirements into the first half of 2017; provided, however, that changing circumstances may cause us to consume cash more rapidly than we currently anticipate. We may need to raise additional funds from additional issuances of equity and/or debt securities or otherwise obtain funding through strategic alliances or collaborations with third parties. In any event, we will require additional capital to complete development of, to seek regulatory approval for and, if approval is obtained, to commercialize SCY-078 and any future product candidates we may seek to develop. Raising funds in the current economic environment, when the capital markets have been affected by the global recession, may present additional challenges.

When we are required to secure additional financing, the additional fundraising efforts may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop. In addition, we cannot guarantee that 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:



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significantly delay, scale back or discontinue the development or commercialization of SCY-078 and any future product candidates we may seek to develop;  
seek strategic alliances for research and development programs 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 any product candidates that we otherwise would seek to develop or commercialize ourselves.

If we are required to conduct additional fundraising activities and 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.

We have a significant concentration of credit risk in the form of cash on deposit with a bank, which exceeds the individual account FDIC insurance limits.\*

We have cash and cash equivalents of \$53.8 million on deposit with a single bank as of September 30, 2015. We monitor the credit rating of our commercial bank based on the quarterly reviews of independent analysts. We plan to explore viable alternatives to our current arrangement. If the commercial bank experiences insolvency and we are unable to access our cash and cash equivalents, or if we experience a loss of principal, it may adversely affect our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop.

**Risks Relating to the Development, Regulatory Approval and Commercialization of Our Product Candidates For Human Use**

Historically we have been primarily a contract research and development services company devoting a majority of our resources and efforts to providing research and development services to other companies, and we are only now shifting our focus to developing our own drug candidate SCY-078.

We were spun out from Aventis in 2000 as a chemistry and animal health services company, providing contract research services to third parties. Since then, we have derived substantially all of our revenue from providing these services to human and animal health companies to assist them in developing their own drug candidates, which business we sold in July 2015. In the course of providing these services, we leveraged this expertise to develop our own proprietary compounds, including a platform of cyclophilin inhibitors, among them SCY-635, which we exclusively licensed to Waterstone in October 2014 in the field of human health. In 2013, under our contract with Merck Sharp & Dohme Corp., or Merck, a subsidiary of Merck & Co., Inc., Merck exclusively licensed SCY-078 to us in the field of human health and in conjunction with that license transferred to us the investigational new drug application on file with the FDA and related regulatory responsibilities, as well as all data Merck had developed for the compound, plus active pharmaceutical ingredients and tablets. In 2014, Merck assigned the patents to us related to SCY-078 that it had exclusively licensed to us.

Although we have conducted Phase 1 and Phase 2 studies of SCY-635, our cyclophilin inhibitor that we exclusively licensed to Waterstone in October 2014 in the field of human health, we only acquired the rights to develop SCY-078, our lead drug candidate for the treatment of invasive fungal infections, in May 2013. We do not have a significant history of developing our own drug candidates, and we have not brought any drug candidates to market, which makes it difficult to assess our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop or commercialize.

We cannot be certain that SCY-078 will receive regulatory approval, and without regulatory approval we will not be able to market SCY-078. Regulatory approval is a lengthy, expensive and uncertain process.

Our ability to generate significant revenue related to SCY-078 sales will depend on the successful development and regulatory approval of SCY-078. We expect that the earliest that we could obtain regulatory approval of SCY-078 and commence commercialization of SCY-078 will be several years from now, if at all.

We currently have no products approved for sale and we cannot guarantee that we will ever have marketable products. The development and commercialization of a product candidate, including preclinical and clinical testing, manufacturing, quality systems, labeling, approval, record-keeping, selling, promotion, marketing and distribution of products, is subject to extensive regulation by the FDA in the United States and regulatory authorities in other countries, with regulations differing from country to country. We are not permitted to market product candidates in the

United States until and unless we receive approval of an NDA from the FDA. We have not submitted an NDA for SCY-078. Obtaining approval of an NDA is a lengthy,

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expensive and uncertain process. An NDA must include extensive preclinical and clinical data and supporting information to establish the product candidate's safety and effectiveness for each indication. The approval application must also include significant information regarding the chemistry, manufacturing and controls for the product. The product development and regulatory review process typically takes years to complete, involves numerous uncertainties and the potential for concerns to emerge late in the development process, and approval is never guaranteed. Even if a product is approved, the FDA may limit the indications for which the product may be used, include extensive warnings on the product labeling or require costly ongoing requirements for post-marketing clinical studies and surveillance or other risk management measures to monitor the safety or efficacy of the product candidate, including the imposition of a Risk Evaluation and Mitigation Strategy, or REMS. Markets outside of the United States also have requirements for approval of drug candidates with which we must comply prior to marketing. Obtaining regulatory approval for marketing of a product candidate in one country does not ensure we will be able to obtain regulatory approval in other countries, but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in other countries. Also, any regulatory approval of a product candidate, once obtained, may be withdrawn. If SCY-078 or any of our other wholly-owned or partnered product candidates do not receive timely regulatory approval, or fail to maintain that regulatory approval, we may not be able to generate sufficient revenue to become profitable or to continue our operations. Moreover, the filing of our NDA or the receipt of regulatory approval does not assure commercial success of any approved product.

Although the oral form of SCY-078 has been granted Qualified Infectious Disease Product status, this does not guarantee that the length of the FDA review process will be significantly shorter than otherwise, or that SCY-078 will ultimately be approved by the FDA.

We applied to the FDA for, and received, the designation of the oral tablet formulation of SCY-078 as a Qualified Infectious Disease Product, or QIDP, under the Generating Antibiotic Incentives Now Act, or GAIN Act. We also applied to the FDA for, and were granted, fast track product designation. We will be submitting applications to have the IV formulation of SCY-078 designated as a QIDP and as a fast track product. There is no guarantee that the IV form of SCY-078 will be granted QIDP or fast track status. We anticipate that the QIDP designation will provide, among other benefits, eligibility for fast track designation, which allows for companies to interact with the FDA review team frequently to discuss critical development issues such as study design, required safety data necessary to support approval, and structure and content of an NDA. Additionally, should the FDA determine that a fast track product may be effective after their preliminary evaluation of clinical data submitted by a sponsor, the FDA may also consider reviewing portions of a marketing application before the sponsor submits the complete application, a process known as rolling review. If SCY-078 is approved for its proposed use and awarded five years of exclusivity as a new chemical entity, or NCE, SCY-078 will be eligible for a ten-year period of data exclusivity, comprising five years of NCE exclusivity plus an additional five years as a designated QIDP. This exclusivity period should protect SCY-078 from being referenced in an abbreviated new drug application, or ANDA, in support of a generic drug, or a 505(b)(2) new drug application for a follow-on product until the expiration of the exclusivity period (which may be shortened by one year if an ANDA or 505(b)(2) applicant seeks to challenge any of the patents that claim SCY-078). However, the primary framework of the GAIN Act became effective July 9, 2012, and as a relatively new law there is limited precedent for the way in which it will be implemented. Receipt of QIDP designation in practice may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA or related exclusivity benefits.

Delays in the commencement, enrollment and completion of clinical trials could result in increased costs to us and delay or limit our ability to obtain regulatory approval for SCY-078 or any future product candidates.

We do not know whether clinical trials of SCY-078 or any future product candidates we may seek to develop will be allowed to commence or, if commenced, will be completed on schedule or at all. The commencement, enrollment and completion of clinical trials can be delayed for a variety of reasons, including:

- inability to reach agreements on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs

and trial sites;

• difficulty identifying and engaging qualified clinical investigators;

regulatory objections to commencing a clinical trial or proceeding to the next phase of investigation, including

• inability to reach agreement with the FDA or non-U.S. regulators regarding the scope or design of our clinical trials or

for other reasons such as safety concerns that might be identified during preclinical development or early stage

clinical trials;



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- inability to identify and maintain a sufficient number of eligible trial sites, many of which may already be engaged in other clinical trial programs, including some that may be for the same indication as our product candidates;
- withdrawal of clinical trial sites from our clinical trials as a result of changing standards of care;
- inability to obtain institutional review board (or ethics review committee) approval to conduct a clinical trial at prospective sites;
- difficulty identifying, recruiting and enrolling eligible patients to participate in clinical trials for a variety of reasons, including meeting the enrollment criteria for our study and competition from other clinical trial programs for the same indication as product candidates we seek to commercialize;
- inability to retain patients in clinical trials due to the treatment protocol, personal issues, side effects from the therapy or lack of efficacy; and
- inability to obtain sufficient funding to commence a clinical trial.

In addition, a clinical trial may be suspended or terminated by us, our current or any future partners, an institutional review board, the FDA or other regulatory authorities due to a number of factors, including:

- failure by us, CROs or clinical investigators to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- failed inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities;
- unforeseen safety or efficacy issues or any determination that a clinical trial presents unacceptable health risks; or
- lack of adequate funding to continue the clinical trial due to unforeseen costs resulting from enrollment delays, requirements to conduct additional trials and studies, increased expenses associated with the services of our CROs and other third parties, or other reasons.

If we are required to conduct additional clinical trials or other testing of SCY-078 or any future product candidates we may seek to develop, we may be delayed in obtaining, or may not be able to obtain, marketing approval for these product candidates.

In addition, if our current or any future partners have rights to and responsibility for development of SCY-078 or any future product candidates, they may fail to meet their obligations to develop and commercialize the product candidates, including clinical trials for these product candidates.

Changes in regulatory requirements and guidance may occur and we or any of our partners may be required by appropriate regulatory authorities to amend clinical trial protocols to reflect these changes. Amendments may require us or any of our partners to resubmit clinical trial protocols to independent review boards for re-examination, which may impact the costs, timing or successful completion of a clinical trial. If we or any of our partners experience delays in the completion of, or if we or our partners terminate, clinical trials, the commercial prospects for SCY-078 and any future product candidates we may seek to develop will be harmed, and our ability to generate revenue from sales of these product candidates will be prevented or delayed. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate.

Delays in our Phase 2 study's patient enrollment process, including delays associated with the implementation of recent protocol amendments, potential additional protocol amendments that we are currently evaluating, and the opening of additional investigational sites inside and outside the US, could have an adverse effect on the costs and timing of our SCY-078 development efforts.\*

Our multicenter Phase 2 study with primary endpoints of safety, tolerability, and pharmacokinetics of the oral formulation of SCY-078 as step-down treatment in patients initially treated with echinocandin therapy for invasive Candida infections is ongoing. The enrollment into the study continues but has been slower than anticipated. New investigational sites have been opened in the U.S. and we are opening additional sites in Latin America and Europe. Most active sites are currently operating under the latest protocol amendment that was designed to facilitate enrollment and we continue to consider whether further protocol amendments may be needed. These measures are expected to increase enrollment into the study. If the amendments to our Phase 2 study protocol and implementation of new investigational sites are not



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successful or do not result in expediting enrollment in our Phase 2 study of SCY-078, we may continue to experience enrollment delays that could increase our costs, limit our ability to achieve acceptable enrollment parameters, adversely affect the data we expect to receive from the study, limit our ability to achieve the study's objectives, or cause us to terminate the study before it is completed.

Clinical failure can occur at any stage of clinical development. Because the results of earlier clinical trials are not necessarily predictive of future results, any product candidate we or our current or potential future partners advance through clinical trials may not have favorable results in later clinical trials or receive regulatory approval.

Clinical failure can occur at any stage of clinical development. Clinical trials may produce negative or inconclusive results, and we or our partners may decide, or regulators may require us, to conduct additional clinical or preclinical testing. In addition, data obtained from tests are susceptible to varying interpretations, and regulators may not interpret data as favorably as we do, which may delay, limit or prevent regulatory approval. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will generate the same results or otherwise provide adequate data to demonstrate the efficacy and safety of a product candidate. Frequently, product candidates that have shown promising results in early clinical trials have subsequently suffered significant setbacks in later clinical trials.

In addition, the design of a clinical trial can determine whether its results will support approval of a product application, or approval of a supplemental application to add a new indication or other changes and flaws or shortcomings in the design of a clinical trial may not become apparent until the clinical trial is well advanced. We have limited experience in designing clinical trials and may be unable to design and execute a clinical trial to support regulatory approval, or approval of supplemental applications for new indications or other changes. Further, clinical trials of potential products often reveal that it is not practical or feasible to continue development efforts. If SCY-078 or any future product candidates are found to be unsafe or lack efficacy, we or our collaborators will not be able to obtain regulatory approval for them and our business would be harmed. For example, if the results of our ongoing or planned Phase 2 and Phase 3 clinical trials of SCY-078 do not achieve, to the satisfaction of regulators, the primary efficacy endpoints and demonstrate an acceptable level of safety, the prospects for approval of SCY-078 would be materially and adversely affected. A number of companies in the pharmaceutical industry, including those with greater resources and experience than us, have suffered significant setbacks in Phase 2 and Phase 3 clinical trials, even after seeing promising results in earlier clinical trials.

In some instances, there can be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including differences in trial protocols and design, differences in size and type of the patient populations, adherence to the dosing regimen and the rate of dropout among clinical trial participants. Further, the patients taking SCY-078 often have other significant medical issues, such as organ transplants, cancer or other conditions in which their immune systems are suppressed, which makes it difficult to measure the effect of SCY-078 in the presence of these medical issues. We do not know whether any Phase 2, Phase 3 or other clinical trials we or any partners may conduct will demonstrate consistent and/or adequate efficacy and safety to obtain regulatory approval to market SCY-078 and any future product candidates we may seek to develop.

We have limited experience in conducting clinical trials and have never submitted an NDA before, and we may be unable to do so for SCY-078 or any future product candidate we may seek to develop.

Merck completed seven Phase 1 clinical trials of SCY-078, and we are planning to conduct Phase 1, Phase 2, and Phase 3 clinical trials of SCY-078. The conduct of successful Phase 2 and Phase 3 clinical trials is essential in obtaining regulatory approval, and the submission of a successful NDA is a complicated process. We have limited experience in preparing and submitting regulatory filings, have previously only sponsored one Phase 2 clinical trial, and have not previously sponsored any Phase 3 clinical trials, nor have we ever submitted an NDA. Consequently, we may be unable to successfully and efficiently execute and complete these planned clinical trials in a way that is acceptable to the FDA and leads to an NDA submission, acceptance and approval of SCY-078 or any future product candidate we may seek to develop. We may require more time and incur greater costs than our competitors and may not succeed in obtaining regulatory approvals of product candidates that we may seek to develop. In addition, failure to commence or complete, or delays in, our planned clinical trials would prevent us from or delay us in commercializing SCY-078 or any future product candidate we may develop.

The environment in which our regulatory submissions may be reviewed changes over time, which may make it more difficult to obtain regulatory approval of any of our product candidates we may seek to develop or commercialize. The environment in which regulatory submissions are reviewed changes over time. For example, average review times at the FDA for NDAs have fluctuated over the last ten years, and we cannot predict the review time for any submission with any regulatory authorities. Review times can be affected by a variety of factors, including budget and funding levels and statutory, regulatory and policy changes. Moreover, in light of widely publicized events concerning the safety risks of certain drug products, regulatory authorities, members of Congress, the Government Accountability Office, medical professionals and the

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general public have raised concerns about potential drug safety issues. These events have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and establishment of risk evaluation and mitigation strategies that may, for instance, restrict distribution of drug products. The increased attention to drug safety issues may result in a more cautious approach by the FDA to clinical trials. Data from preclinical studies and clinical trials may receive greater scrutiny with respect to safety, which may make the FDA or other regulatory authorities more likely to terminate clinical trials before completion, or require longer or additional clinical trials that may result in substantial additional expense, a delay or failure in obtaining approval or approval for a more limited indication or conditions of use than originally sought.

In addition, data obtained from preclinical studies and clinical trials are subject to different interpretations, which could delay, limit or prevent regulatory review or approval of product candidates. Changes in FDA personnel responsible for review of our submissions could also impact the manner in which our data are viewed. Furthermore, regulatory attitudes towards the data and results required to demonstrate safety and efficacy can change over time and can be affected by many factors, such as the emergence of new information, including information on other products, policy changes and agency funding, staffing and leadership. We do not know whether future changes to the regulatory environment will be favorable or unfavorable to our business prospects.

If SCY-078 or any other future product candidates for which we receive regulatory approval do not achieve broad market acceptance, the revenue that is generated from their sales will be limited.

The commercial success of SCY-078 or any other product candidates we may seek to develop will depend upon the acceptance of these product candidates among physicians, patients, the medical community and healthcare payors.

The degree of market acceptance of product candidates will depend on a number of factors, including:

- limitations or warnings contained in the FDA-approved labeling;
- changes in the standard of care for the targeted indications;
- limitations in the approved indications;
- availability of alternative therapies with potentially advantageous results, or other products with similar results at similar or lower cost, including generics and over-the-counter products;
- lower demonstrated clinical safety or efficacy compared to other products;
- occurrence of significant adverse side effects;
- ineffective sales, marketing and distribution support;
- lack of availability of reimbursement from managed care plans and other third-party payors;
- timing of market introduction and perceived effectiveness of competitive products;
- lack of cost-effectiveness;
- adverse publicity about our product candidates or favorable publicity about competitive products;
- lack of convenience and ease of administration; and
- potential product liability claims.

If SCY-078 or any future product candidates we may seek to develop are approved, but do not achieve an adequate level of acceptance by physicians, healthcare payors and patients, sufficient revenue may not be generated from these product candidates, and we may not become or remain profitable. In addition, efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

A significant use of antifungal drugs consists of treatment due to the presence of symptoms before diagnosis of the invasive fungal infections, and if recently approved diagnostic tools, or additional tools currently under development, for the quick diagnosis of invasive fungal infections are broadly used in the marketplace, the number of treatments using antifungal drugs may decrease significantly, decreasing the potential market for SCY-078.

We believe that a large portion of the treatments using antifungal drugs are administered when symptoms of invasive fungal infections are present but a diagnosis of the infection has not yet been made, due to the rapid and potentially fatal progression of invasive fungal infections. Diagnostic tools recently approved by the FDA, or currently under

development, for the rapid diagnosis of invasive fungal infections may significantly diminish the need to treat patients in advance of diagnosis of

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invasive fungal infections, which will reduce the potential market for SCY-078 in the event that we are able to obtain FDA approval of SCY-078. Moreover, if a rapid and accurate test of the susceptibility of a fungal infection to generically available treatments is developed and widely adopted, the market for SCY-078 may suffer.

If resistance to SCY-078 develops quickly or cross resistance with echinocandins becomes more common, our business will be harmed.

We recognize that, over time, resistance develops against every antibacterial and antifungal drug. One or more strains of fungal pathogens may develop resistance to SCY-078 more rapidly than we currently expect, either because our hypothesis of the mechanism of action is incorrect or because a strain of fungi undergoes some unforeseen genetic mutation that permits it to survive. Since we expect lower resistance relative to other antifungal drug classes to be a major factor in the commercialization of SCY-078, rapid development of such resistance or development of cross resistance with echinocandins would have a major adverse impact on the acceptability and sales of SCY-078.

If we are unable to develop a formulation of SCY-078 that is delivered by intravenous, or IV, therapy, or develop a suboptimal formulation, SCY-078 may not achieve broad market acceptance and sales will be limited.

Current treatment regimens for invasive fungal infections typically involve initial administration of treatments as an IV infusion, with a switch to an oral formulation of the same or a similar medication to complete the course of treatment on an out-patient basis. We believe that providing both the IV and oral formulations will be beneficial to doctors who prefer to start treatment of patients in a hospital setting with an IV therapy and then switch them to an oral formulation of the same medication. We currently have an oral form of SCY-078 and we are currently developing an IV formulation. If we are unable to successfully develop and achieve regulatory approval for our IV formulation of SCY-078, or are delayed in developing and obtaining regulatory approval for our IV formulation of SCY-078, our lead product candidate may not achieve, or may be delayed in achieving, broad market acceptance and sales will be limited.

Our product candidates may have undesirable side effects that may delay or prevent marketing approval, or, if approval is received, require them to be taken off the market or otherwise limit their sales.

It is impossible to predict when or if SCY-078 or any other product candidate we may seek to develop will prove effective or safe or will receive marketing approval. Unforeseen side effects from any product candidates could arise either during clinical development or, if approved, after the product has been marketed. For example, the most frequently noted adverse effects reported as associated with SCY-078 treatment in the seven Phase 1 studies of SCY-078 conducted to date were diarrhea, abdominal pain, headache, nausea, fatigue, increased orthostatic heart rate, abnormal GI sounds, vomiting and dizziness. To date there have been seven subjects with serious adverse events reported in clinical trials of SCY-078: six subjects with serious adverse events that were not considered to be related to SCY-078 by the investigator; and one subject experienced significant liver function test increases which were considered to be related to SCY-078. Preclinical findings in the future could trigger the need to evaluate or monitor for specific potential safety concerns in clinical trials. The results of future clinical trials may show that SCY-078 and any future product candidates we may seek to develop cause undesirable or unacceptable side effects, which could interrupt, delay or halt clinical trials, resulting in delay of, or failure to obtain, marketing approval from the FDA and other regulatory authorities, or may lead us to abandon their development altogether.

Even if SCY-078 or any future product candidate we may seek to develop receives marketing approval, we or others may subsequently identify undesirable or unacceptable side effects caused by these products, in which case:

- regulatory authorities may require the addition of labeling statements, specific warnings, precautions, contraindications or field alerts to physicians and pharmacies;

- we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product;

- we may have limitations on how we promote the product;

- sales of the product may decrease significantly;

- regulatory authorities may require us to take our approved product off the market;

• we may be subject to litigation or product liability claims; and  
• our reputation may suffer.

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Any of these events could prevent us or our current or potential future partners from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenue from the sale of products.

We have never marketed a drug before, and if we are unable to establish an effective sales force and marketing infrastructure or enter into acceptable third-party sales and marketing or licensing arrangements, we may not be able to successfully commercialize SCY-078 and any future product candidates we may seek to develop.

We currently do not have any sales, distribution and marketing capabilities, the development of which will require substantial resources and will be time consuming. The costs incurred in the development of these capabilities, either internally or through a third-party contract sales organization, would be incurred in advance of any approval of a product candidate. In addition, we may not be able to hire a sales force in the United States that is sufficient in size or has adequate expertise in the medical markets that we intend to target. If we are unable to establish our sales force and marketing capability, our operating results may be adversely affected. In addition, we plan to enter into sales and marketing or licensing arrangements with third parties for international sales of any approved products. If we are unable to enter into or maintain any such arrangements on acceptable terms, or at all, we may be unable to market and sell SCY-078 or any future product candidates we may seek to develop in these markets.

We expect that SCY-078 and any future product candidates we may seek to develop will face competition, and most of our competitors have significantly greater resources than we do.

The pharmaceutical industry is highly competitive, with a number of established, large pharmaceutical companies, as well as many smaller companies. There are many foreign and domestic pharmaceutical companies, biotechnology companies, public and private universities, government agencies and research organizations actively engaged in research and development of products that may target the same markets as SCY-078 and any future product candidates we may seek to develop. We expect any products we develop to compete on the basis of, among other things, product efficacy, price, lack of significant adverse side effects and convenience and ease of treatment. For example, SCY-078 will compete against current leading antifungal drugs, including voriconazole from the azole class, caspofungin from the echinocandin class, and liposomal amphotericin B from the polyenes class, many of which are currently available in generic form, or expected to be available in generic form at the time SCY-078 might be approved.

Compared to us, many of our competitors in the antifungal market have, and potential competitors for any future product candidates we may seek to develop may have, substantially greater:

- resources, including capital, personnel and technology;
- research and development capability;
- clinical trial expertise;
- regulatory expertise;
- intellectual property portfolios;
- expertise in prosecution of intellectual property rights;
- manufacturing and distribution expertise; and
- sales and marketing expertise.

As a result of these factors, our competitors and potential competitors may obtain regulatory approval of their products more rapidly than we do. Our competitors and potential competitors may also develop drugs that are more effective, more widely used and less costly than ours and may also be more successful than us in manufacturing and marketing their products and maintaining compliance with ongoing regulatory compliance.

Reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance in the United States. If there is not sufficient reimbursement for our products, it is less likely that our products will be purchased by patients and/or providers.

Successful commercialization of pharmaceutical products usually depends on the availability of adequate coverage and reimbursement from third-party payors, including commercial insurers and, under certain circumstances, federal and state



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healthcare programs. Patients and/or healthcare providers who purchase drugs generally rely on third-party payors to reimburse all or part of the costs associated with such products. As such, adequate coverage and reimbursement from third-party payors can be essential to new product acceptance and may have an effect on pricing. Because SCY-078 is not currently commercially available, we do not know the extent to which it will be reimbursed if it is approved by the FDA. If we choose to bring other product candidates to market, they will be subject to similar uncertainty. We believe that SCY-078 and any other product candidates that are brought to market are less likely to be purchased by patients and/or providers if they are not adequately reimbursed by third-party payors. Furthermore, the market for our product candidates may depend on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. Industry competition to be included in such formularies results in downward pricing pressures on pharmaceutical companies. Third-party payors may refuse to include a particular branded drug in their formularies when a competing generic product is available. The adoption of certain payment methodologies by third-party payors may limit our ability to profit from the sale of SCY-078. For example, under Medicare, hospitals are reimbursed under an inpatient prospective payment system. This pricing methodology provides a single payment amount to hospitals based on a given diagnosis-related group. As a result, with respect to Medicare reimbursement for services in the hospital inpatient setting, hospitals could have a financial incentive to use the least expensive drugs for the treatment of invasive fungal infections, particularly the IV formulations of these drugs, as they are typically administered in the hospital, which may significantly impact our ability to charge a premium for SCY-078.

All third-party payors, whether governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs, including mechanisms to encourage the use of generic drugs. Congress has also considered policies to lower the reimbursement formulas in federal and state healthcare programs. Furthermore, coverage of, and reimbursement for, drugs can differ significantly from payor to payor and may require significant time and resources to obtain. In addition, new laws or regulations could impact future coverage and reimbursement. Healthcare policy changes, including the Affordable Care Act, may have a material adverse effect on us. In recent years, there have been numerous initiatives on the federal and state levels for comprehensive reforms affecting the payment for, the availability of and reimbursement for healthcare services in the United States, including pharmaceutical products. These initiatives have ranged from proposals to fundamentally change federal and state healthcare reimbursement programs, including providing comprehensive healthcare coverage to the public under governmental funded programs, to minor modifications to existing programs.

In March 2010, Congress enacted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or the Affordable Care Act. The Affordable Care Act is designed to expand access to affordable health insurance, control healthcare spending, and improve healthcare quality. The law includes provisions to tie Medicare provider reimbursement to healthcare quality and incentives, mandatory compliance programs, enhanced transparency disclosure requirements, increased funding and initiatives to address fraud and abuse, and incentives to state Medicaid programs to expand their coverage and services. It also imposes an annual tax on pharmaceutical manufacturers or importers who sell "branded prescription drugs." Implementation of the Affordable Care Act is occurring on an ongoing basis, and it is unclear what effect the Affordable Care Act or other state proposals may have on our business.

In addition to the Affordable Care Act, there will continue to be proposals by legislators at both the federal and state levels, regulators and third-party payors to keep drug costs down. Certain of these changes could impose limitations on the prices we will be able to charge for any products that are approved or the amounts of reimbursement available for these products from governmental agencies or third-party payors or may increase the tax requirements for life sciences companies such as ours. We anticipate that the Affordable Care Act and other future healthcare reform proposals could have a material adverse effect on our industry, and may limit our ability to commercialize SCY-078 and any future product candidates we may seek to develop and/or invest in new development.

We expect that a portion of the market for SCY-078 and any other product candidates we may seek to develop will be outside the United States. However, our product candidates may never receive approval or be commercialized outside of the United States.

Before we or any commercial partners can market and commercialize any product candidates outside of the United States, there are numerous and varying regulatory requirements of other countries that will apply. Research and marketing authorization procedures vary among countries and can involve additional product testing and administrative review periods. The marketing authorization process in other countries may include all of the risks detailed above regarding failure to obtain

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FDA approval in the United States as well as other risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country, or identification of potential safety concerns in one country, may have a negative effect on the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA approval in the United States. As described above, such effects include the risks that:

- SCY-078 and any future product candidates we may seek to develop may not generate preclinical or clinical data that are deemed sufficient by regulators in a given jurisdiction;

- SCY-078 may not be approved for all indications requested, or any indications at all, in a given jurisdiction which could limit the uses of SCY-078 and any future product candidates we may seek to develop and have an adverse effect on product sales and potential royalties; and

- such approval in a given jurisdiction may be subject to limitations on the indicated uses for which the product may be marketed or require costly post-marketing follow-up studies.

Foreign countries may have requirements for marketing authorization holders or distributors to have a legal or physical presence in that country, and consideration of and compliance with these requirements may result in additional time and expense before we can pursue or obtain marketing authorization in foreign jurisdictions. If we do receive approval in other countries, we may enter into sales and marketing arrangements with third parties for international sales of any approved products.

Even if SCY-078 or any other future product candidates we may seek to develop receive regulatory approval, we may still face future development and regulatory difficulties.

Even if regulatory approval is obtained for SCY-078 or any other future product candidates we may seek to develop, regulatory authorities may still impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies. Given the number of high profile adverse events with certain drug products, regulatory authorities may require, as a condition of approval, costly risk evaluation and mitigation strategies, which may include safety surveillance, restricted distribution and use, patient education, enhanced labeling, expedited reporting of certain adverse events, pre-approval of promotional materials and restrictions on direct-to-consumer advertising. For example, any labeling approved for any of our product candidates may include a restriction on the term of its use, or it may not include one or more intended indications. Furthermore, any new legislation addressing drug safety issues could result in delays or increased costs during the period of product development, clinical trials and regulatory review and approval, as well as increased costs to assure compliance with any new post-approval regulatory requirements. Any of these restrictions or requirements could force us or our partners to conduct costly studies.

SCY-078 and any other future product candidates we may seek to develop will also be subject to ongoing regulatory requirements for the packaging, storage, advertising, promotion, record-keeping and submission of safety and other post-market information on the drug. In addition, approved products, manufacturers and manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to current Good Manufacturing Practices, or cGMP. As such, we and our contract manufacturers, which we will be responsible for overseeing and monitoring for compliance, are subject to continual review and periodic inspections to assess compliance with cGMP. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. The FDA may hold us responsible for any deficiencies or noncompliance of our contract manufacturers in relation to SCY-078 and any other future product candidates we may seek to develop. Failure to follow cGMP can result in products being deemed adulterated, which carries significant legal implications. We will also be required to engage in pharmacovigilance activities and report certain adverse reactions and production problems, if any, to the FDA and to comply with certain requirements concerning advertising and promotion for products. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved label. As such, we may

not promote products for indications or uses for which they do not have approval. Failure to comply with FDA advertising and promotion standards, which are often subject to interpretation by regulators, may result in a wide range of exposure and liability for us.

If a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured or disagrees with the promotion, marketing or labeling of a product, a regulatory agency may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If the manufacturing or marketing of products fail to comply with applicable regulatory requirements, a regulatory agency may:

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- issue warning letters;
- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us or our partners to enter into a consent decree, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- impose other civil or criminal penalties;
- suspend regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to approved applications filed by us, our partners or our potential future partners;
- impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products or require a product recall.

Non-compliance may also open a company to potential whistleblower lawsuits, and the potential for liability under the False Claims Act.

Pharmaceutical companies are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products.

We are subject to regulation by other regional, national, state and local agencies, including the Department of Justice, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies. Violations of any of the foregoing requirements could result in penalties being assessed against us.

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical companies on one hand and prescribers, purchasers and formulary managers on the other. The Affordable Care Act, among other things, clarified that a person or entity need not have actual knowledge of the federal Anti-Kickback Statute or specific intent to violate it. In addition, the Affordable Care Act amended the federal civil False Claims Act to provide that a claim that includes items or services resulting from a violation of the federal anti-kickback statute, constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act. There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, however, the exceptions and safe harbors are drawn narrowly, and practices that do not fit squarely within an exception or safe harbor may be subject to scrutiny.

The federal civil False Claims Act prohibits any person from knowingly presenting, or causing to be presented, claims for payment of government funds that are false or fraudulent or knowingly making, or causing to be made, a false record or statement material to a false or fraudulent claim to avoid, decrease or conceal an obligation to pay money to the federal government. Many pharmaceutical and other healthcare companies have been investigated and have reached substantial financial settlements with the federal government under these laws for a variety of alleged marketing activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company's products; and inflating prices reported to private price publication services, which are used to set drug payment rates under government healthcare programs. Companies have been prosecuted for causing false claims to be submitted because of the marketing of their products for unapproved uses. Pharmaceutical and other healthcare companies have also been prosecuted on other legal theories of Medicare and Medicaid fraud. The majority of states also have statutes or regulations similar to the federal Anti-Kickback Statute and federal civil False Claims Act, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. Some of these states also prohibit certain marketing related activities including the provision of gifts, meals, or other items to certain health care providers. In addition, certain states, including California, Connecticut, Nevada, and Massachusetts, require pharmaceutical companies to implement

compliance programs or marketing codes.

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Compliance with various federal and state laws is difficult and time consuming, and companies that violate them may face substantial penalties. The potential sanctions include civil monetary penalties, exclusion of a company's products from reimbursement under government programs, criminal fines and imprisonment. Because of the breadth of these laws and the lack of extensive legal guidance in the form of regulations or court decisions, it is possible that some of our business activities or those of our commercial partners could be subject to challenge under one or more of these laws. Such a challenge could have a material adverse effect on our business and financial condition and growth prospects.

We could become subject to government investigations and related subpoenas. Such subpoenas are often associated with previously filed qui tam actions, or lawsuits filed under seal under the federal civil False Claims Act. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged federal civil False Claims Act violations. The time and expense associated with responding to such subpoenas, and any related qui tam or other actions may be extensive, and we cannot predict the results of our review of the responsive documents and underlying facts or the results of such actions. Responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties, settlement payments or administrative actions, as well as any related actions brought by stockholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business.

The number and complexity of both federal and state laws continues to increase, and additional governmental resources are being added to enforce these laws and to prosecute companies and individuals who are believed to be violating them. In particular, the Affordable Care Act includes a number of provisions aimed at strengthening the government's ability to pursue federal Anti-Kickback Statute and federal False Claims Act cases against pharmaceutical manufacturers and other healthcare entities, including substantially increased funding for healthcare fraud enforcement activities, enhanced investigative powers, and amendments to the federal False Claims Act that make it easier for the government and whistleblowers to pursue cases for alleged kickback and false claim violations. Responding to a government investigation or enforcement action would be expensive and time-consuming, and could have a material adverse effect on our business and financial condition and growth prospects.

If we fail to comply with applicable federal, state, or local regulatory requirements, we could be subject to a range of regulatory actions that could affect our ability to commercialize our products and could harm or prevent sales of any affected products that we are able to commercialize, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business.

Regulations, guidelines and recommendations published by various government agencies and organizations may affect the use of SCY-078 and any future product candidates we may seek to develop.

Government agencies may issue regulations and guidelines directly applicable to us, our partners or our potential future partners and our product candidates. In addition, professional societies, practice management groups, private health/science foundations and organizations involved in various diseases from time to time publish guidelines or recommendations to the healthcare and patient communities. These various sorts of recommendations may relate to such matters as product usage, dosage, and route of administration and use of related or competing therapies. Changes to these recommendations or other guidelines advocating alternative therapies could result in decreased use of SCY-078 and any future product candidates we may seek to develop, which may adversely affect our results of operations.

### Risks Relating to Our Drug Development Activities and Former Contract Research and Development Services

As a result of the divestiture of our former contract research and development business, we now contract with a third-party provider for certain drug development activities related to SCY-078 and if these services are terminated or are not as effective as when we could provide them internally, our development of SCY-078 may be delayed or harmed.\*

In connection with the sale of our former contract research and development business (“Services Business”) to Accuratus, we entered into the Services Agreement (“Services Agreement”) with Accuratus pursuant to which Accuratus will provide us with certain contract research and development services for 18 months following the closing of the sale of the Services Business. The purpose of the Services Agreement is to replace drug development services for the advancement of SCY-078 that were previously provided internally by our employees prior to the sale of the Services Business. These former employees have extensive knowledge and expertise pertaining to our SCY-078 drug development activities, and we are substantially dependent upon the continued access to their expertise pursuant to the terms of the Services Agreement. If we lose

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our ability to access this expertise, we could experience a significant delay in both identifying another comparable provider and then contracting for its services, which could adversely affect our development efforts. We may be unable to retain an alternative provider on reasonable terms, or at all. Even if we locate an alternative provider, it is likely that any provider will need additional time to respond to our needs and may not provide the same or similar type or level of services, which could have an adverse affect on the cost and timing of our development activities related to SCY-078.

We face potential liability and exposure as a result of the prior performance of our contract research and development services, and if successful claims are brought against us, we may incur substantial liability, which may exceed the revenues we have received for the prior performance of our contract research and development services.

To date substantially all of our revenue has been generated from the former provision of our contract research and development services. In the event that a regulator asserts that we have conducted activities in a non-compliant manner or a former customer asserts that we have conducted our contract research and development services negligently, or otherwise asserts that as a result of the performance of our contract research and development services for that client we have somehow harmed their business or the prospects of their product candidates, we could be subject to litigation, which could divert management's attention from the operation of our business, including the development of SCY-078, or subject us to indemnification obligations to Accuratus under the terms of our Agreement with them in connection with the divestiture of our Services Business. Further, if such litigation is successful, or if we determine that we must settle the litigation, we could be forced to pay substantial damages, which could be more than the revenues that we generated from that customer, as the services that we performed are only a small portion of the development efforts of our customers. Even if we are successful in defending any such claims, we could incur substantial legal costs to do so. Further, publicity of any such litigation or claims could hurt our reputation. Any such litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

### Risks Related to Our Dependence on Third Parties

We are dependent on our existing third-party collaboration with R-Pharm to commercialize SCY-078 in the Russian Federation and certain other countries, and if R-Pharm is not successful in commercializing SCY-078 in those countries, we will lose a significant source of potential revenue.

We currently have a development license and supply agreement with R-Pharm, CJSC, or R-Pharm, a leading supplier of hospital drugs in Russia, pursuant to which we license to R-Pharm rights to develop and commercialize SCY-078 in the field of human health in Russia and certain smaller non-core markets. R-Pharm will pay us milestone payments upon the achievement of specified milestones, including registration of SCY-078 in a country and upon the achievement of specified levels of sales. In addition, R-Pharm will pay us royalties upon sales of SCY-078 by R-Pharm. We are relying on R-Pharm to commercialize SCY-078 in the countries covered by our agreement with it, and if R-Pharm is not able to commercialize SCY-078 in those countries, or determines not to pursue commercialization of SCY-078 in those countries, we will not receive any milestone or royalty payments under the agreement.

We are dependent on other third-party collaborations to develop and commercialize product candidates we have outlicensed, and if our third-party collaborators are not successful in developing and commercializing product candidates we have outlicensed, we will not receive any revenue from these collaborations.\*

A significant portion of our strategy is to license to third parties rights to develop and commercialize product candidates, including candidates we have discovered other than SCY-078, and if these third parties do not perform under our agreements with them, we will not receive any revenue from these collaborations. For example, we currently have license agreements with R-Pharm, CSJC, or R-Pharm, to develop and commercialize SCY-078 in Russia and several smaller non-core markets and Waterstone Pharmaceutical, or Waterstone, to develop and commercialize SCY-635 for the treatment of viral diseases in humans. We are relying on R-Pharma and Waterstone to commercialize the compounds subject to the respective license agreements, and if either is not able to commercialize the compounds subject to the respective agreements, or determines not to pursue commercialization of the compounds, we will not receive any royalty payments under the agreements. We are party to a license agreement with

Dechra Ltd, or Dechra, pursuant to which we licensed to Dechra rights to develop and commercialize SCY-641 for use in animal health, and we were eligible to receive royalties on sales of products developed with SCY-641. In November 2015, we received a notice of termination from Dechra indicating it would terminate the license agreement for SCY-641 effective in May 2016. If our third-party collaborators under the R-Pharma and Waterstone agreements and any future agreements we enter into do not perform under the agreements, or terminate the agreements, we will not receive the benefits we expect under the agreements.

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We may not be successful in establishing and maintaining development and commercialization collaborations, which could adversely affect our ability to develop and commercialize product candidates.

Developing pharmaceutical products, conducting clinical trials, obtaining regulatory approval, establishing manufacturing capabilities and marketing approved products is expensive. Consequently, we plan to establish collaborations for development and commercialization of product candidates and research programs. For example, we currently have a development license and supply agreement with R-Pharm, pursuant to which we license to R-Pharm rights to develop and commercialize SCY-078 in the field of human health in Russia and certain smaller non-core markets, and if SCY-078 receives marketing approval, we may enter into additional sales and marketing arrangements with third parties for international sales. If we are unable to enter into any of these arrangements on acceptable terms, or at all, we may be unable to market and sell SCY-078 and any future product candidates we may seek to develop in certain markets. We expect to face competition in seeking appropriate collaborators. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement and they may require substantial resources to maintain. We may not be successful in our efforts to establish and implement collaborations or other alternative arrangements for the development of product candidates. When we partner with a third party for development and commercialization of a product candidate, we can expect to relinquish to the third party some or all of the control over the future success of that product candidate. Our collaboration partner may not devote sufficient resources to the commercialization of product candidates or may otherwise fail in their commercialization. The terms of any collaboration or other arrangement that we establish may not be favorable to us. In addition, any collaboration that we enter into may be unsuccessful in the development and commercialization of product candidates. In some cases, we may be responsible for continuing preclinical and initial clinical development of a partnered product candidate or research program, and the payment we receive from our collaboration partner may be insufficient to cover the cost of this development. If we are unable to reach agreements with suitable collaborators for product candidates, we could face increased costs, we may be forced to limit the number of product candidates we can commercially develop or the territories in which we commercialize them and we might fail to commercialize products or programs for which a suitable collaborator cannot be found. If we fail to achieve successful collaborations, our operating results and financial condition will be materially and adversely affected.

We depend on third-party contractors for a substantial portion of our drug development activities and may not be able to control their work as effectively as if we performed these functions ourselves.

We outsource, and intend to continue to outsource, substantial portions of our drug development activities to third-party service providers, including manufacturing and the conduct of our clinical trials and various preclinical studies. Our agreements with third-party service providers and CROs are and will be on a study-by-study basis and typically short-term. In all cases, we expect to be able to terminate the agreements with notice and be responsible for the supplier's previously incurred costs.

Because we rely on third parties, our internal capacity to perform these functions is limited. Outsourcing these functions involves risk that third parties may not perform to our standards, may not produce results in a timely manner or may fail to perform at all. Even if we outsource activities, in most cases regulators will hold us responsible for the compliance of the activities performed, and hold us responsible for oversight and monitoring of the activities. In addition, the use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated. There are a limited number of third-party service providers that have the expertise required to achieve our business objectives. Identifying, qualifying and managing performance of third-party service providers can be difficult and time consuming and could cause delays in our development programs. We currently have a small number of employees devoted to clinical development activities, which limits the internal resources we have available to identify and monitor our third-party providers. To the extent we are unable to identify, retain and successfully manage the performance of third-party service providers in the future, our business may be adversely affected.

We have no experience manufacturing product candidates on a large clinical or commercial scale. As a result, we are and will be dependent on third parties for the manufacture of SCY-078 and any future product candidates we may seek to develop, and if we experience problems with any of these third parties, the commercial manufacturing of

SCY-078 and any future product candidates we may seek to develop could be delayed.\*

We do not have personnel with experience in drug product manufacturing. If SCY-078 is approved, the inability to manufacture sufficient commercial supplies of the drug product could adversely affect product commercialization. We do not currently have any agreements with third-party manufacturers for the long-term commercial supply of our product candidates, including SCY-078. We may encounter technical difficulties or delays in the transfer of SCY-078 manufacturing on a commercial scale to a third-party manufacturer, or may be unable to enter into agreements for commercial supply with third-party manufacturers, or may be unable to do so on acceptable terms.

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We may not be able to establish additional sources of supply for SCY-078 and any future product candidates we may seek to develop. These suppliers are subject to regulatory requirements covering manufacturing, testing, quality control and record keeping relating to product candidates and are also subject to ongoing inspections by the regulatory agencies. Failure by any of our suppliers to comply with applicable regulations may result in long delays and interruptions to our product candidate supply while we seek to secure another supplier that meets all regulatory requirements.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including:

- the possible breach of the manufacturing agreements or violation of regulatory standards by the third parties because of factors beyond our control; and

- the possibility of termination or nonrenewal of the agreements by the third parties because of our breach of the manufacturing agreement or based on their own business priorities.

Any of these factors could result in delays or higher costs in connection with our clinical trials, regulatory submissions, required approvals or commercialization of SCY-078 and any future product candidates we may seek to develop.

If we fail to establish or lose our relationships with CROs, our drug development efforts could be delayed.

We are substantially dependent on third-party vendors and CROs for preclinical studies and clinical trials related to our drug discovery and development efforts. If we fail to establish or lose our relationship with any one or more of these providers, we could experience a significant delay in both identifying another comparable provider and then contracting for its services, which could adversely affect our development efforts. We may be unable to retain an alternative provider on reasonable terms, or at all. Even if we locate an alternative provider, it is likely that this provider will need additional time to respond to our needs and may not provide the same type or level of services as the original provider. In addition, any contract research organization that we retain will be subject to the FDA's regulatory requirements and similar foreign standards and we do not have control over compliance with these regulations by these providers. Consequently, if these practices and standards are not adhered to by these providers, the development and commercialization of SCY-078 and any future product candidates we may seek to develop could be delayed, which could severely harm our business and financial condition.

### Risks Relating to Our Intellectual Property

We were dependent on Merck for the establishment of our intellectual property rights related to SCY-078, and if Merck did not establish our intellectual property rights with sufficient scope to protect SCY-078, we may have limited or no ability to assert intellectual property rights to SCY-078.

Under our agreement with Merck, Merck was responsible for establishing the intellectual property rights to SCY-078. As we were not responsible for the establishment of our intellectual property rights to SCY-078, we have less visibility into the strength of our intellectual property rights to SCY-078 than if we had been responsible for the establishment of these rights. If Merck did not establish those rights such that they are of sufficient scope to protect SCY-078, then we may not be able to prevent others from using or commercializing SCY-078, and others may be able to assert intellectual property rights in SCY-078 and prevent us from further pursuing the development and commercialization of SCY-078.

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of SCY-078 and any future product candidates we may seek to develop and the methods used to manufacture them, as well as successfully defending these patents against third-party challenges. Our ability to stop third parties from making, using, selling, offering to sell or importing SCY-078 and any future product candidates we may seek to develop is dependent upon the extent to which we have rights under valid and enforceable patents or trade secrets that cover these activities.

The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No absolute policy regarding the breadth of claims

allowed in pharmaceutical patents has emerged to date in the United States or in many foreign jurisdictions. Changes in either the patent laws or in interpretations of patent laws in the United States and foreign jurisdictions may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be enforced in the patents that we currently own or that may be issued from the applications we have filed or may file in the future or that we have licensed or may license from third



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parties, including Merck for SCY-078. Further, if any patents we obtain or license are deemed invalid or unenforceable, it could impact our ability to commercialize or license our technology.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make compounds that are similar to SCY-078 and any future product candidates we may seek to develop but that are not covered by the claims of our patents;
- if we encounter delays in our clinical trials, the period of time during which we could market our drug candidates under patent protection would be reduced;
- we might not have been the first to conceive, make or disclose the inventions covered by our patents or pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- any patents that we obtain may be invalid or unenforceable or otherwise may not provide us with any competitive advantages; or
- the patents of others may have a material adverse effect on our business.

Due to the patent laws of a country, or the decisions of a patent examiner in a country, or our own filing strategies, we may not obtain patent coverage for all of the product candidates that may be disclosed or methods involving these candidates that may be disclosed in the parent patent application. We plan to pursue divisional patent applications and/or continuation patent applications in the United States and many other countries to obtain claim coverage for inventions that were disclosed but not claimed in the parent patent application, but may not succeed in these efforts. Composition of matter patents on the active pharmaceutical ingredient are generally considered to be the strongest form of intellectual property protection for pharmaceutical products, as such patents generally provide protection without regard to any method of use. We cannot be certain that the claims in our patent applications covering composition-of-matter of our drug candidates will be considered patentable by the U.S. Patent and Trademark Office, or USPTO, courts in the United States or by the patent offices and courts in foreign countries. Method of use patents protect the use of a product for the method recited in the claims. This type of patent does not prevent a competitor from making and marketing a product that is identical to our product for an indication that is outside the scope of the patented method. Moreover, even if competitors do not actively promote their product for our targeted indications, physicians may prescribe these products “off-label.” Although off-label prescriptions may infringe or contribute to or induce the infringement of method of use patents, the practice is common and such infringement is difficult to prevent or prosecute. Interference or derivation proceedings provoked by third parties or brought by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications or those of our collaborators or licensors. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Litigation, interference, or derivation proceedings may fail, resulting in harm to our business, and, even if successful, may result in substantial costs and distract our management and other employees.

There have been numerous changes to the patent laws and proposed changes to the rules of the USPTO, which may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, in September 2011, President Obama signed the America Invents Act that codifies several significant changes to the U.S. patent laws, including, among other things, changing from a “first to invent” to a “first inventor to file” system, limiting where a patent holder may file a patent suit, replacing interference or “first to invent” proceedings with derivation proceedings and creating inter partes review and post-grant opposition proceedings to challenge the validity of patents after they have been issued. The effects of these changes are currently unclear as the USPTO only recently has adopted regulations implementing the changes, the courts have yet to address most of these provisions, and the applicability of the act and new regulations on specific patents and patent applications discussed herein have not been determined and would need to be reviewed.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO 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. Noncompliance events that could result in

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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. In such an event, our competitors might be able to enter the market in the relevant country or region, which could have a material adverse effect on our business.

We also rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, licensees, licensors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information such that our competitors may obtain it. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how, such as new therapies, including therapies for the indications we are targeting. If others seek to develop similar therapies, their research and development efforts may inhibit our ability to conduct research in certain areas and to expand our intellectual property portfolio, and also have a material adverse effect on our business.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights and we may be unable to enforce or protect our rights to, or use, our technology.

If we choose to go to court to stop another party from using the inventions claimed in any patents we obtain, that individual or company has the right to ask the court to rule that such patents are invalid or should not be enforced.

These lawsuits are expensive and would consume time and resources and divert the attention of managerial and scientific personnel even if we were successful in stopping the infringement of such patents or sustaining their validity and enforceability. In addition, there is a risk that the court will decide that such patents are not valid or that we do not have the right to enforce them. There is also the risk that, even if the validity of such patents is upheld, the court will refuse to stop the other party on the grounds that such other party's activities do not infringe such patents. In addition, the United States Court of Appeals for the Federal Circuit and the Supreme Court of the United States continue to address issues under the United States patent laws, and the decisions of those and other courts could adversely affect our ability to sustain the validity of our issued or licensed patents and obtain new patents.

Furthermore, a third party may claim that we or our manufacturing or commercialization partners or customers are using inventions covered by the third party's patent rights and may go to court to stop us or our partners and/or customers from engaging in our operations and activities, including making or selling SCY-078 and any future product candidates we may seek to develop. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and scientific personnel. There is a risk that a court would decide that we or our commercialization partners or customers are infringing the third party's patents and would order us or our partners or customers to stop the activities covered by the patents. In that event, we or our commercialization partners or customers may not have a viable way around the patent and may need to halt commercialization or use of the relevant product. In addition, there is a risk that a court will order us or our partners or customers to pay the other party damages for having violated the other party's patents or obtain one or more licenses from third parties, which may be impossible or require substantial time and expense. We cannot predict whether any 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 drug 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 such events, we would be unable to further develop and commercialize one or more of our drug candidates, which could harm our business significantly. In the future, we may agree to indemnify our commercial partners and/or customers against certain intellectual property infringement claims brought by third parties which could increase our financial expense, increase our involvement in litigation and/or otherwise materially adversely affect our business.

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, which could adversely affect our intellectual property rights and our business. In addition, there could 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 substantial adverse effect on the price of our common stock.

The pharmaceutical and biotechnology industries have produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. For example, we are aware of the existence of other patents relating to the treatment of Hepatitis C Virus which, if the compositions or methods claimed in the patents we assigned to Waterstone are practiced and determined to infringe, may limit Waterstone's ability to fully commercialize SCY-635 and, as a result, may limit potential milestone and royalty payments due to us from Waterstone upon

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commercialization of SCY-635. If we are sued for patent infringement, we would need to demonstrate that our products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be able to do this. Proving invalidity or unenforceability is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, because searches and examinations of patent applications by the USPTO and other patent offices may not be comprehensive, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our patents or pending applications. Our competitors may have filed, and may in the future file, patent applications and may have obtained patents covering technology similar to ours. Any such patents or patent application may have priority over our patent applications, which could further require us to obtain or license rights to issued patents covering such technologies. If another party has obtained a U.S. patent or filed a U.S. patent application on inventions similar to ours, we may have to participate in a proceeding before the USPTO or in the courts to determine which patent or application has priority. The costs of these proceedings could be substantial, and it is possible that our application or patent could be determined not to have priority, which could adversely affect our intellectual property rights and business.

We have received confidential and proprietary information from collaborators, prospective licensees and other third parties. In addition, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have improperly used or disclosed confidential information of these third parties or our employees' former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees. If we are not successful, our ability to continue our operations and our business could be materially, adversely affected.

Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations, on our ability to hire or retain employees, or otherwise on our business.

### **Risks Related to Employee Matters and Managing Growth**

We may not be able to manage our business effectively if we are unable to attract and retain key personnel.\*

We may not be able to attract or retain qualified management, finance, scientific and clinical personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, due in part to our pending relocation of our corporate and operational headquarters to Jersey City, New Jersey.

Stock-based awards are critical to our ability to recruit, retain and motivate highly skilled talent. However, the trading price of our common stock as listed on the NASDAQ Global Market has traded at or below the exercise price of a significant portion of the stock options currently held by our executive officers and key employees. This may reduce the retention value of these options and we may need to grant additional stock options, make further amendments to the terms of existing option awards, or provide alternative compensation and retention programs to continue to retain our employees, especially our key employees and executive officers. If we are not able to attract and retain necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy. Yves Ribeill, who served as our President and Chief Executive Officer since 1999, stepped down as Chief Executive Officer effective April 1, 2015, and then resigned from his role as our President in July 2015. On April 1, 2015, Marco Taglietti, M.D. became our Chief Executive Officer. Charles Osborne, who served as our Chief Financial Officer, resigned from our company in June 2015 and on July 22, 2015, Jonathan Sears Woodall became our Interim Chief Financial Officer until November 2, 2015, when Eric Francois became our Chief Financial Officer. Our Chief Medical Officer resigned in February 2015 and David Angulo, M.D. became our new Chief Medical Officer,

effective June 1, 2015. As a result, we have had significant management turnover and if we are unable to retain our current executive officers and key employees our ability to implement our business strategy successfully could be seriously harmed.

We may need to expand our operations and increase the size of our company, and we may experience difficulties in managing growth.

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As we advance SCY-078 through preclinical studies, clinical trials and commercialization, we will need to increase our product development, scientific, marketing, sales and administrative headcount to manage these efforts. Our management, personnel and systems currently in place may not be adequate to support this future growth. Our need to effectively manage our operations, growth and various projects requires that we:

- successfully attract and recruit new employees with the expertise and experience we will require;
- manage our clinical programs effectively, which we anticipate being conducted at numerous clinical sites;
- develop a marketing and sales infrastructure; and
- continue to develop our operational, financial and management controls, reporting systems and procedures.

If we are unable to successfully manage this growth, our business may be adversely affected.

### Other Risks Relating to Our Business

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.

The use of product candidates in clinical trials and the sale of any products for which we may obtain marketing approval expose us to the risk of product liability claims. Product liability claims may be brought against us or our partners by participants enrolled in our clinical trials, patients, healthcare providers or others using, administering or selling products. If we cannot successfully defend ourselves against any such claims, we would incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

- withdrawal of clinical trial participants;
- termination of clinical trial sites or entire trial programs;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- decreased demand for product candidates and loss of revenue;
- impairment of our business reputation;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize product candidates.

We have obtained limited product liability insurance coverage for our clinical trials domestically and in selected foreign countries where we are conducting clinical trials. Our coverage is currently limited to \$5.0 million per occurrence and \$5.0 million in the aggregate per year, as well as additional local country product liability coverage for trials conducted outside of the United States as required by the local country regulations. As such, our insurance coverage may not reimburse us or 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 product liability.

We intend to expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for product candidates, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash necessary to develop SCY-078 and any future product candidates we may seek to develop and adversely affect our business.

Our internal computer systems, or those used by our contract research organizations or other contractors or consultants, may fail or suffer security breaches.

Despite the implementation of security measures, our internal computer systems and those of our contract research organizations and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such system





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failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our product candidate development programs. For example, the loss of clinical study data from completed or ongoing clinical studies for a product candidate could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of any product candidates could be delayed.

Our former Services Business operations involved, and the operations of our vendors may involve, the use of hazardous materials, which could subject us to significant liabilities.

Research and development processes performed by our former Services Business, and research and development processes that we contract with vendors to perform, involve the controlled use of hazardous materials, including chemicals. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of these materials. Individuals exposed to these hazardous materials could attempt to assert civil liability against us either as the former operator of the Services Business or as the contractor for services performed by our vendors. We have general liability insurance coverage of up to \$1.0 million per occurrence, with an annual aggregate limit of \$2.0 million, which excludes pollution liability. This coverage may not be adequate to cover all claims. Furthermore, if we were to be held liable for a claim involving biological or hazardous materials, this liability could exceed our insurance coverage, if any, and our other financial resources.

Our insurance policies are expensive and protect us only from some business risks, which will leave us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include general liability, employment practices liability, property, auto, workers' compensation, products liability and directors' and officers' insurance. We do not know, however, if we will be able to maintain existing insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our cash position and results of operations.

Our research and development activities could be affected or delayed as a result of possible restrictions on animal testing.

Certain laws and regulations require us to test our product candidates on animals before initiating clinical trials involving humans. Animal testing activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these areas and by disrupting these activities through protests and other means. To the extent the activities of these groups are successful, our research and development activities may be interrupted, delayed or become more expensive.

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### Risks Relating to Owning Our Common Stock

The market price of our common stock may be highly volatile.

The trading price of our common stock may be volatile. The following factors, in addition to other factors described in this “Risk Factors” section and elsewhere in this quarterly report, may have a significant impact on the market price of our common stock:

- the results of our preclinical testing or clinical trials;
- the ability to obtain additional funding;
- any delay in filing an NDA or similar foreign applications for SCY-078 and any future product candidate we may seek to develop or any adverse development or perceived adverse development with respect to the FDA’s review of that NDA or a foreign regulator’s review of a similar applications;
- maintenance of our existing collaborations or ability to enter into new collaborations;
- our collaboration partners’ election to develop or commercialize product candidates under our collaboration agreements or the termination of any programs under our collaboration agreements;
- any intellectual property infringement actions in which we or our licensors and collaboration partners may become involved;
- our ability to successfully develop and commercialize future product candidates;
- changes in laws or regulations applicable to future products;
- adverse regulatory decisions;
- introduction of new products, services or technologies by our competitors;
- achievement of financial projections we may provide to the public;
- achievement of the estimates and projections of the investment community;
- the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us, our collaboration partners or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- legislation or regulation that mandates or encourages the use of generic products;
- additions or departures of key scientific or management personnel;
- significant lawsuits, including patent or stockholder litigation;
- changes in the market valuations of similar companies;
- general economic and market conditions and overall fluctuations in the U.S. equity markets;
- sales of our common stock by us, our executive officers and directors or our stockholders in the future; and
- trading volume of our common stock.

In addition, companies trading in 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 executive officers, directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters submitted to our stockholders for approval.\*

As of November 1, 2015, our executive officers, directors and stockholders who own more than 5% of our outstanding common stock, together own shares representing a substantial portion of our outstanding common stock. Therefore, these stockholders will have the ability to influence us through this ownership position. These stockholders may be able to influence matters requiring stockholder approval. For example, these stockholders, acting together, may be able to control elections of directors, amendments to our organizational documents, or approval of any merger, sale of assets, or other major corporate



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action. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may believe are in your best interest as one of our stockholders.

We may identify material weaknesses in our internal controls over financial reporting.\*

Maintaining effective internal controls over financial reporting is necessary for us to produce accurate financial statements on a timely basis. We have previously identified material weaknesses in our internal control over financial reporting and, although all such material weaknesses were remediated as of December 31, 2014, we may again identify material weaknesses in the future. Management continues to devote significant time, attention, and resources to maintaining and improving our internal controls. We expect to continue to incur costs associated with implementing appropriate processes and internal controls, which could include new employee compensation costs and fees for additional audit and consulting services, which could negatively affect our financial condition and operating results. The requirements associated with being a public company will require significant company resources and management attention.\*

We completed our IPO in May 2014 and have become subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the listing requirements of the NASDAQ Global Market and other applicable securities rules and regulations. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition and maintain effective disclosure controls and procedures and internal control over financial reporting. In addition, subsequent rules implemented by the SEC and the NASDAQ Stock Market may also impose various additional requirements on public companies. As a result, we will incur additional legal, accounting and other expenses that we did not incur as a nonpublic company, particularly after we are no longer an “emerging growth company” as defined in the JOBS Act. Further, the need to establish the corporate infrastructure demanded of a public company may divert management’s attention from implementing our growth strategy. We have made, and will continue to make, changes to our corporate governance standards, disclosure controls and financial reporting and accounting systems to meet our reporting obligations. However, the measures we take may not be sufficient to satisfy our obligations as a public company, which could subject us to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we would expect to file with the SEC, and we are required to disclose material changes made in our internal controls and procedures on a quarterly basis. Company responsibilities required by the Sarbanes-Oxley Act include establishing 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. However, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC or the date we are no longer an “emerging growth company” as defined in the JOBS Act, because we are taking advantage of the exemptions contained in the JOBS Act. To build the infrastructure to allow us to assess the effectiveness of our internal control over financial reporting, we took certain measures during 2014 that including the hiring of key personnel, the design and implementation of certain additional control activities, and the evaluation of those new control activities, as well as existing control activities, to determine whether our system of internal controls was operating effectively to mitigate risks of material misstatement in our financial reporting. We believe our previously identified material weaknesses were remediated as of December 31, 2014. If we are unsuccessful in maintaining an appropriate accounting infrastructure, we may not be able to prepare and disclose, in a timely manner, our financial statements and other required disclosures, or comply with existing or new reporting requirements.

If we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of

operations or cash flows. If we are unable to achieve effective internal control over financial reporting, or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

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The recently enacted JOBS Act will allow us to postpone the date by which we must comply with some of the laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC, which could undermine investor confidence in our company and adversely affect the market price of our common stock.

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies” including:

- the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- the obligation to provide three years of audited financial statements;
- the “say on pay” provisions, requiring a non-binding stockholder vote to approve compensation of certain executive officers, and the “say on golden parachute” provisions, requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations, of the Dodd-Frank Act and some of the disclosure requirements of the Dodd-Frank Act relating to compensation of our chief executive officer;
- the requirement to provide detailed compensation discussion and analysis in proxy statements and reports filed under the Exchange Act, and instead provide a reduced level of disclosure concerning executive compensation; and
- any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor’s report on the financial statements.

We currently intend to take advantage of some of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act so long as we qualify as an “emerging growth company.”

Future sales and issuances of our common stock or rights to purchase common stock 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. These sales may also result in new investors gaining rights superior to our existing stockholders.

Because we do not intend to declare cash dividends on our shares of common stock in the foreseeable future, stockholders must rely on appreciation of the value of our common stock for any return on their investment.

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 in the future. As a result, we expect that only appreciation of the price of our common stock, if any, will provide a return to our investors for the foreseeable future. Investors seeking cash dividends should not invest in our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the price of our common stock and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our common stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the price of our common stock or trading volume to decline.

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We may be subject to securities litigation, which is expensive and could divert management attention.

Our share price may be volatile, and in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could seriously harm our business. Any adverse determination in litigation could also subject us to significant liabilities.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and our bylaws may delay or prevent an acquisition of us, including the ability of our board of directors to establish new series of preferred stock and issue shares of these new series, which could be used by our board of directors to oppose a hostile takeover attempt, which some stockholders may believe would be in the best interests of stockholders. In addition, 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, including the elimination of cumulative voting, inability of our stockholders to call special meetings or take action by written consent, ability of our board of directors to fill board vacancies, and ability of our board of directors to determine the size of the board of directors. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. Finally, our charter documents establish advance notice requirements for nominations for election to our board of directors and for proposing matters that can be acted upon at stockholder meetings. Although we believe these provisions together provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On May 2, 2014, our registration statement on Form S-1 (File No. 333-194192) was declared effective for our initial public offering of 6,200,000 shares of our common stock at a price of \$10.00 per share for aggregate gross proceeds of \$62.0 million to us. As a result of our IPO, which closed on May 7, 2014, we received net proceeds of approximately \$54.6 million after deducting underwriting discounts and commissions of \$3.3 million and offering expenses payable by us of \$4.1 million.

There has been no material change in the planned use of proceeds from our initial public offering as described in our prospectus effective May 2, 2014, filed with the SEC pursuant to Rule 424(b) of the Securities Act. Through September 30, 2015, \$38.8 million of the net proceeds had been used for the purposes set forth in our prospectus, including \$15.0 million to pay off the balance and all accrued interest on our credit facility with HSBC Bank on May 7, 2014, and \$23.8 million for the development of our lead product candidate SCY-078 and to fund working capital, capital expenditures and other general corporate purposes.

Item 5. Other Information

Termination of Licensing Agreement

In August 2012, we entered into a license agreement with Dechra Ltd. ("Dechra"), a UK listed international veterinary pharmaceutical business, granting Dechra rights to our proprietary compound, SCY-641, in the field of animal health, including dog dry eye, under which we were entitled to receive potential milestone and royalty payments. Dechra was granted worldwide animal health rights and was responsible for the remaining clinical development and commercialization of SCY-641 in the animal health field. Under the agreement, Dechra was required to use reasonable efforts to commercialize SCY-641. We received an upfront fee in 2012 and we were eligible to receive potential milestone payments as well as royalty payments on the total net sales of the product. Pursuant to the agreement, Dechra had the right to relinquish the license and terminate the agreement at any time it determined in its reasonable business judgment that it was impossible to carry out further development or marketing of the product by giving us at least six months prior written notice. In November 2015, Dechra notified us of its intention to terminate the license agreement for the development of SCY-641 effective May 2016.

Item 6. Exhibits

See the Exhibit Index which follows the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.



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SIGNATURES

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

SCYNEXIS, INC.

By: /s/ Marco Taglietti, M.D.  
Marco Taglietti, M.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 13, 2015

By: /s/ Eric Francois  
Eric Francois  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: November 13, 2015

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INDEX TO EXHIBITS

| Exhibit Number | Description of Document                                                                                                                                                                                                                                                     |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1            | Asset Purchase Agreement, dated July 17, 2015, between the Company and Accuratus Lab Services, Inc. (Filed with the SEC as Exhibit 10.1 to our current report on Form 8-K, filed with the SEC on July 23, 2015, SEC File No. 001-36365, and incorporated by reference here) |
| 3.1            | Amended and Restated Certificate of Incorporation (Filed with the SEC as Exhibit 3.1 to our current report on Form 8-K, filed with the SEC on May 12, 2014, SEC File No. 001-36365, and incorporated by reference here).                                                    |
| 3.2            | Amended and Restated By-Laws (Filed with the SEC as Exhibit 3.4 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).                                                           |
| 4.1            | Reference is made to Exhibits 3.1 and 3.2.                                                                                                                                                                                                                                  |
| 4.2            | Fifth Amended and Restated Investor Rights Agreement, dated December 11, 2013 (Filed with the SEC as Exhibit 10.21 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192).                                            |
| 10.1           | Compensation arrangement with non-employee directors.                                                                                                                                                                                                                       |
| 10.2*          | Commitment to Services Agreement, dated July 17, 2015, between the Company and Accuratus Lab Services, Inc.                                                                                                                                                                 |
| 10.3           | Employment Agreement, effective November 1, 2015, between the SCYNEXIS, Inc. and Eric Francois (Filed with the SEC as Exhibit 99.1 to our current report on Form 8-K, filed with the SEC on November 2, 2015, SEC File No. 001-36365, and incorporated by reference here).  |
| 10.4           | Sublease Agreement, dated July 13, 2015, between the Company and Optimer Pharmaceuticals, Inc. (Filed with the SEC as Exhibit 10.2 to our current report on Form 8-K, filed with the SEC on July 23, 2015, SEC File No. 001-36365, and incorporated by reference here).     |
| 10.5           | Release And Settlement Agreement, dated July 21, 2015, between the Company and Yves Ribeill (Filed with the SEC as Exhibit 10.3 to our current report on Form 8-K, filed with the SEC on July 23, 2015, SEC File No. 001-36365, and incorporated by reference here).        |
| 10.6           | Engagement Letter, dated July 7, 2015, between CMF Associates, LLC, and SCYNEXIS pursuant to which Jonathan Sears Woodall served as SCYNEXIS's Interim Chief Financial Officer.                                                                                             |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13-a-14(a) or Rule 15(d)-14(a) of the Exchange Act                                                                                                                                                                |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act                                                                                                                                                                   |

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 13a-14(b) or 15d-14(b) of the Exchange Act

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Schema Linkbase Document

101.CAL XBRL Taxonomy Calculation Linkbase Document

101.DEF XBRL Taxonomy Definition Linkbase Document

101.LAB XBRL Taxonomy Labels Linkbase Document

101.PRE XBRL Taxonomy Presentation Linkbase Document

\* Confidential treatment has been requested for a portion of this exhibit.