

CURIS INC  
Form 10-Q  
November 10, 2014  
Table of Contents

**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, 2014**

**OR**

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

**Commission File Number: 000-30347**

**CURIS, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Delaware</b>	<b>04-3505116</b>
<b>(State or Other Jurisdiction of Incorporation or Organization)</b>	<b>(I.R.S. Employer Identification No.)</b>
<b>4 Maguire Road</b>	
<b>Lexington, Massachusetts</b>	<b>02421</b>
<b>(Address of Principal Executive Offices)</b>	<b>(Zip Code)</b>
<b>Registrant's Telephone Number, Including Area Code: (617) 503-6500</b>	

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  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 4, 2014, there were 86,004,857 shares of the registrant's common stock outstanding.

**Table of Contents**

**CURIS, INC. AND SUBSIDIARIES QUARTERLY REPORT ON FORM 10-Q**

**INDEX**

	<b>Page Number</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <u>Unaudited Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	35
<b>PART II. OTHER INFORMATION</b>	
Item 1A. <u>Risk Factors</u>	36
Item 6. <u>Exhibits</u>	60
<u>SIGNATURE</u>	61

**Table of Contents****Item 1. FINANCIAL STATEMENTS****CURIS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)**

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 7,933,470	\$ 9,591,487
Investments	46,665,470	48,588,135
Short-term investment restricted	13,877	13,877
Accounts receivable	1,839,319	1,477,188
Prepaid expenses and other current assets	655,765	495,260
Total current assets	57,107,901	60,165,947
Property and equipment, net	407,361	445,655
Long-term investments	1,481,682	10,726,685
Long-term investment restricted	152,610	166,487
Goodwill	8,982,000	8,982,000
Other assets	77,558	104,034
Total assets	\$ 68,209,112	\$ 80,590,808
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 2,371,237	\$ 2,036,864
Accrued liabilities	1,941,894	1,911,479
Current portion of long-term debt, net	5,521,523	2,610,174
Total current liabilities	9,834,654	6,558,517
Long-term debt, net	23,540,461	27,945,186
Warrants		716,786
Other long-term liabilities	187,420	196,734
Total liabilities	33,562,535	35,417,223
Commitments (Note 9)		
Stockholders Equity:		
Common stock, \$0.01 par value 225,000,000 shares authorized; 87,227,703 shares issued and 86,004,857 shares outstanding at September 30, 2014; and 87,081,862 shares issued and 85,859,016 shares outstanding at	872,277	870,819

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December 31, 2013		
Additional paid-in capital	809,161,290	806,660,340
Treasury stock (at cost, 1,222,846 shares)	(1,524,029)	(1,524,029)
Accumulated deficit	(773,866,425)	(760,826,561)
Accumulated other comprehensive gain/(loss)	3,464	(6,984)
Total stockholders' equity	34,646,577	45,173,585
Total liabilities and stockholders' equity	\$ 68,209,112	\$ 80,590,808

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CURIS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>REVENUES:</b>				
Royalties	\$ 1,783,271	\$ 1,080,233	\$ 4,895,454	\$ 2,549,945
Research and development, net	(18,407)	121,850	(44,672)	927,950
License fees		6,000,000	3,000,000	10,000,000
<b>Total revenues</b>	<b>1,764,864</b>	<b>7,202,083</b>	<b>7,850,782</b>	<b>13,477,895</b>
<b>COSTS AND EXPENSES:</b>				
Cost of royalty revenues	89,295	54,014	246,280	127,499
Research and development	3,705,365	4,170,751	10,180,271	9,965,847
General and administrative	2,723,235	2,846,950	8,475,392	8,317,741
<b>Total costs and expenses</b>	<b>6,517,895</b>	<b>7,071,715</b>	<b>18,901,943</b>	<b>18,411,087</b>
<b>(Loss)/income from operations</b>	<b>(4,753,031)</b>	<b>130,368</b>	<b>(11,051,161)</b>	<b>(4,933,192)</b>
<b>OTHER EXPENSE:</b>				
Interest income	38,881	39,024	129,120	117,585
Interest expense	(933,903)	(964,543)	(2,834,609)	(2,870,087)
Change in fair value of warrant liability	67,910	(1,072,687)	716,786	(438,286)
<b>Total other expense</b>	<b>(827,112)</b>	<b>(1,998,206)</b>	<b>(1,988,703)</b>	<b>(3,190,788)</b>
<b>Net loss</b>	<b>\$ (5,580,143)</b>	<b>\$ (1,867,838)</b>	<b>\$ (13,039,864)</b>	<b>\$ (8,123,980)</b>
<b>Net loss per common share (basic and diluted)</b>	<b>\$ (0.06)</b>	<b>\$ (0.02)</b>	<b>\$ (0.15)</b>	<b>\$ (0.10)</b>
<b>Weighted average common shares (basic and diluted)</b>	<b>86,004,857</b>	<b>82,456,708</b>	<b>85,962,415</b>	<b>81,235,922</b>
<b>Total comprehensive loss</b>	<b>\$ (5,584,080)</b>	<b>\$ (1,862,631)</b>	<b>\$ (13,029,416)</b>	<b>\$ (8,125,013)</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****CURIS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (13,039,864)	\$ (8,123,980)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	114,058	104,359
Stock-based compensation expense	2,245,565	2,499,091
Change in fair value of warrant liability	(716,786)	438,286
Non-cash interest expense on investments	108,511	161,586
Amortization of debt issuance costs	68,716	78,605
Non-cash in-kind interest accrued on Curis Royalty's debt		753,639
Payment-in kind interest on Curis Royalty's debt	(713,968)	
Gain on sale of fixed assets and equipment	(1,750)	
Changes in operating assets and liabilities:		
Accounts receivable	(362,131)	(248,405)
Prepaid expenses and other assets	(168,343)	(126,482)
Accounts payable and accrued liabilities	345,474	436,449
 Total adjustments	 919,346	 4,097,128
 Net cash used in operating activities	 (12,120,518)	 (4,026,852)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(38,284,246)	(43,908,127)
Sale of investments	49,353,851	36,339,252
Decrease in restricted cash	13,877	13,918
Purchases of property and equipment	(65,764)	(134,457)
Proceeds from sale of equipment	1,750	
 Net cash provided by/(used in) investing activities	 11,019,468	 (7,689,414)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock under the Company's share-based compensation plans and warrant exercises	256,843	3,514,595
Payment of Curis Royalty's principal obligations	(813,810)	
Payment of debt issuance costs		(261,475)
Proceeds from issuance of common stock under the Company's ATM Agreements, net of issuance costs of \$367,706 (see Note 8)		9,494,123

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Net cash (used in)/provided by financing activities	(556,967)	12,747,243
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,658,017)</b>	<b>1,030,977</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,591,487	12,747,709
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 7,933,470</b>	<b>\$ 13,778,686</b>

See accompanying notes to unaudited condensed consolidated financial statements.



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**Table of Contents**

**CURIS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**1. Nature of Business**

Curis, Inc. is an oncology-focused company developing novel drug candidates for the treatment of human cancers. As used throughout these consolidated financial statements, the term the Company refers to the business of Curis, Inc. and its wholly owned subsidiaries, except where the context otherwise requires, and the term Curis refers to Curis, Inc.

The Company conducts its research and development programs both internally and through strategic collaborations. The Company is leveraging its experience in targeting signaling pathways to develop drug candidates including CUDC-907, a dual histone deacetylase, or HDAC and phosphoinositide-3 kinase, or PI3K, inhibitor, and CUDC-427, a small molecule antagonist of the inhibitor of apoptosis, or IAP, proteins. Erivedge®, the first and only approved medicine for the treatment of advanced basal cell carcinoma, or BCC, is being commercialized by F. Hoffmann-La Roche Ltd., or Roche, and Genentech Inc., or Genentech, a member of the Roche Group, under a collaboration agreement between Curis and Genentech.

In August 2009, the Company granted a worldwide, exclusive royalty-bearing license to develop, manufacture, market and sell its HSP90 inhibitor technology, including Debio 0932, to Debiopharm Group, or Debiopharm. Under the agreement, Debiopharm had assumed all future development responsibility for Debio 0932 and has incurred all costs related to the development of products under the agreement.

In August 2012, Debiopharm initiated the HALO, or HSP90 inhibition And Lung cancer Outcomes, phase 1/2 clinical trial of Debio 0932 in combination with various chemotherapy regimens in patients with stage IIIb or IV non-small cell lung cancer, or NSCLC without known epidermal growth factor receptor, or EGFR, mutations. The primary objective of this trial is to analyze the effect of adding Debio 0932 to combination chemotherapy with cisplatin/pemetrexed, cisplatin/ gemcitabine or docetaxel on the rate of progression-free survival at 6 months in first-line or second-line therapy of patients in this trial population.

Debiopharm has recently reviewed available data from all three arms of the ongoing phase 1 portion of the HALO study and has determined that it will not advance to the phase 2 stage of the study. Safety observations were generally consistent with the expected side effects of Debio 0932 and/or the respective chemotherapeutic regimens administered in the trial. No new Debio 0932-related side effects were identified. Debiopharm has informed Curis that it will discontinue the phase 1 portion of this study in November 2014.

Debiopharm has indicated that it plans to return the rights to Debio 0932 to the Company and Curis expects to receive formal notice of termination of the licence agreement from Debiopharm. Curis anticipates that the parties will seek to enter into a transition agreement in the fourth quarter of 2014 regarding the orderly return of the program to Curis. While the Company does not plan to continue further study of Debio 0932 in non-small cell lung cancer, it is exploring the potential to test the molecule in other promising indications, either in company-sponsored or investigator sponsored studies.

The Company operates in a single reportable segment, which is the research and development of innovative cancer therapeutics. The Company expects that any products that are successfully developed and commercialized would be used in the health care industry and would be regulated in the United States by the Food and Drug Administration, or

FDA, and in overseas markets by similar regulatory authorities.

The Company is subject to risks common to companies in the biotechnology industry as well as risk factors that are specific to the Company's business, including, but not limited to: the Company's reliance on Genentech and Roche to successfully commercialize Erivedge in the approved indication of advanced BCC; the Company's ability to advance and expand its research and development programs; the Company's ability to obtain adequate financing to fund its operations; the ability of the Company's wholly owned subsidiary, Curis Royalty, LLC, or Curis Royalty, to satisfy the terms of its loan agreement with BioPharma Secured Debt Fund II Sub, S.à r.l., a Luxembourg limited liability company managed by Pharmakon Advisors, or BioPharma-II; the Company's ability to obtain and maintain necessary intellectual property protection; development by the Company's competitors of new or better technological innovations; dependence on key personnel; the Company's ability to comply with regulatory requirements; and the Company's ability to execute on its overall business strategies.

The Company's future operating results will largely depend on the magnitude of payments from its current and potential future corporate collaborators and the progress of drug candidates currently in its development pipeline. The results of the Company's operations will vary significantly from year to year and quarter to quarter and depend on a number of factors, including, but not limited to: Roche and Genentech's ability to successfully commercialize Erivedge; the timing, outcome and cost of the Company's preclinical studies and clinical trials for its drug candidates; and the Company's ability to successfully enter into one or more material licenses or collaboration agreements for its proprietary drug candidates.

## **Table of Contents**

The Company anticipates that existing cash, cash equivalents and investments at September 30, 2014 should enable it to maintain current and planned operations into 2016. The Company's ability to continue funding its planned operations beyond this period is dependent upon, among other things, the success of its collaborations with Genentech and the Leukemia & Lymphoma Society, or LLS, including its receipt of additional contingent cash payments under these collaborations; its ability to control expenses and its ability to raise additional funds through equity or debt financings, new collaborations or other sources of financing. The Company may not be able to successfully raise additional funds or enter into or continue any corporate collaborations and the timing, amount and likelihood of the Company receiving payments under such collaborations is highly uncertain. If the Company is unable to obtain adequate financing, the Company may be required to reduce or delay spending on its research and/or development programs.

## **2. Basis of Presentation**

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. These statements, however, are condensed and do not include all disclosures required by accounting principles generally accepted in the United States, or GAAP, for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013, or the Annual Report, as filed with the Securities and Exchange Commission on March 13, 2014.

In the opinion of the Company, the unaudited financial statements contain all adjustments (all of which were considered normal and recurring) necessary for a fair statement of the Company's financial position at September 30, 2014, the results of operations and cash flows for the three- and nine-month periods ended September 30, 2014 and 2013 and the cash flows for the nine-month periods ended September 30, 2014 and 2013.

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosure of certain assets and liabilities at the balance sheet date. Such estimates include the performance obligations under the Company's collaboration agreements; the estimated repayment term of the Company's debt and related short- and long-term classification; the fair value of the Company's debt; the collectability of receivables; the carrying value of property and equipment and intangible assets; the assumptions used in the Company's valuation of stock-based compensation and the value of certain investments and liabilities, including our long-term warrant liability. Actual results may differ from such estimates.

These interim results are not necessarily indicative of results to be expected for a full year or subsequent interim periods.

## **3. Revenue Recognition**

The Company's business strategy includes entering into collaborative license and development agreements with biotechnology and pharmaceutical companies for the development and commercialization of the Company's product candidates. The terms of these agreements may provide for the Company's licensees and collaborators to make non-refundable license fee payments, research and development funding payments, contingent cash payments based upon achievement of clinical development and regulatory objectives, and royalties on product sales if any products are successfully commercialized. For a complete discussion of the Company's revenue recognition policy, see Note 2(c) included in its 2013 Annual Report on Form 10-K.

**4. Collaboration Agreements**

(a) Genentech June 2003 Collaboration

In June 2003, the Company licensed its proprietary Hedgehog pathway technologies to Genentech for human therapeutic use. The primary focus of the collaborative research plan has been to develop and commercialize molecules that inhibit the Hedgehog pathway for the treatment of various cancers. The collaboration is currently focused on the commercialization and continued development of Erivedge, which is being commercialized by Genentech in the United States and by Roche in several other countries for the treatment of advanced basal cell

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**Table of Contents**

carcinoma. Genentech's parent company, Roche, is also conducting additional exploratory phase 2 studies in patients with less severe forms of basal cell carcinoma. In June 2014, Roche filed an investigational new drug, or IND, application with the FDA to initiate a phase 2 clinical study of Erivedge in patients with idiopathic pulmonary fibrosis, or IPF. This IND filing resulted in a \$3,000,000 cash milestone payment to Curis. Although the phase 2 study was opened, no patients were enrolled in the study and in August 2014 enrollment in this study was suspended by Roche pending potential changes in the study protocol. There are additional ongoing clinical trials being conducted by third parties under collaboration agreements between Genentech and the National Cancer Institute as well as Genentech and other third-party investigators.

The Company is eligible to receive up to an aggregate of \$115,000,000 in contingent cash milestone payments, exclusive of royalty payments, under the collaboration for the development of Erivedge or another small molecule Hedgehog pathway inhibitor, assuming the successful achievement by Genentech and Roche of specified clinical development and regulatory objectives. Of this aggregate amount, the Company has earned \$59,000,000 as of September 30, 2014. In June 2014, the Company earned a milestone payment of \$3,000,000 for the IND filing to treat IPF. In May 2013, Australia's Therapeutic Goods Administration approved the sale of Erivedge in Australia resulting in a milestone payment of \$4,000,000, and in July 2013, Roche announced that it had received conditional marketing approval for Erivedge from the European Commission for the treatment of advanced BCC, which will be applicable to all European Union member states resulting in a milestone payment of \$6,000,000. Accordingly, the Company recognized milestone payments of \$6,000,000 in the three months ended September 30, 2013, and \$3,000,000 and \$10,000,000 in the nine months ended September 30, 2014 and 2013, respectively, as license revenue in its Condensed Consolidated Statement of Operations and Comprehensive Loss as the Company does not have any further substantive performance obligations under the collaboration.

Pursuant to agreements by and between the Company and two university licensors, the Company has made certain payments to such licensors in connection with its receipt of milestone payments from Genentech. The Company recorded research and development expenses of \$150,000 during the nine months ended September 30, 2014, and research and development expenses of \$300,000 and \$500,000 during the three and nine months ended September 30, 2013, respectively, related to payments the Company made to its licensors upon the Company's receipt of the respective milestone payments from Genentech.

In addition to these payments, the Company's wholly-owned subsidiary, Curis Royalty, is entitled to a royalty on net sales of Erivedge. The royalty rate escalates from 5% to 7.5% based on worldwide annual net sales ranging from less than \$150 million to \$600 million. The royalty rate applicable to Erivedge may be decreased by 2% (such that the applicable royalty rate will range between 3% to 5.5%) in certain specified circumstances, including when a competing product that binds to the same molecular target as Erivedge is approved by the applicable regulatory authority and is being sold in such country by a third party for use in the same indication as Erivedge or when there is no issued intellectual property covering Erivedge in a territory in which sales are recorded. Future royalty payments related to Erivedge will service the outstanding debt and accrued interest to BioPharma-II, up to the quarterly caps through 2015 and until the debt is fully repaid thereafter (see Note 7). The Company recognized royalty revenues from Genentech's net sales of Erivedge of \$1,783,271 and \$1,080,233 during the three months ended September 30, 2014 and 2013, respectively, and \$4,895,454 and \$2,549,945 during the nine months ended September 30, 2014 and 2013, respectively. The Company recorded cost of royalty revenues within the costs and expenses section of its Condensed Consolidated Statements of Operations and Comprehensive Loss of \$89,295 and \$54,014 during the three months ended September 30, 2014 and 2013, respectively, and \$246,280 and \$127,499 during the nine months ended September 30, 2014 and 2013, respectively. For each of these periods, the cost of royalty revenue amounts are comprised of 5% of the Erivedge royalties earned by the Company that it is obligated to pay to university licensors. As further discussed in Note 7, the Company expects that all royalty revenues received by Curis Royalty from Genentech on net sales of Erivedge will be used by Curis Royalty to pay principal and interest under the loan that

Curis Royalty received from BioPharma II, subject to specified quarterly caps through 2015, until such time as the loan is fully repaid.

The Company recorded research and development revenue of \$72,817 and \$87,916 during the three months ended September 30, 2014 and 2013, respectively, and research and development revenue of \$144,054 and \$181,910 during the nine months ended September 30, 2014 and 2013, respectively, related to expenses incurred by the Company on behalf of Genentech that were paid by the Company and for which Genentech is obligated to reimburse the Company. During the three and nine months ended September 30, 2014, Genentech incurred expenses of \$94,118 and \$233,701, respectively, under this collaboration which the Company is obligated to reimburse to Genentech, and which the Company has recorded as contra-revenues in its Condensed Consolidated Statements of Operations and Comprehensive Loss.

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**Table of Contents****(b) The Leukemia & Lymphoma Society Agreement**

In November 2011, the Company entered into an agreement under which The Leukemia & Lymphoma Society (LLS) agreed to support the Company's ongoing development of CUDC-907 for patients with relapsed or refractory lymphoma and multiple myeloma. Under the agreement, LLS has agreed to make milestone payments up to \$4,000,000 that are contingent upon the Company's achievement of specified clinical development objectives with CUDC-907. The Company earned milestone payments under the LLS agreement totaling \$650,000 during the nine month period ended September 30, 2013, related to the progress of the ongoing phase I clinical trial of CUDC-907. Since the inception of the agreement, the Company has received \$1,650,000 from LLS related to milestones achieved under this agreement. Additional milestone payments may be earned assuming CUDC-907 continues to progress through the ongoing phase I clinical trial and into a subsequent clinical study.

The Company continues to apply the provisions of Accounting Standards Codification, or ASC, 605-28, *Revenue Recognition, Milestone Method* to determine whether the revenue earned under this agreement should be accounted for as substantive milestones. In determining whether the milestones in this arrangement are substantive, the Company considered whether uncertainty exists as to: (i) the achievement of the milestone event at the inception of the arrangement; (ii) whether the achievement of the milestone involves substantive effort and can only be achieved based in whole or part on the performance or the occurrence of a specific outcome resulting from the Company's performance; (iii) whether the amount of the milestone payment appears reasonable either in relation to the effort expected to be expended or to the projected enhancement of the value of the delivered items; (iv) whether there is any future performance required to earn the milestone; and (v) whether the consideration is reasonable relative to all deliverables and payment terms in the arrangement. When a substantive milestone is achieved, the accounting guidance permits recognition of revenue related to the milestone payment in its entirety. The Company determined that the milestones achieved in 2013 under the LLS agreement were substantive and recorded the related revenue of \$650,000 during the nine month period ended September 30, 2013. The Company did not receive any milestone payments pursuant to the LLS agreement during the three or nine months ended September 30, 2014.

Under certain conditions associated with the Company's successful partnering and/or commercialization of CUDC-907 in the specified indications, the Company may be obligated to make payments, including royalties, to LLS of up to \$10,000,000. This obligation is capped at 2.5 times the amount the Company receives from LLS, and, as of September 30, 2014, the maximum obligation, assuming that specified events occur, such as CUDC-907 successfully progressing through future clinical trials or the Company's entry into a collaboration related to CUDC-907 would be \$4,125,000. If CUDC-907 does not continue to meet its clinical safety endpoints in future clinical trials in the defined field or fails to obtain necessary regulatory approvals, all funding provided to the Company by LLS will be considered a non-refundable grant. As of September 30, 2014, the Company has not recorded an obligation to repay any of the funds received from LLS because the contingent repayment obligation depends solely on the successful results of the continued development of CUDC-907, which is not probable at September 30, 2014 as this program remains in the early stages of clinical development.

**5. Fair Value Measurements**

The Company discloses fair value measurements based on a framework outlined by GAAP which requires expanded disclosures regarding fair value measurements. GAAP also defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The FASB Codification Topic 820, *Fair Value Measurements and Disclosures*, requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques



**Table of Contents**

should be consistently applied. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company's warrant liability was valued using a probability-weighted Black-Scholes model, discussed further in Note 8, and is therefore classified as Level 3.

In accordance with the fair value hierarchy, the following tables show the fair value as of September 30, 2014 and December 31, 2013 of those financial assets and liabilities that are measured at fair value on a recurring basis, according to the valuation techniques the Company used to determine their fair value. No financial assets or liabilities are measured at fair value on a nonrecurring basis at September 30, 2014 and December 31, 2013.

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
<b>As of September 30, 2014:</b>				
Cash equivalents				
Money market funds	\$ 4,058,576	\$	\$	\$ 4,058,576
Municipal bonds		1,090,000		1,090,000
<b>Short- and long-term investments</b>				
Corporate commercial paper, stock, bonds and notes	45,447,443	2,699,709		48,147,152
<b>Total assets at fair value</b>	<b>\$ 49,506,019</b>	<b>\$ 3,789,709</b>	<b>\$</b>	<b>\$ 53,295,728</b>

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
<b>As of December 31, 2013:</b>				
Cash equivalents				
Money market funds	\$ 5,535,716	\$	\$	\$ 5,535,716
Corporate commercial paper, bonds and notes		1,749,983		1,749,983
Municipal bonds		1,110,000		1,110,000

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Short- and long-term investments				
US government obligations		1,151,932		1,151,932
Corporate commercial paper, stock, bonds and notes	20,176,154	36,984,932		57,161,086
<b>Total assets at fair value</b>	<b>\$ 25,711,870</b>	<b>\$ 40,996,847</b>	<b>\$</b>	<b>\$ 66,708,717</b>
Warrant liability			716,786	716,786
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$ 716,786</b>	<b>\$ 716,786</b>

**Table of Contents**

The above tables exclude a certificate of deposit in the amount of \$1,001,802 that the Company held as of December 31, 2013.

The following table rolls forward the fair value of the Company's warrant liability, the fair value of which is determined by Level 3 inputs for the nine months ended September 30, 2014 and 2013:

Balance at December 31, 2013	\$ 716,786
Change in fair value for the nine months ended September 30, 2014	(716,786)
Balance at September 30, 2014	\$
Balance at December 31, 2012	\$ 1,488,179
Change in fair value for the nine months ended September 30, 2013	438,286
Balance at September 30, 2013	\$ 1,926,465

**6. Investments**

The amortized cost, unrealized losses and fair value of short-term investments available-for-sale as of September 30, 2014 with maturity dates ranging between one and twelve months and with a weighted average maturity of 5.7 months are as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Corporate bonds and notes	\$ 46,661,171	\$ 12,222	\$ (7,923)	\$ 46,665,470
Total investments	\$ 46,661,171	\$ 12,222	\$ (7,923)	\$ 46,665,470

As of September 30, 2014, the Company also recorded long-term investments of \$1,481,682 on its Consolidated Balance Sheet. This amount is comprised of corporate and government-secured debt securities with maturities of November 2015 with a weighted average maturity of 13.7 months and with amortized cost totaling \$1,482,517, less unrealized net losses of \$835.

The amortized cost, unrealized losses and fair value of short-term investments available-for-sale as of December 31, 2013 with maturity dates ranging between one and twelve months and with a weighted average maturity of 4.7 months are as follows:

**Fair Value**

	<b>Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	
Corporate bonds and notes	\$ 47,091,593	\$ 9,036	\$ (15,476)	\$ 47,085,153
US government and municipal obligations	501,170	10		501,180
<b>Total investments</b>	<b>\$ 47,592,763</b>	<b>\$ 9,046</b>	<b>\$ (15,476)</b>	<b>\$ 47,586,333</b>

In addition, a certificate of deposit in the amount of \$1,001,802 that the Company held as of December 31, 2013 was included within short-term investments in the Consolidated Balance Sheet but is excluded from the table above as it was not deemed to be a security.

As of December 31, 2013, the Company also recorded long-term investments of \$10,726,685 on its Consolidated Balance Sheet. This amount is comprised of corporate and government-secured debt securities with maturities ranging from January 2015 to May 2015 with a weighted average maturity of 14.3 months and with amortized cost totaling \$10,727,958, less unrealized net losses of \$1,273.

## **7. Debt**

In December 2012, Curis wholly-owned subsidiary, Curis Royalty, received a \$30,000,000 loan at an annual interest rate of 12.25% pursuant to a credit agreement between Curis Royalty and BioPharma-II. In connection with the loan, Curis transferred to Curis Royalty its right to receive certain future royalty and royalty-related payments on the commercial sales of Erivedge that it may receive from Genentech. The loan and accrued interest will be repaid by Curis Royalty using such royalty and royalty-related payments. To secure repayment of the loan, Curis Royalty granted a first priority lien and security interest (subject only to permitted liens) to BioPharma-II in all of its assets and all real, intangible and personal property, including all of its right, title and interest in and to the royalty and royalty-

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**Table of Contents**

related payments. The loan constitutes an obligation of Curis Royalty, and is intended to be non-recourse to Curis. Under the terms of the loan, quarterly royalty payments received by Curis Royalty from Genentech will first be applied to pay (i) escrow fees payable by Curis pursuant to an escrow agreement between Curis, Curis Royalty, BioPharma-II and Boston Private Bank and Trust Company, (ii) Curis royalty obligations to academic institutions, (iii) certain expenses incurred by BioPharma-II in connection with the credit agreement and related transaction documents, including enforcement of its rights in the case of an event of default under the credit agreement and (iv) expenses incurred by Curis enforcing its right to indemnification under the collaboration agreement with Genentech. Remaining amounts, subject to caps of \$2,000,000 per quarter in 2014 and \$3,000,000 per quarter in 2015, will be applied first to pay interest and second, principal on the loan. Curis Royalty will be entitled to receive the remaining royalty amounts above the caps, if any, and Curis remains entitled to receive any contingent payments upon achievement of clinical development objectives. Curis Royalty retains its right to royalty payments related to sales of Erivedge following repayment of the loan.

The final maturity date of the loan will be the earlier of the date when the principal is paid in full and the termination of Curis Royalty's right to receive royalties under the collaboration agreement with Genentech. At any time after January 1, 2017, Curis Royalty may, subject to certain limitations, prepay the outstanding principal of the loan in whole or in part, at a price equal to 105% of the outstanding principal on the loan, plus accrued but unpaid interest. The obligations of Curis Royalty under the credit agreement to repay the loan may be accelerated upon the occurrence of an event of default as defined in the credit agreement.

During the nine months ended September 30, 2014, the Company made payments totaling \$4,279,156, of which \$2,751,378 related to the payment of accrued interest, \$713,968 related to payment of the previously capitalized interest and \$813,810 related to principal payments. As of September 30, 2014, the Company recorded short- and long-term debt of \$5,521,523 and \$23,540,461, respectively (net of unamortized issuance costs of \$38,053 and \$86,153, respectively), and at December 31, 2013, the Company recorded short- and long-term debt of \$2,610,174 and \$27,945,186, respectively (net of unamortized issuance costs of \$53,503 and \$105,105, respectively), related to the loan, with such amounts recorded within the Company's Consolidated Balance Sheets. In addition, the Company recorded accrued interest on the debt of \$313,452 and \$298,935 as of September 30, 2014 and December 31, 2013, respectively, with such amounts included in the Company's accrued liabilities section of its Consolidated Balance Sheets. Because the repayment of the term loan is contingent upon the level of Erivedge royalties received, the repayment term may be shortened or extended depending on the actual level of Erivedge royalties. In addition, if Erivedge royalties are insufficient to pay the accrued interest on the outstanding loan, the unpaid interest outstanding will be added to the principal on a quarterly basis. Currently, Curis management estimates that the loan will be repaid in 2017, but this estimate could be adversely affected and the repayment period could be extended if its royalties are less than it currently anticipates.

At September 30, 2014, the fair value of the principal portion of the debt is estimated as \$29,360,000. Due to the assumptions required in estimating future Erivedge royalties, the expected repayment period and weighting of various royalty projection scenarios, determining the fair value of the debt required application of Level 3 inputs.

**Table of Contents**

The Company incurred debt issuance costs totaling \$421,715 in connection with this loan transaction, of which \$215,000 related to expenses that the Company paid on behalf of BioPharma-II and the remaining \$206,715 were incurred directly by the Company. The debt issuance costs incurred directly by the Company were capitalized as assets and those costs paid on behalf of BioPharma-II have been netted against the debt and accrued interest in the Company's Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 as detailed in the following table:

	As of	
	September 30, 2014	December 31, 2013
Other current assets	\$ 43,604	\$ 51,441
Other assets	74,578	101,055
<b>Total debt issuance costs</b>	<b>118,182</b>	<b>152,496</b>
Debt, current	5,559,576	2,663,677
Debt issue costs, current	(38,053)	(53,503)
Debt, current portion net of issuance costs	\$ 5,521,523	\$ 2,610,174
Debt, long-term	23,626,614	28,050,291
Debt issue costs, long-term	(86,153)	(105,105)
<b>Debt, net of current portion and issuance costs</b>	<b>\$ 23,540,461</b>	<b>\$ 27,945,186</b>

All issuance costs are being amortized over the estimated term of the debt using the straight-line method which approximates the effective interest method. For the three and nine months ended September 30, 2014, the Company recognized interest expense related to the loan with BioPharma-II of \$933,903 and \$2,834,609, respectively. For the three and nine months ended September 30, 2013, the Company recognized interest expense related to the loan with BioPharma-II of \$964,543 and \$2,870,087, respectively. The assumptions used in determining the expected repayment term of the debt and amortization period of the issuance costs requires management to make estimates that could impact the short- and long-term classification of these costs, as well as the period over which these costs will be amortized.

**8. Common Stock and Warrant Liability****(a) Warrant Liability**

On January 27, 2010, the Company completed a registered direct offering of 6,449,288 units with each unit consisting of (i) one share of the Company's common stock and (ii) one warrant to purchase 0.25 of one share of common stock at a purchase price of \$2.52 per unit. The Company received net proceeds from the sale of the units, after deducting offering expenses, of approximately \$14,942,000.

In connection with this offering, the Company issued warrants to purchase an aggregate of 1,612,322 shares of common stock. As of September 30, 2014, warrants to purchase 238,805 shares of the Company's common stock have been exercised and warrants to purchase 1,373,517 shares of common stock remain outstanding. The warrants have an initial exercise price of \$3.55 per share and expire in January 2015. The warrants contain anti-dilution adjustment provisions that will result in a decrease in the price and an increase in the number of shares of common stock issuable upon exercise of such warrants in the event of certain issuances of common stock by the Company at prices below \$3.55 per share.

Due to the warrant terms, the warrants are deemed to be a liability and, therefore, the fair value of the warrants are remeasured at each reporting date with any change in estimated fair value recorded in the Condensed Consolidated Statements of Operations and Comprehensive Loss. The estimated fair value of the warrants as of September 30, 2014 was zero. The fair value of the warrants was classified as a long-term liability as of December 31, 2013 in the Consolidated Balance Sheet. The Company has estimated the fair value of the warrants using a Black-Scholes option pricing model with updated assumptions at each reporting date as detailed in the following table:

	<b>As of September 30,</b>	
	<b>2014</b>	<b>2013</b>
Fair value of the warrants	\$	\$ 1,926,465
Expected term	0.3 years	1.3 years
Risk-free interest rate	0%	0.17%
Volatility	50.0%	48.0%
Dividends	None	None

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**Table of Contents**

The warrants are revalued at each reporting period and the resulting change in fair value of the warrant liability is recognized in the Consolidated Statement of Operations and Comprehensive Loss. The Company recorded other income of \$67,910 for the three months ended September 30, 2014 and other expense of \$1,072,687 for the three months ended September 30, 2013, respectively, and other income of \$716,786 and for the nine months ended September 30, 2014 and other expense of \$438,286 for nine months ended September 30, 2013, respectively, as a result of a change in the fair value of the warrant liability that was primarily due to changes in the Company's common stock price during the respective reporting periods.

**(b) 2013 Sales Agreement**

On July 3, 2013, the Company entered into a sales agreement with Cowen and Company, LLC, or Cowen, pursuant to which the Company may sell from time to time up to \$30,000,000 of the Company's common stock through an at-the-market equity offering program under which Cowen will act as sales agent. Subject to the terms and conditions of the sales agreement, Cowen may sell the common stock by methods deemed to be an at-the-market offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Market, on any other existing trading market for the common stock or to or through a market maker other than on an exchange. In addition, with the Company's prior written approval, Cowen may also sell the common stock by any other method permitted by law, including in negotiated transactions. Cowen will use its commercially reasonable efforts consistent with its normal trading and sales practices and applicable state and federal laws, rules and regulations and the rules of the NASDAQ Global Market to sell on the Company's behalf all of the shares requested to be sold by the Company. The Company has no obligation to sell any of the common stock under the sales agreement. Either the Company or Cowen may at any time suspend solicitations and offers under the sales agreement upon notice to the other party. The sales agreement may be terminated at any time by either the Company or Cowen upon written notice to the other party as specified in the sales agreement. The aggregate compensation payable to Cowen shall be 3% of the gross sales price of the common stock sold by Cowen pursuant to the sales agreement. In addition, the Company reimbursed \$34,268 of Cowen's expenses of Cowen in connection with the offering. Each party has agreed in the sales agreement to provide indemnification and contribution against certain liabilities, including liabilities under the Securities Act, subject to the terms of the sales agreement. Common stock will be issued pursuant to the Company's currently-effective shelf registration statement on Form S-3. During the three and nine months ended September 30, 2013, the Company sold 2,288,396 shares of common stock under the sales agreement resulting in gross proceeds of \$9,861,830. Total offering expenses incurred, including Cowen's commission, related to the sales agreement through September 30, 2013 were \$430,295 which offset the gross proceeds. The Company did not sell any shares of common stock under this sales agreement during the three or nine months ended September 30, 2014.

**(c) Stock Option Exercises Paid with Company Common Stock**

The Company's 2000 Stock Incentive Plan and the Amended and Restated 2010 Plan generally allows participants to purchase common stock upon the exercise of a stock option by delivery of shares of Company common stock held directly by the participant, with such shares of common stock valued at the closing price on NASDAQ on the date of exercise. During the nine months ended September 30, 2013, certain executive officers and a director exercised stock options by remitting shares of Curis common stock then held by the respective person. The Company accounted for the value of the common stock remitted to the Company in satisfaction of the exercise price as treasury stock under the cost method. These option holders remitted an aggregate of 175,139 shares during the nine months ended September 30, 2013 with an aggregate value equal to \$632,755. The Company had no such transactions during the three or nine months ended September 30, 2014.



**9. Accrued Liabilities**

Accrued liabilities consist of the following:

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Accrued compensation	\$ 1,117,251	\$ 1,267,954
Professional fees	316,075	166,200
Accrued interest on debt (see Note 7)	313,452	298,935
Other	195,116	178,390
<b>Total</b>	<b>\$ 1,941,894</b>	<b>\$ 1,911,479</b>

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**Table of Contents****10. Related Party Transaction**

On June 2, 2014, Daniel R. Passeri resigned as Chief Executive Officer of the Company. Mr. Passeri will continue to serve as a Class II director of the Company. On June 2, 2014, the Board of Directors of the Company elected Mr. Passeri Vice Chairman of the Board. As a non-employee director, Mr. Passeri will be compensated \$100,000 per year plus meeting fees for his participation on the Board of Directors.

The Company and Mr. Passeri entered into a consulting agreement on June 2, 2014. The agreement is for an initial term of one year, subject to renewal or earlier termination by the parties. Pursuant to the terms of the consulting agreement, Mr. Passeri has agreed to provide 120 hours per month of consulting services to the Company on intellectual property, corporate and strategic matters. In consideration for the services rendered by Mr. Passeri to the Company, the Company has agreed to pay Mr. Passeri \$32,500 per month until June 1, 2015, provided that if at any time during the consultation period Mr. Passeri obtains full time employment with a third party, then Mr. Passeri and the Company will negotiate a good faith reduction in the number of hours that Mr. Passeri will consult, and thereafter Mr. Passeri will be paid an hourly fee, in lieu of the monthly retainer, for services rendered under the consulting agreement.

From June 2, 2014 until June 1, 2015, the consulting agreement may be terminated at any time by mutual agreement between the parties. If the parties renew the agreement, then after June 1, 2015, Mr. Passeri will receive \$30,000 per month during the renewal period and either party may terminate the consulting agreement by providing thirty days written notice to the other party. In addition, if the parties cannot agree on a revised hourly commitment in connection with Mr. Passeri obtaining full time employment with a third party, then either party will have the right to terminate the agreement immediately. The Company may terminate the consulting agreement immediately if Mr. Passeri breaches, or threatens to breach the terms of the non-disclosure and non-competition agreement previously entered into with the Company. Pursuant to the terms of the consulting agreement, the Company recognized expenses of \$97,500 and \$127,833 during the three and nine months ended September 30, 2014, respectively, under the consulting agreement.

**11. Accounting for Stock-Based Compensation**

As of September 30, 2014, the Company had two shareholder-approved, share-based compensation plans: (i) the Amended and Restated 2010 Stock Incentive Plan, or the 2010 Plan, adopted by the Board of Directors in March 2013 and approved by shareholders in May 2013 and (ii) the 2010 Employee Stock Purchase Plan, or the ESPP, adopted by the Board of Directors in April 2010 and approved by shareholders in June 2010. For a complete discussion of the Company's share-based compensation plans, see Note 4, "Stock Plans and Stock Based Compensation" in the notes to the Company's consolidated financial statements included in Item 8 of Part II of the Company's Annual Report.

During the nine months ended September 30, 2014, the Company's board of directors granted options to purchase 2,040,500 shares of the Company's common stock to officers and employees of the Company under the 2010 Plan. Of this amount, options to purchase 1,000,500 shares of common stock vest over a four-year period and bear exercise prices that are equal to the closing market price of the Company's common stock on the NASDAQ Global Market on the grant dates. The remaining options to purchase 1,040,000 shares of common stock were issued to the Company's officers and will vest in tranches only if the closing sale price of the Company's common stock is maintained at specified levels for a period of 60 consecutive trading days prior to the third anniversary of the respective grant dates. If the specified market conditions are not achieved prior to the third anniversary of the respective grant dates, any unvested options will be forfeited and shall again be available for grant under the 2010 Plan.

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During the nine months ended September 30, 2014, the Company's board of directors also granted options to its non-employee directors to purchase 235,000 shares of common stock under the 2010 Plan, which will vest monthly over a one-year period. All options granted to non-employee directors during the nine months ended September 30, 2014 bear exercise prices that are equal to the closing market price of the Company's common stock on the NASDAQ Global Market on the grant date.

Table of ContentsEmployee and Director Grants*Vesting Tied to Service Conditions*

In determining the fair value of stock options, the Company generally uses the Black-Scholes option pricing model. As discussed below, for employee stock options with market conditions, the Company uses a Monte Carlo simulation valuation model. The Black-Scholes option pricing model employs the following key assumptions for employee and director options awarded during the nine months ended September 30, 2014 and 2013 based on the assumptions noted in the following table:

		<b>For the nine months ended September 30,</b>	
		<b>2014</b>	<b>2013</b>
Expected term (years)	Employees	6	6
Expected term (years)	Officers and Directors	7	7
Risk-free interest rate		1.85-2.2%	1.0-2.1%
Volatility		70-71%	70-72%
Dividends		None	None

The expected volatility is based on the annualized daily historical volatility of the Company's stock price for a time period consistent with the expected term of each grant. Management believes that the historical volatility of the Company's stock price best represents the volatility of the stock price. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the respective grant. The Company has not historically paid cash dividends, and does not expect to pay cash dividends in the foreseeable future.

The stock price volatility and expected terms utilized in the calculation involve management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option. GAAP also requires that the Company recognize compensation expense for only the portion of options that are expected to vest. Therefore, management calculated an estimated annual pre-vesting forfeiture rate that is derived from historical employee termination behavior since the inception of the Company, as adjusted. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

The aggregate intrinsic value of employee options outstanding at September 30, 2014 was \$431,000, all of which related to exercisable options. The weighted average grant-date fair values of stock options granted during the nine months ended September 30, 2014 and 2013 were \$1.79 and \$2.29, respectively. As of September 30, 2014, there was approximately \$5,514,000, net of the impact of estimated forfeitures, of unrecognized compensation cost related to unvested employee and director stock option awards outstanding under the 2000 Stock Incentive and the Amended and Restated 2010 Plans that is expected to be recognized as expense over a weighted average period of 2.62 years. The intrinsic values of employee stock options exercised during the nine months ended September 30, 2014 and 2013 were \$105,000 and \$1,955,000, respectively.

*Vesting Tied to Market Conditions*

Monte Carlo simulation models were used to value stock options to purchase an aggregate of 1,040,000 shares of common stock granted to the Company's officers during the nine months ended September 30, 2014. Of this amount, options to purchase 640,000 shares of common stock were granted in February 2014 with an exercise price of \$3.09

and options to purchase 400,000 shares of common stock were granted in June 2014 with an exercise price of \$1.75 per share that contained specific market conditions. The key assumptions used in these Monte Carlo simulation models and resulting valuations are noted in the following table:

	<b>Market Condition Options Granted February 18, 2014</b>	<b>Market Condition Options Granted June 2, 2014</b>
Expected life (years) officers	6	6
Risk-free interest rate	1.9%	2.1%
Volatility	70%	65%
Dividends	None	None
Number of options granted	640,000	400,000
Fair value per share	\$ 1.20	\$ 0.34

**Table of Contents**

Based on the above, the Monte Carlo simulation models calculated aggregate fair value of \$905,000, excluding forfeitures, related to these grants that will be recognized on a straight-line basis over the estimated vesting periods of the separate tranches. These awards accounted for \$118,284 and \$274,661 of the employee stock-based compensation expense recorded by the Company for the three and nine months ended September 30, 2014.

***Employee Stock-Based Compensation Expense***

The Company recorded \$855,511 and \$2,337,538 in compensation expense for the three and nine months ended September 30, 2014, respectively, and the Company recorded \$608,448 and \$2,004,475 in compensation expense for the three and nine months ended September 30, 2013, respectively, related to employee and director stock option grants. The total fair values of vested stock options for the nine months ended September 30, 2014 and 2013 were \$2,213,000 and \$2,308,000, respectively.

**Non-Employee Grants**

The Company has periodically granted stock options and unrestricted stock awards to consultants for services, pursuant to the Company's stock plans at the fair market value on the respective dates of grant. Should the Company terminate any of its consulting agreements, the unvested options underlying the agreements would also be cancelled. The Company reversed expense of \$37,211 and of \$91,973 related to non-employee stock options for the three and nine months ended September 30, 2014, respectively. The Company recognized expense related to non-employee stock options of \$314,106 and \$494,616, for the three and nine months ended September 30, 2013, respectively.

**Total Stock-Based Compensation Expense**

For the three and nine months ended September 30, 2014 and 2013, the Company recorded employee and non-employee stock-based compensation expense to the following line items in its Costs and Expenses section of the Consolidated Statements of Operations:

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Research and development expenses	\$ 195,670	\$ 345,390	\$ 496,418	\$ 841,909
General and administrative expenses	622,630	577,164	1,749,147	1,657,182
<b>Total stock-based compensation expense</b>	<b>\$ 818,300</b>	<b>\$ 922,554</b>	<b>\$ 2,245,565</b>	<b>\$ 2,499,091</b>

**12. Accumulated Other Comprehensive Income (Loss)**

The following table summarizes the changes in accumulated other comprehensive loss as of September 30, 2014:

**Unrealized  
Gains/Losses**

	<b>on Securities Available- for-Sale</b>
Balance, as of December 31, 2013	\$ (6,984)
Other comprehensive gain before reclassifications	10,448
Amounts reclassified from accumulated other comprehensive income (loss)	
Net current period other comprehensive gain	10,448
Balance, as of September 30, 2014	\$ 3,464

The above amounts do not reflect a tax effect as the Company expects to retain a net loss position for 2014.

**Table of Contents****13. Loss Per Common Share**

The Company applies ASC Topic 260 *Earnings per Share*, which establishes standards for computing and presenting earnings per share. Basic and diluted loss per common share is computed using the weighted-average number of shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share for the three and nine months ended September 30, 2014 and 2013, as the effect of the potential common stock equivalents is antidilutive due to the Company's net loss position for these periods. Antidilutive securities consist of stock options and warrants outstanding as of the respective reporting period as follows:

	<b>For the three and nine months ended</b>	
	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Stock options outstanding	11,364,119	10,531,556
Warrants outstanding	1,373,517	1,373,517
<b>Total antidilutive securities</b>	<b>12,737,636</b>	<b>11,905,073</b>

**14. Recent Accounting Pronouncements**

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition Revenue from Contracts with Customers*, which amends the guidance in former ASC 605, *Revenue Recognition*, and is effective for public companies for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of the provisions of ASC 606.

In August 2014, the FASB issued an accounting standards update, *Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which is included in ASC 205, *Presentation of Financial Statements*. This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The guidance will be effective for fiscal years beginning after December 15, 2016, and applied prospectively; early adoption is also permitted. The Company does not expect adoption of this guidance to have a material impact on its financial condition or results of operations.



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes appearing elsewhere in this report. Some of the information contained in this discussion and analysis and set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the section titled "Risk Factors" in Part II, Item 1A of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. As used throughout this report, the terms the Company, we, us, and our refer to the business of Curis, Inc. and its wholly owned subsidiaries, except where the context otherwise requires, and the term Curis refers to Curis, Inc.

**Overview**

We are an oncology-focused biotechnology company developing novel drug candidates for the treatment of human cancers. We conduct our research and development programs both internally and through strategic collaborations. Internally, we are developing our drug candidates including CUDC-907 and CUDC-427. Our collaborators Genentech and Roche are commercializing Erivedge in advanced basal cell carcinoma, or BCC, and continuing Erivedge's clinical development in other indications.

Debiopharm has recently reviewed available data from all three arms of the ongoing phase 1 portion of the HALO, or HSP90 inhibition And Lung cancer Outcomes, study and has determined that it will not advance to the phase 2 stage of the study. Safety observations were generally consistent with the expected side effects of Debio 0932 and/or the respective chemotherapeutic regimens administered in the trial. Debiopharm has indicated that it plans to return the rights to Debio 0932 to us and we expect to receive formal notice of termination of the license agreement from Debiopharm. We anticipate working with Debiopharm to enter into a transition agreement in the fourth quarter of 2014 regarding the orderly return of the program to Curis. While we do not plan to continue further study of Debio 0932 in non-small cell lung cancer, we are exploring the potential to test the molecule in other promising indications, either in company-sponsored or investigator sponsored studies.

***Proprietary Drug Candidates***

*CUDC-907.* CUDC-907 is an orally bioavailable drug candidate that is designed as a dual inhibitor of class I and IIB histone deacetylase, or HDAC enzymes, and alpha, delta and beta isoforms of phosphoinositide 3-kinase, or PI3K. We are currently conducting a phase 1 clinical trial in patients with advanced lymphoma or multiple myeloma. This first-in-human trial is designed to assess the safety (including the maximum tolerated dose), pharmacokinetics and anti-cancer activity of CUDC-907.

Patients in the dose escalation portion of this trial have been administered CUDC-907 on either a daily, two times per week, three times per week or five days on /two days off dosing schedules in 21 day cycles. Dose escalation is now closed for the daily, two times per week and three times per week schedules.

In October 2014, we opened an expansion stage in the ongoing phase 1 study at the dose of 120 mg administered three times per week, which was determined to be the maximum tolerated dose for this schedule in the dose escalation phase of the trial. The expansion phase of the trial is expected to enroll up to 12 patients each with either relapsed or refractory Diffuse Large B-Cell Lymphoma, or DLBCL, or multiple myeloma. DLBCL and multiple myeloma were selected as lead indications for the expansion cohorts based on preclinical data as well as preliminary anti-cancer

activity observed in the dose escalation phase of the ongoing trial. The dose of 120 mg of CUDC-907 administered three times per week was shown to be well-tolerated with minimal dose interruptions or reductions in the dose escalation phase.

The expansion stage was initiated based on our ability to determine the recommended Phase 2 dose and schedule for CUDC-907 and initial anti-cancer activity observed during the dose escalation stage of the single agent, first-in-human Phase 1 clinical trial. A total of 40 patients with relapsed/ refractory lymphomas or multiple myeloma have been enrolled thus far, with 11 patients currently continuing treatment in the dose escalation phase of the clinical trial of CUDC-907. The safety profile of CUDC-907 has been consistent with prior reports of diarrhea and thrombocytopenia as the most frequent adverse events, with diarrhea and hyperglycemia identified as dose limiting toxicities. Using the optimized dose and schedule of administration, adverse events have been manageable and evidence of HDAC and PI3K enzyme modulation has been observed in pharmacodynamics studies. Among 8 disease-evaluable subjects with diffuse large B cell lymphoma (DLBCL) enrolled to date, 5 patients have experienced tumor shrinkages ranging from 5% to 46%, 2 patients have experienced confirmed partial responses (PR, > 50% tumor shrinkage) and 1 patient has experienced a complete response (CR). One patient with DLBCL progressed on CUDC-907 treatment. One subject with multiple myeloma continues to receive CUDC-907 treatment for nearly 22 months.

In September 2014, the U.S. Food and Drug Administration, or FDA, accepted our second Investigational New Drug, or IND, application for CUDC-907 for treatment of patients with solid tumors and we expect to initiate a new study under this IND in the fourth quarter of 2014. The solid tumor trial will be an open label, multi-center study to assess CUDC-907 in subjects with advanced, relapsed solid tumors, including patients with hormone receptor positive breast cancer. The primary objective of this study will be to determine the safety and tolerability of orally-administered CUDC-907 in the solid tumor disease setting. The secondary objectives will be to assess the PK, establish the maximum tolerated dose/biologically effective dose, recommended phase 2 dose, evaluate biomarkers of activity and identify any preliminary anti-cancer activity of CUDC-907.

*CUDC-427*. In 2012, we licensed from Genentech the exclusive, worldwide rights for the manufacturing, development and commercialization of an oral, small molecule Smac mimetic drug candidate, CUDC-427, that is designed to promote cancer cell death by antagonizing inhibitor of apoptosis or IAP proteins. IAP proteins are a family of functionally and structurally related proteins that promote cancer cell survival by inhibiting programmed cell death, a process also referred

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**Table of Contents**

to as apoptosis. Using IAP proteins and other anti-apoptotic factors, cancer cells evade cell death in response to a variety of signals, including those provided by anti-cancer agents such as chemotherapy, or naturally occurring inflammatory and immune signals transmitted through members of the tumor necrosis factor family. Evasion from apoptosis is a fundamental mechanism whereby human cancers develop resistance to standard anti-cancer treatments. IAP inhibitors such as CUDC-427 are designed to counteract the effects of IAP proteins, thus shifting the balance away from cancer cell survival and allowing apoptosis to proceed.

Under the terms of the license agreement, we have the exclusive right and responsibility for all research, development, manufacturing and commercialization activities related to CUDC-427. Genentech will be entitled to milestone payments upon the first commercial sale of CUDC-427 in certain territories and a tiered low-to-mid single-digit royalty on net sales of CUDC-427, if any.

In July 2013, we initiated an open label, multicenter phase 1 trial of CUDC-427 in patients with advanced relapsed/refractory solid tumors or lymphomas. The trial was designed to determine the maximum tolerated dose and recommended phase 2 dose of CUDC-427 administered as a single agent using a continuous, twice-daily treatment schedule. On November 5, 2013, we received written notification from the FDA that this phase 1 trial of CUDC-427 had been placed on partial clinical hold following the report of death of a patient who had progressed to liver failure approximately one month following the discontinuation of CUDC-427 dosing. In February 2014, we responded to the FDA's requests for additional information and also submitted an amendment to the trial protocol. In March 2014, the FDA completed its review of our complete response submission and determined that it was safe to proceed under the IND and lifted the partial clinical hold on the single agent phase 1 trial for CUDC-427 in patients with advanced relapsed/refractory solid tumors or lymphoma.

We re-initiated patient treatment in the phase 1 trial under an amended protocol in June 2014. Under the amended protocol, the study is designed to determine the safety and recommended phase 2 dose of CUDC-427 administered once daily on a 14 days on /7 days off schedule in 21-day cycles in patients with advanced and/or refractory solid tumors or lymphoma. The secondary objectives of the study are to assess CUDC-427's tolerability, pharmacokinetics, exploratory biomarkers of activity and preliminary anti-cancer activity. Patients have been enrolled in the dose escalation portion of this study in consecutive cohorts according to the standard 3+3 design at dose levels of 100, 200 and 300 mg daily. This study is currently in the evaluation phase for subjects enrolled in the 300 mg daily dosing group. Thus far, no significant side effects or new safety issues have been identified in the study subsequent to re-initiation. After this evaluation is completed, we will initiate the expansion stage of this phase 1 study.

***Our Collaborations***

*Erivedge® (vismodegib)*. Erivedge is a first-in-class orally-administered small molecule Hedgehog pathway inhibitor developed under collaboration with Genentech, a member of the Roche Group. Erivedge was discovered by Genentech and jointly validated by Genentech and Curis through a series of preclinical studies. Pursuant to this collaboration, Genentech and Roche are responsible for clinical development, and Genentech (in the U.S.), Roche (outside the U.S., excluding Japan) and Chugai (in Japan) are responsible for commercialization of Erivedge. We are eligible to receive cash payments upon the successful achievement of specified clinical development and regulatory approval milestones, as well as royalties related to commercial sales of Erivedge.

In January 2012, the FDA approved Erivedge for treatment of adults with BCC that has spread to other parts of the body or that has come back after surgery or that their healthcare provider decides cannot be treated with surgery or radiation. In May 2013, Australia's Therapeutic Goods Administration, or TGA, approved Erivedge and in July 2013 the European Commission granted conditional approval for the marketing of Erivedge in all European Union member states. A conditional marketing authorization is granted to medicinal products with a positive benefit/risk assessment

that satisfy an unmet medical need and whose availability results in a significant public health benefit. Roche is conducting a clinical study, referred to as the STEVIE study, of Erivedge in approximately 1,200 patients with advanced BCC. The results of the STEVIE study are expected to be submitted to European regulatory authorities and, if positive, to form the basis for full approval of Erivedge in the European Union. In addition to the United States and Australia and the conditional approval in the European Union, Erivedge is approved in several other countries and Roche has also filed several new drug applications for marketing registration with health agencies in other territories. Erivedge's regulatory approvals and Roche's submissions in other territories are based on positive clinical data from the ERIVANCE BCC trial.

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**Table of Contents**

Roche is also conducting additional exploratory studies in patients with less severe forms of basal cell carcinoma. In 2013, Roche initiated a randomized, double-blind, regimen-controlled, phase 2 clinical study assessing the efficacy and safety of two different Erivedge regimens in approximately 220 patients with multiple BCC lesions. Over the course of the 72 week study, one subset of patients is receiving oral treatment once daily on a repeating intermittent schedule of Erivedge for 12 weeks followed by placebo for 8 weeks. A second subset of patients is receiving oral treatment once daily for an initial period of 24 weeks, followed by a repeating intermittent schedule of placebo for 8 weeks placebo followed by Erivedge for 8 weeks. The primary endpoint is the relative percentage reduction from baseline in the number of clinically evident basal cell carcinomas at week 73 in the two regimens. In addition, in 2013, Roche initiated a randomized, double-blind, placebo-controlled study to assess the efficacy and safety of Erivedge with surgery in approximately 75 patients with BCC. Patients were randomized to receive oral daily doses of either Erivedge or placebo for 12 weeks prior to Mohs micrographic surgery. The primary outcome is the percent change in surgical defect area post-study drug.

In June 2014, Roche filed an IND application with the FDA to initiate a multicenter, phase 2 clinical study of Erivedge in patients with idiopathic pulmonary fibrosis, or IPF. IPF is a chronic, debilitating lung disease with unknown cause that occurs in adults and has very poor prognosis. The disease is characterized by thickening or scarring of lung tissue (fibrosis) over time, resulting in decreased oxygen supply to the brain and other organs. The IPF phase 2 trial is the first clinical study sponsored by Roche in a non-oncology indication and this IND filing in a non-oncology indication resulted in a \$3,000,000 cash milestone payment to us. Although the phase 2 study was opened, no patients were enrolled in the study and, in August 2014, enrollment in this study was suspended by Roche pending potential revisions to the study protocol.

In October 2013, Roche initiated a phase 1b/2 clinical trial to investigate the safety and efficacy of Erivedge in patients with relapsed/refractory acute myelogenous leukemia, or AML, and relapsed/refractory high-risk myelodysplastic syndrome, or MDS. Based on a review of the Erivedge monotherapy cohort from this trial, Roche determined that the monotherapy responses with Erivedge did not meet the pre-specified efficacy threshold and the study is closed for further enrollment. No new side effects or other safety issues were identified in this study.

Pursuant to the terms of our collaboration agreement with Genentech, we are entitled to a royalty on net sales of Erivedge. The royalty rate escalates from 5% to 7.5% based on worldwide annual net sales ranging from less than \$150 million to \$600 million. The royalty rate applicable to Erivedge may be decreased by 2% (such that the applicable royalty rate will range between 3% to 5.5%) in certain specified circumstances, including when a competing product that binds to the same molecular target as Erivedge is approved by the applicable regulatory authority and is being sold in such country by a third party for use in the same indication as Erivedge or when there is no issued intellectual property covering Erivedge in a territory in which sales are recorded.

In December 2012, our wholly-owned subsidiary, Curis Royalty, received a \$30,000,000 loan from BioPharma-II. In connection with the loan, we transferred to Curis Royalty our right to receive certain future royalty and royalty-related payments on the commercial sales of Erivedge that we may receive from Genentech. The loan and accrued interest will be repaid by Curis Royalty using such royalty and royalty-related payments. The loan constitutes an obligation of Curis Royalty, and is intended to be non-recourse to Curis. As of September 30, 2014, Curis Royalty owed a total of \$29,500,000, gross, to BioPharma-II comprised of principal and accrued interest.

We recognized \$4,895,000 of royalty revenue from Genentech's net sales of Erivedge during the nine months ended September 30, 2014 and have recognized an aggregate of \$10,367,000 in royalty revenues since Erivedge was approved. As discussed above, royalty payments related to Erivedge service the outstanding debt and accrued interest of Curis Royalty owed to BioPharma-II, subject to quarterly caps, and until the debt is fully repaid thereafter.

We are also obligated to make payments to university licensors on royalties that Curis Royalty earns in all territories other than Australia in an amount that is equal to 5% of the royalty payments that Curis Royalty receives from Genentech. This obligation is for a period of 10 years from the first commercial sale of Erivedge, which occurred in February 2012. For royalties that Curis Royalty earns from Roche's sales of Erivedge in Australia, we are obligated to make payments to university licensors of 2% of Roche's direct net sales in Australia until expiration of the Australian patent in April 2019, after which the amount will decrease to 5% of the royalty payments that Curis Royalty receives from Genentech for the remainder of the period ending 10 years from the first commercial sale of Erivedge, or February 2022. Cost of royalty revenues were \$246,000 during the nine months ended September 30, 2014. We have incurred an aggregate of \$620,000 to university licensors upon receipt of royalties since Erivedge was approved, including a one-time milestone payment to a university licensor of \$100,000 on the first commercial sale of Erivedge in 2012.

## **Table of Contents**

### *Debio 0932*

In August 2009, we granted a worldwide, exclusive royalty-bearing license to develop, manufacture, market and sell our HSP90 inhibitor technology, including Debio 0932, to Debiopharm Group, or Debiopharm. As part of this agreement, Debiopharm assumed all development responsibility for Debio 0932 and has incurred all costs related to the development of products under the agreement.

In August 2012, Debiopharm initiated the HALO, or HSP90 inhibition And Lung cancer Outcomes, phase 1/2 clinical trial of Debio 0932 in combination with various chemotherapy regimens in patients with stage IIIb or IV non-small cell lung cancer, or NSCLC, without known epidermal growth factor receptor, or EGFR, mutations. The primary objective of this trial is to analyze the effect of adding Debio 0932 to combination chemotherapy with cisplatin/pemetrexed and cisplatin/ gemcitabine on the rate of progression-free survival at 6 months in first-line therapy of patients in this trial population.

In October 2013, Debiopharm initiated an open label, multicenter phase 1 dose finding trial of Debio 0932, in combination with everolimus, an inhibitor of mTOR, in patients with advanced or metastatic renal cell carcinoma, or RCC, who have previously been treated with a VEGF directed tyrosine kinase inhibitor. This dose escalation trial is designed to determine the safety and maximum tolerated dose of Debio 0932. Debiopharm has determined that it will not advance Debio 0932 in combination with everolimus to development in RCC.

Debiopharm has recently reviewed data from all three arms of the phase 1 portion of the HALO study and has determined that it will not advance to the phase 2 stage of the study. Debiopharm has informed Curis that it will discontinue the Phase 1 portion of this study in November 2014.

Debiopharm has also indicated that it plans to return the rights to Debio 0932 to us and we expect to receive formal notice of termination of the license agreement from Debiopharm. We anticipate working with Debiopharm to enter into a transition agreement in the fourth quarter of 2014 regarding the orderly return of the program to Curis. While we do not plan to continue further study of Debio 0932 in NSCLC, we are exploring the potential to test the molecule in other promising indications, either in company-sponsored or investigator sponsored studies.

### ***Liquidity***

Since our inception, we have funded our operations primarily through license fees, contingent cash payments, research and development funding from our corporate collaborators, private and public placement of our equity securities, debt financings and the monetization of certain royalty rights. We have never been profitable on an annual basis and have an accumulated deficit of \$773,866,000 as of September 30, 2014.

We will need to generate significant revenues to achieve profitability and do not expect to achieve profitability in the foreseeable future, if at all. We anticipate that existing capital resources as of September 30, 2014 should enable us to maintain current and planned operations into 2016. Our ability to continue funding our planned operations into and beyond this point is dependent on, among other things, future contingent payments that we may receive from Genentech or LLS upon the achievement of development and regulatory approval objectives, our ability to manage our expenses and our ability to raise additional funds through additional corporate collaborations, equity or debt financings, or from other sources of financing.

### ***Key Drivers***

We believe that near term key drivers to our success will include:

Genentech and Roche's ability to successfully commercialize Erivedge in advanced BCC in the United States and in other global territories, respectively; and

our ability to successfully plan, finance and complete current and planned clinical trials for CUDC-907 and CUDC-427 as well as obtain promising results from these trials.

In the longer term, a key driver to our success will be our ability, and the ability of any current or future collaborator or licensee, to successfully develop and commercialize additional product candidates.



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**Table of Contents***Collaboration Agreements*

We are currently a party to a collaboration with Genentech related to our Hedgehog pathway inhibitor technologies and an agreement with LLS related to CUDC-907. We are also currently a party to a license agreement with Debiopharm related to our HSP90 inhibitor technology, although Debiopharm has indicated that it plans to return the rights to Debio 0932 to us and we expect to receive formal notice of termination of the license agreement from Debiopharm. We anticipate working with Debiopharm to enter into a transition agreement in the fourth quarter of 2014 regarding the orderly return of the program to Curis. Our past and current collaborations have generally provided for research, development and commercialization programs to be wholly or majority-funded by our collaborators and provide us with the opportunity to receive additional contingent cash milestone payments if specified development and regulatory approval objectives are achieved, as well as royalty payments upon the successful commercialization of any products based upon the collaborations. We are currently not receiving any funding for our research activities and we do not expect to receive such funding in the future from Genentech or LLS under our existing agreements with these parties. Under our collaboration with Genentech, we expect to continue to incur patent-related costs as well as expenses related to the maintenance of licenses, including sublicense payments due upon milestone payments and any royalties we receive. As a result of our licensing agreements with various universities, we are also obligated to make payments to these university licensors when we receive certain payments from Genentech. As of September 30, 2014, we have incurred aggregate expenses over the term of this collaboration of \$4,610,000 in connection with royalties and other cash payments received from Genentech. In addition, during 2012 we incurred \$964,000 in expense related to the issuance of 200,000 shares of our common stock to such university licensors upon FDA approval of Erivedge. We expect that we will continue to bear 100% of the costs associated with the further development of CUDC-907, and that such costs will increase if current and planned clinical studies are successful. LLS is obligated to make specific contingent payments only upon our achievement of contractually-defined development milestones.

**Financial Operations Overview**

*General.* Our future operating results will largely depend on the magnitude of payments from our current and potential future corporate collaborators and the progress of our drug candidates. The results of our operations will vary significantly from year to year and quarter to quarter and depend on, among other factors, the timing of our entry into new collaborations, if any, the timing of the receipt of payments, if any, from new or existing collaborators and the cost and outcome of any preclinical development or clinical trials then being conducted. We anticipate that existing capital resources as of September 30, 2014 should enable us to maintain current and planned operations into 2016.

A discussion of certain risks and uncertainties that could affect our liquidity, capital requirements and ability to raise additional funds is set forth under Part II, Item 1A Risk Factors.

*Debt.* In December 2012, our wholly-owned subsidiary, Curis Royalty, entered into a \$30,000,000 debt transaction with BioPharma-II at an annual interest rate of 12.25% collateralized with certain future Erivedge royalty and royalty-related payment streams.

In connection with the loan, we transferred to Curis Royalty our right to receive certain future royalty and royalty-related payments on the commercial sales of Erivedge that we may receive from Genentech. The loan and accrued interest will be repaid by Curis Royalty using such royalty and royalty-related payments. To secure repayment of the loan, Curis Royalty granted a first priority lien and security interest (subject only to permitted liens) to BioPharma-II in all of its assets and all real, intangible and personal property, including all of its right, title and interest in and to the royalty and royalty-related payments. The loan constitutes an obligation of Curis Royalty, and is intended to be non-recourse to Curis. Under the terms of the loan, quarterly royalty payments received by Curis Royalty from Genentech will first be applied to pay (i) escrow fees payable by us pursuant to an escrow agreement

between Curis, Curis Royalty, BioPharma-II and Boston Private Bank and Trust Company, (ii) our royalty obligations to academic institutions, (iii) certain expenses incurred by BioPharma-II in connection with the credit agreement and related transaction documents, including enforcement of its rights in the case of an event of default under the credit agreement and (iv) expenses incurred by us enforcing our right to indemnification under the collaboration agreement with Genentech. Remaining amounts, subject to caps of \$2,000,000 for the fourth quarter of 2014 and \$3,000,000 per quarter in 2015, will be applied first, to pay interest and second, principal on the loan. Curis Royalty will be entitled to receive the remaining amounts above the caps, if any, and we remain entitled to receive any contingent payments upon achievement of clinical development objectives. After 2015, there are no caps to the amounts Curis Royalty will be required to make to BioPharma-II until the loan is repaid. Curis Royalty retains the right to royalty payments related to sales of Erivedge following repayment of the loan.

The final maturity date of the loan will be the earlier of the date when the principal is paid in full and the termination of Curis Royalty's right to receive royalties under the collaboration agreement with Genentech. At any time after January 1, 2017, Curis Royalty may, subject to certain limitations, prepay the outstanding principal of the loan in whole or in

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**Table of Contents**

part, at a price equal to 105% of the outstanding principal on the loan, plus accrued but unpaid interest. The obligations of Curis Royalty under the credit agreement to repay the loan may be accelerated upon the occurrence of an event of default as defined in the credit agreement. Curis Royalty began making payments to BioPharma-II upon receipt of the Erivedge royalties during 2013. As of September 30, 2014, Curis Royalty owed a total of \$29,500,000, gross, to BioPharma-II comprised of principal and capitalized and accrued interest. Currently, we estimate that the loan will be repaid in 2017, but this estimate could be adversely affected and the repayment period could be extended if its royalties are less than we currently anticipate.

*Revenue.* We do not expect to generate any revenues from our direct sale of products for several years, if ever. Substantially all of our revenues to date have been derived from license fees, research and development payments, and other amounts that we have received from our strategic collaborators and licensees, including royalty payments. Since the first quarter of 2012, we have recognized royalty revenues related to Genentech's sales of Erivedge in the U.S. We expect to continue to recognize royalty revenue in future quarters from Genentech's sales of Erivedge in the U.S. and in other markets where Genentech and Roche successfully obtain marketing approval, if any. However, we expect that all or substantially all of such royalty revenues will be used by our wholly-owned subsidiary, Curis Royalty, to pay principal and interest under the loan that Curis Royalty received from BioPharma II, subject to quarterly caps through 2015, until such time as the loan is fully repaid.

We could receive additional milestone payments from Genentech and LLS, provided the respective programs meet contractually-specified development and regulatory objectives. In June 2014, Roche filed an IND application with the FDA to initiate a phase 2 clinical study of Erivedge in patients with IPF, which represents the first clinical study by Roche in a non-oncology indication and resulted in a \$3,000,000 cash milestone payment to us, which was received in July 2014. Although the phase 2 study was opened, no patients were enrolled in the study and in August 2014 enrollment in this study was suspended by Roche pending additional changes in the study protocol. In July 2013, Erivedge received conditional approval from the European Commission for the marketing of Erivedge in all European Union member states, resulting in a \$6,000,000 milestone payment from Genentech. Additionally, in May 2013, Erivedge was approved for marketing registration by Australia's TGA for the treatment of adult patients with metastatic or locally advanced BCC, resulting in a \$4,000,000 milestone payment to us. Our only source of revenues and/or cash flows from operations for the foreseeable future will be up-front license payments and funded research and development that we may receive under new collaboration agreements, if any, contingent cash payments for the achievement of clinical, development and regulatory objectives, if any are met, under new collaborations or our existing collaborations with Genentech and LLS and royalty payments that are contingent upon the successful commercialization of any products based upon these collaborations. Our ability to enter into new collaborations and our receipt of additional payments under our existing collaborations with Genentech and LLS cannot be assured, nor can we predict the timing of any such arrangements or payments, as the case may be.

*Cost of Royalty Revenues.* Cost of royalty revenues consists of all expenses incurred that are associated with royalty revenues that we record as revenue on our Consolidated Statements of Operations and Comprehensive Loss. These costs currently consist of payments that we are obligated to make to university licensors on royalties that Curis Royalty earns from Genentech on net sales of Erivedge. In all territories other than Australia, our obligation is equal to 5% of the royalty payments that Curis Royalty receives from Genentech for a period of 10 years from the first commercial sale of Erivedge, which occurred in February 2012. For royalties that Curis Royalty would earn from Roche's future sales of Erivedge in Australia, we will be obligated to make payments to university licensors in an amount that is equal to 2% of Roche's direct net sales in Australia until April 2019, after which the amount will decrease to 5% of the royalty payments that Curis Royalty receives from Genentech for the remainder of the period ending 10 years from the first commercial sale of Erivedge, or February 2022.

*Research and Development.* Research and development expense consists of costs incurred to discover, research and develop our drug candidates. These expenses consist primarily of: (1) salaries and related expenses for personnel including stock-based compensation expense; (2) outside service costs including, clinical research organizations and contract manufacturing; (3) sublicense payments; and (4) the costs of supplies and reagents, consulting, and occupancy and depreciation charges. We expense research and development costs as incurred. We are currently incurring research and development expenses under our Hedgehog pathway inhibitor collaboration with Genentech related to the maintenance of third-party licenses to certain background technologies. In addition, we record research and development expense for payments that we are obligated to make to certain third-party university licensors upon our earning payments from Genentech related to the achievement of clinical development and regulatory objectives under our collaboration agreement.

**Table of Contents**

<b>Drug candidate</b>	<b>Primary Disease</b>	<b>Collaborator/Licensee</b>	<b>Status</b>
<b><i>Dual HDAC and PI3K Inhibitor</i></b> - CUDC-907	Advanced lymphomas and multiple myeloma Solid tumors	Internal development/LLS Internal development	Phase 1 IND open
<b><i>Antagonist of IAP Proteins</i></b> - CUDC-427	Advanced solid tumor & lymphomas	Internal development	Phase 1
<b><i>Hedgehog Pathway Inhibitor</i></b> - Erivedge	Advanced BCC	Genentech (Roche)	Approved in US, Australia and others and conditional approval in the EU; Regulatory submissions made in certain other territories
- Erivedge	Preceding excision and/or multiple BCC	Roche	Phase 2
- Erivedge	Idiopathic Pulmonary Fibrosis	Roche	Phase 2*
<b><i>HSP90 Inhibitor</i></b> - Debio 0932	Cancers	Debiopharm**	Phase 1

\* Patient enrollment currently suspended to allow for protocol amendment; no safety issues.

\*\* Debiopharm has decided to discontinue development of Debio 0932 and has indicated that it plans to return the rights to Debio 0932 to Curis. Curis is exploring the potential of testing the molecule in other indications, either as company-sponsored or investigator sponsored studies.

With the exception of Erivedge in advanced BCC, our programs are in early stages of development. Therefore, our ability and that of our collaborators and licensees to successfully complete preclinical studies and clinical trials of these drug candidates, and the timing of completion of such programs, is highly uncertain.

There are numerous other risks and uncertainties associated with developing drugs which may affect our and our collaborators' future results, including:

the scope, quality of data, rate of progress and cost of clinical trials and other research and development activities undertaken by us or our collaborators;

the results of future preclinical studies and clinical trials;

the cost and timing of regulatory approvals and maintaining compliance with regulatory requirements;

the cost and timing of establishing sales, marketing and distribution capabilities;

the cost of establishing clinical and commercial supplies of our drug candidates and any products that we may develop;

the effect of competing technological and market developments; and

the cost and effectiveness of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

## **Table of Contents**

We cannot reasonably estimate or know the nature, timing and estimated costs of the efforts necessary to complete the development of, or the period in which material net cash inflows are expected to commence from any of our drug candidates. Any failure to complete the development of our drug candidates in a timely manner could have a material adverse effect on our operations, financial position and liquidity.

A further discussion of some of the risks and uncertainties associated with completing our research and development programs on schedule, or at all, and some consequences of failing to do so, are set forth under Part I, Item 1A Risk Factors.

*General and Administrative.* General and administrative expense consists primarily of salaries, stock-based compensation expense and other related costs for personnel in executive, finance, accounting, business development, legal, information technology, corporate communications and human resource functions. Other costs include facility costs not otherwise included in research and development expense, insurance, and professional fees for legal, patent and accounting services. Patent costs that are not recorded as contra-revenues include certain patents covered under collaborations, a portion of which is reimbursed by collaborators and a portion of which is borne by us.

## **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Such estimates and judgments of the performance obligations under our collaboration agreements; the estimated repayment term of our debt and related short- and long-term classification; the collectability of receivables; the carrying value of property and equipment and intangible assets; the assumptions used in our valuation of stock-based compensation and the value of certain investments and liabilities, including our long-term warrant liability. We base our estimates on historical experience and on various other factors that we believe to be appropriate under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes to the probabilities underlying the assumptions used in valuing our warrant liability could materially impact our financial statements. Actual results may differ from these estimates under different assumptions or conditions. We set forth our critical accounting policies and estimates in our Annual Report on Form 10-K for the year ended December 31, 2013, or the Annual Report, which was filed with the SEC on March 13, 2014.

**Table of Contents****Results of Operations****Three-Month Periods Ended September 30, 2014 and September 30, 2013**

*Revenues.* Total revenues are summarized as follows:

	<b>For the Three Months Ended September 30,</b>		<b>Percentage Increase/ (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
<b>REVENUES:</b>			
Royalty revenues from Genentech	\$ 1,783,000	\$ 1,080,000	65%
Research and development, net	(18,000)	122,000	(115%)
License fees		6,000,000	(100%)
<b>Total revenues</b>	<b>\$ 1,765,000</b>	<b>\$ 7,202,000</b>	<b>(75%)</b>

Total revenues decreased by \$5,437,000 to \$1,765,000 for the three months ended September 30, 2014 as compared to \$7,202,000 for the same period in 2013, primarily related to a decrease in license fees of \$6,000,000 related to a payment we received from Genentech in connection with Erivedge's conditional approval by European health authorities in July 2013. We did not receive any such payments from Genentech during the three months ended September 30, 2014. In addition, our research and development revenues decreased by \$140,000 primarily related to contra-revenues of \$94,000 recorded during the three months ended September 30, 2014 due to charges against revenues related to patent expenses incurred by Genentech that we are obligated to reimburse Genentech.

Offsetting these decreases, royalty revenues recognized from Genentech and Roche's net sales of Erivedge increased \$703,000 to \$1,783,000 during the third quarter of 2014 as compared to \$1,080,000 during the same period in 2013.

All potential future contingent payments under our collaboration agreements are tied to clinical and regulatory objective milestones as well as royalties on future net sales made by our collaborators.

*Cost of Royalty Revenues.* Cost of royalty revenues increased in the three months ended September 30, 2014 to \$89,000, as compared to \$54,000 for the same period in 2013, as a result of an increase in Erivedge royalties. We are obligated to make payments to two university licensors on royalties that Curis Royalty earns from Genentech on net sales of Erivedge.

*Research and Development Expenses.* Research and development expenses are summarized as follows:

	<b>For the Three Months Ended September 30,</b>		<b>Percentage Increase/ (Decrease)</b>
<b>Research and Development Program</b>	<b>2014</b>	<b>2013</b>	
CUDC-907	\$ 2,128,000	\$ 1,123,000	89%
CUDC-427	1,032,000	1,922,000	(46%)



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CUDC-101	196,000	306,000	(36%)
Erivedge	38,000	56,000	(32%)
Debio 0932	5,000	3,000	67%
Discovery research	110,000	116,000	(5%)
Sublicense fees incurred on development and regulatory milestones under our Genentech collaboration		300,000	(100%)
Stock-based compensation	196,000	345,000	(43%)
<b>Total research and development expense</b>	<b>\$ 3,705,000</b>	<b>\$ 4,171,000</b>	<b>(11%)</b>

Our research and development expenses decreased by \$466,000, or 11%, to \$3,705,000 for the three months ended September 30, 2014, as compared to \$4,171,000 for the same period in 2013, primarily due to a decrease in sublicense fees of \$300,000 that we incurred related to third party obligations on milestone payments we received from Genentech in the prior year period as well as a decrease in stock-based compensation of \$149,000 related to unvested non-employee stock options

**Table of Contents**

that are marked-to-market at each quarterly reporting period. Spending on CUDC-907 increased \$1,005,000 during the three months ended September 30, 2014 as compared to the prior year period related to our ongoing phase 1 clinical trial of CUDC-907 as well as initial expenses related to a second phase 1 clinical trial of CUDC-907 in solid tumors, in which an IND was filed during the third quarter of 2014.

Increased spending on CUDC-907 was offset by decreased spending on CUDC-427 of \$890,000 during the three months ended September 30, 2014, as a result of the re-initiation of this phase 1 clinical trial in June 2014. In addition, spending related to our CUDC-101 program decreased by \$110,000 during the three months ended September 30, 2014 as compared to the prior year period, due to our decision to allocate our internal resources to our clinical development programs, CUDC-907 and CUDC-427.

We expect that a majority of our research and development expenses for the foreseeable future will be incurred in support of our efforts to advance our CUDC-907 and CUDC-427 programs.

*General and Administrative Expenses.* General and administrative expenses are summarized as follows:

	<b>For the Three Months Ended September 30,</b>		<b>Percentage Increase/ (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
Personnel	\$ 842,000	\$ 847,000	(1%)
Occupancy and depreciation	95,000	90,000	6%
Legal services	447,000	699,000	(36%)
Consulting and professional services	460,000	343,000	34%
Insurance costs	94,000	89,000	6%
Other general and administrative expenses	162,000	202,000	(20%)
Stock-based compensation	623,000	577,000	8%
Total general and administrative expenses	\$ 2,723,000	\$ 2,847,000	(4%)

General and administrative expenses decreased \$124,000, or 4%, to \$2,723,000 for the three months ended September 30, 2014 as compared to \$2,847,000 for the prior year period, primarily due to a decrease of \$252,000 in legal fees related to foreign patent filings. This decrease was offset by increased expenses recorded for consulting and professional services, including audit-related expenses, and stock-based compensation resulting from an increase in the number of options granted during 2014 primarily related to a grant awarded pursuant to the promotion of our President to Chief Executive Officer in June 2014 when compared to the same prior year period.

*Change in fair value of warrant liability.* In connection with our January 2010 registered direct offering, we issued warrants to purchase an aggregate of 1,612,322 shares of common stock which became exercisable as of the closing of the transaction. The warrants have an initial exercise price of \$3.55 per share and have a five year term, and the fair value of the warrants is recorded as a long-term liability. The fair value of the warrants was estimated using a Black-Scholes option pricing model. The warrants will be revalued each reporting period, with updated assumptions and the resulting gains and losses recorded as the change in fair value of warrant liability in the income statement. Expected volatilities used in the models were based on our historical volatility commensurate with the term of the warrants.

We estimated that the warrants have a fair value of zero at September 30, 2014 due to decreases in the remaining term and our common stock price using this Black-Scholes option pricing model with the following assumptions: expected volatility of 50%, risk free interest rate of 0%, expected life of 0.3 years and no dividends. We estimated that the fair value of the warrants at September 30, 2013 was \$1,926,000 using this same model with the following assumptions: expected volatility of 48%, risk free interest rate of 0.2%, expected life of 1.3 years and no dividends. We recorded income of \$68,000 and a charge of \$1,073,000 for the quarters ended September 30, 2014 and 2013, respectively, related to changes in the assumptions used in the valuation of the warrants, including changes in our stock price, during the respective periods.

*Other Expense (Income)*. For the three months ended September 30, 2014 and 2013, interest expense was \$934,000 and \$965,000, respectively, related to interest accrued on Curis Royalty's outstanding debt with the BioPharma-II. Interest income was \$39,000 for each of the three month periods ended September 30, 2014 and 2013, respectively.

**Table of Contents*****Nine-Month Periods Ended September 30, 2014 and September 30, 2013***

*Revenues.* Total revenues are summarized as follows:

	<b>For the Nine Months Ended September 30,</b>		<b>Percentage</b>
	<b>2014</b>	<b>2013</b>	<b>Increase/ (Decrease)</b>
<b>REVENUES:</b>			
Royalty revenues from Genentech	\$ 4,895,000	\$ 2,550,000	92%
Research and development, net	(44,000)	928,000	(105%)
License fees	3,000,000	10,000,000	(70%)
<b>Total revenues</b>	<b>\$ 7,851,000</b>	<b>\$ 13,478,000</b>	<b>(42%)</b>

Total revenues decreased primarily due to a decrease in license fee revenues from Genentech. We also recognized revenues totaling \$650,000 during the nine months ended September 30, 2013 under our agreement with LLS for achievement of clinical development objectives related to our phase 1 clinical trial of CUDC-907. We did not receive any such payments from LLS during the nine months ended September 30, 2014. In addition, during the nine months ended September 30, 2014, our research and development revenues were net of contra-revenues of \$234,000 we recorded related to patent expenses incurred by Genentech that we are obligated to reimburse.

Offsetting the decrease in license fee revenue, royalty revenues recognized from Genentech and Roche's net sales of Erivedge increased \$2,345,000 to \$4,895,000 during the nine months ended September 30, 2014 as compared to \$2,550,000 during the same period in 2013, a 92% increase over the prior year period.

*Cost of Royalty Revenues.* Cost of royalty revenues, which we are required to pay to two university licensors, increased during the nine months ended September 30, 2014 as compared to the prior year period as a result of an increase in the royalties that we earned with respect to Erivedge during the nine months ended September 30, 2014 as compared to the prior year period.

*Research and Development Expenses.* Research and development expenses are summarized as follows:

	<b>For the Nine Months Ended September 30,</b>		<b>Percentage</b>
<b>Research and Development Program</b>	<b>2014</b>	<b>2013</b>	<b>Increase/ (Decrease)</b>
CUDC-907	\$ 4,936,000	\$ 3,283,000	50%
CUDC-427	3,593,000	3,750,000	(4%)
CUDC-101	575,000	1,046,000	(45%)
Erivedge	118,000	119,000	(1%)
Debio 0932	18,000	32,000	(44%)
Discovery research	294,000	394,000	(25%)
	150,000	500,000	(70%)

Sublicense fees incurred on development and regulatory milestones under our Genentech collaboration			
Stock-based compensation	496,000	842,000	(41%)
<b>Total research and development expense</b>	<b>\$ 10,180,000</b>	<b>\$ 9,966,000</b>	<b>2%</b>

Our research and development expenses increased primarily because spending on CUDC-907 increased \$1,653,000 during the nine months ended September 30, 2014 as compared to the prior year period related to our phase 1 clinical trials of CUDC-907 as well as our payment of the final milestones made under a license agreement with Guangzhou BeBetter Medicine Technology Company Ltd.

Increased spending on CUDC-907 was partially offset by decreased spending on CUDC-427 of \$157,000 during the nine months ended September 30, 2014 as compared to the prior year period related to the re-initiation of our phase 1 clinical trial in June 2014. In addition, spending related to our CUDC-101 program decreased by \$471,000 and spending on our other discovery research programs decreased by \$100,000 during the nine months ended September 30, 2014 as compared to the prior year period. Finally, sublicense fees that we incurred related to third party obligations on milestone payments we received from Genentech decreased by \$350,000 from the prior year period and stock-based compensation decreased by \$346,000 related to unvested non-employee stock options that are marked-to-market at each quarterly reporting period.

**Table of Contents**

*General and Administrative Expenses.* General and administrative expenses are summarized as follows:

	<b>For the Nine Months Ended September 30,</b>		<b>Percentage Increase/ (Decrease)</b>
	<b>2014</b>	<b>2013</b>	
Personnel	\$ 2,899,000	\$ 2,522,000	15%
Occupancy and depreciation	277,000	263,000	5%
Legal services	1,109,000	1,771,000	(37%)
Consulting and professional services	1,442,000	1,171,000	23%
Insurance costs	273,000	241,000	13%
Other general and administrative expenses	726,000	693,000	5%
Stock-based compensation	1,749,000	1,657,000	6%
 Total general and administrative expenses	 \$ 8,475,000	 \$ 8,318,000	 2%

General and administrative expenses increased primarily due to an increase in personnel costs of \$377,000 and an increase in consulting and professional services of \$271,000 during the nine months ended September 30, 2014 as compared to the prior year period. Stock-based compensation increased \$92,000 over the prior year period as a result of an increase in the number of options granted during the nine months ended September 30, 2014 as compared to the prior year period, and other general and administrative expenses increased \$33,000 from the prior year period primarily related to an increase in travel expenses.

Partially offsetting these increases, legal fees decreased \$662,000 from the prior year period due to decreased spending on patent costs which includes fees related to foreign patent filings and various other corporate matters.

*Change in fair value of warrant liability.* As a result of revaluing the warrants issued in January 2010, we recorded other income of \$717,000 and a charge of \$438,000 for the nine months ended September 30, 2014 and 2013, respectively.

*Other Expense (Income).* For the nine months ended September 30, 2014 and 2013, interest expense was \$2,835,000 and \$2,870,000, respectively, related to interest accrued on Curis Royalty's outstanding debt with the BioPharma-II. Interest income was \$129,000 and \$118,000 for the nine-month periods ended September 30, 2014 and 2013, respectively.

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**Table of Contents****Liquidity and Capital Resources***Sources of Liquidity*

We have financed our operations primarily through license fees, contingent cash payments and research and development funding from our collaborators and licensors, the private and public placement of our equity securities, debt financings and the monetization of certain royalty rights.

In December 2012, our wholly-owned subsidiary, Curis Royalty, received a \$30,000,000 loan at an annual interest rate of 12.25% pursuant to a credit agreement with BioPharma-II. In connection with the loan, we transferred to Curis Royalty our right to receive certain future royalty and royalty-related payments on the commercial sales of Erivedge that we may receive from Genentech. The loan and accrued interest will be repaid by Curis Royalty using such royalty and royalty-related payments. The loan constitutes an obligation of Curis Royalty, and is intended to be non-recourse to Curis. The final maturity date of the loan will be the earlier of the date when the principal is paid in full and the termination of Curis Royalty's right to receive royalties under the collaboration agreement with Genentech. Payments to BioPharma-II through September 30, 2014 totaled \$7,207,000, of which \$814,000 represents payment on the original principal portion of the loan. As of September 30, 2014, Curis Royalty owed a total of \$29,500,000, gross of issuance costs, to BioPharma-II comprised of principal and accrued interest. Currently, we estimate that the loan will be repaid in 2017, but this estimate could be adversely affected and the repayment period could be extended if its royalties are less than we currently anticipate.

Since 2012, we achieved aggregate milestone payments totaling \$27,000,000 under our collaboration with Genentech. In addition, we received royalty revenues during 2012 in connection with Genentech's net sales of Erivedge. Royalty revenues earned subsequent to December 2012 are being used to repay Curis Royalty's outstanding principal and interest under the loan due to BioPharma-II, subject to specified quarterly caps. Curis Royalty will be entitled to receive and distribute to Curis remaining royalty and royalty-related amounts in excess of the foregoing caps, if any. We also remain entitled to receive any contingent payments upon achievement of clinical development objectives and royalty payments related to sales of Erivedge following repayment of the loan. Upon earning any such payments, as well as on royalties that are earned in any territory other than Australia, we are required to make payments to certain university licensors totaling 5% of these amounts. For royalties that Curis Royalty earns from Roche's sales of Erivedge in Australia, we will be obligated to make payments to university licenses of 2% of Roche's direct net sales in Australia until expiration of the patent in April 2019, after which the amount will decrease to 5% of the royalty payments that Curis Royalty receives from Genentech for the remainder of the period ending 10 years from the first commercial sale of Erivedge, or February 2022.

In July 2013, we entered into a sales agreement with Cowen and Company, LLC, or Cowen, pursuant to which we may sell from time to time up to \$30,000,000 of our common stock through an at-the-market equity offering program under which Cowen will act as sales agent. Subject to the terms and conditions of the sales agreement, Cowen may sell the common stock by methods deemed to be an at-the-market offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Market, on any other existing trading market for the common stock or to or through a market maker other than on an exchange. The aggregate compensation payable to Cowen shall be 3% of the gross sales price of the common stock sold by Cowen pursuant to the sales agreement. Through September 30, 2014, we have sold 3,850,206 shares of common stock pursuant to this sales agreement for proceeds of \$16,246,000, net of all issuance costs.

At September 30, 2014, our principal sources of liquidity consisted of cash, cash equivalents, and investments of \$56,081,000, excluding our restricted investments of \$166,000. Our cash and cash equivalents are highly liquid investments with a maturity of three months or less at date of purchase and consist of investments in money market

funds with commercial banks and financial institutions, short-term commercial paper, and government obligations. We maintain cash balances with financial institutions in excess of insured limits.

*Cash Flows*

The use of our cash flows for operations has primarily consisted of salaries and wages for our employees, facility and facility-related costs for our office and laboratory, fees paid in connection with preclinical and clinical studies, laboratory supplies, consulting fees and legal fees. We expect that costs associated with clinical studies will increase in future periods.

Net cash used in operating activities of \$12,121,000 during the nine-month period ended September 30, 2014 was primarily the result of our net loss for the period of \$13,040,000 and repayments of capitalized interest on our debt of \$714,000. These decreases in cash were offset by non-cash charges consisting of stock-based compensation, changes in the fair value of our warrant liability, non-cash interest expense and depreciation which totaled \$1,818,000. Changes in certain operating assets and liabilities had offsetting impacts on operating cash during the nine months ended September 30, 2014.



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**Table of Contents**

Net cash used in operating activities was \$4,027,000 during the nine-month period ended September 30, 2013, primarily the result of \$21,602,000 in operating and other expenses incurred during the period, of which \$4,036,000 related to non-cash charges including stock-based compensation, changes in the fair value of our warrant liability, non-cash interest expense and depreciation and amortization. For the nine months ended September 30, 2013, we had earned \$13,200,000 in milestone and royalty payments under our collaborations with Genentech and LLS.

We expect to continue to use cash in operations as we seek to advance our drug candidates. In addition, in the future we may owe royalties and other contingent payments to our licensors based on the achievement of developmental milestones, product sales and other specified objectives.

Investing activities provided cash of \$11,019,000 and used cash of \$7,689,000 for the nine-month periods ended September 30, 2014 and 2013, respectively, resulting primarily from net investment activity for the respective periods. The increase in investments during the nine-month period ended September 30, 2013 was the result of an increase in investable cash as compared to the prior year period, while the decrease in the nine-month period ended September 30, 2014 was a result of the need for cash to fund our operations. During the nine-month periods ended September 30, 2014 and 2013, we reduced our long-term restricted investment resulting in an increase in our available cash for the periods of \$14,000 for each respective period. We also purchased \$66,000 and \$134,000 in fixed assets during the nine months ended September 30, 2014 and 2013, respectively.

Financing activities used cash of \$557,000 for the nine-month period ended September 30, 2014, as a result of principal payments on Curis Royalty's loan with BioPharma-II of \$814,000, offset by \$257,000 in proceeds from the exercise of stock options. Financing activities provided cash of \$12,747,000 for the nine-month period ended September 30, 2013. We received \$9,494,000 in net proceeds from sales of common stock under our sales agreement with Cowen for the nine-month period ended September 30, 2013. We also received proceeds of \$3,515,000 from the exercise of stock options to purchase 1,999,208 shares of our common stock during the nine-month period ended September 30, 2013. These proceeds were offset by the payment of debt issuance costs of \$261,000 related to Curis Royalty's financing transaction with BioPharma-II.

*Funding Requirements*

We have incurred significant losses since our inception. As of September 30, 2014, we had an accumulated deficit of approximately \$773,866,000. We will require substantial funds to continue our research and development programs and to fulfill our planned operating goals. In particular, our currently planned operating and capital requirements include the need for working capital to support our research and development activities for CUDC-907 and CUDC-427, and to fund our general and administrative costs and expenses.

We have historically derived a substantial portion of our operating cash flow from the research funding portion of collaboration agreements with third parties. However, we have no current research funding revenue under these agreements. Our ability to generate cash flow to operate our business will depend, in part, on royalty payments from the commercial sale of Erivedge and the ability of Erivedge to be approved for commercial sale in other countries, which would result in us becoming eligible to receive additional milestone payments as well as royalties on any future sales (subject to Curis Royalty's obligation to remit certain royalties to BioPharma-II). We expect that our only source of cash flows from operations for the foreseeable future will be:

up-front license payments and research and development funding that we may receive if we are able to successfully enter into new collaboration agreements;

contingent cash payments that we may receive for the achievement of development objectives under any new collaborations or our existing collaborations with Genentech and LLS; and

royalty payments that are contingent upon the successful commercialization of products based upon these collaborations, including royalties on sales of Erivedge in advanced BCC by Genentech, subject to Curis Royalty's obligation to remit certain royalties to BioPharma-II.

We may not be able to successfully enter into or continue any corporate collaborations and the timing, amount and likelihood of us receiving payments under such collaborations is highly uncertain. In addition, for the foreseeable future, we will only receive royalties under our collaboration agreement with Genentech to the extent net sales are generated at a level sufficient to derive royalties in excess of Curis Royalty's obligation to remit such royalties to BioPharma-II in repayment of the loan.

To become and remain profitable, we must develop and eventually commercialize one or more drug candidates with significant market potential. This will require us to be successful in a range of challenging activities, including completing

## Table of Contents

preclinical testing and clinical trials of our drug candidates, obtaining marketing approval for these drug candidates, manufacturing, marketing and selling those drugs for which we may obtain marketing approval and satisfying any post-marketing requirements. We may never succeed in these activities and, even if we do, may never generate revenues that are significant or large enough to achieve profitability. We are currently only in early clinical testing for our most advanced drug candidates.

For the foreseeable future, we will need to spend significant capital in an effort to develop and commercialize products and we expect to incur substantial operating losses. Our failure to become and remain profitable would, among other things, depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our research and development programs or continue our operations.

We anticipate that existing cash, cash equivalents, marketable securities, investments and working capital at September 30, 2014, should enable us to maintain current and planned operations into 2016. Our future capital requirements, however, may vary from what we currently expect. There are a number of factors that may adversely affect our planned future capital requirements and accelerate our need for additional financing, many of which are outside our control, including the following:

unanticipated costs in our research and development programs;

the timing and cost of obtaining regulatory approvals for our drug candidates and maintaining compliance with regulatory requirements;

the timing, receipt and amount of payments, if any, from current and potential future collaborators;

the timing and amount of payments due to licensors of patent rights and technology used in our drug candidates;

unplanned costs to prepare, file, prosecute, maintain and enforce patent claims and other patent-related costs, including litigation costs and technology license fees; and

unexpected losses in our cash investments or an inability to otherwise liquidate our cash investments due to unfavorable conditions in the capital markets.

We may seek additional funding through public or private financings of debt or equity. The market for emerging life science stocks in general, and the market for our common stock in particular, are highly volatile. Due to this and various other factors, including potentially adverse general market conditions and the early-stage development status of our drug candidates and the early stage of the commercial U.S. launch of Erivedge, additional funding may not be available to us on acceptable terms, if at all. In addition, the terms of any potential financing may be dilutive or otherwise adversely affect other rights of our stockholders.

We also expect to seek additional funds through arrangements with collaborators, licensees or other third parties. These arrangements would generally require us to relinquish or encumber rights to some of our technologies or drug

candidates, and we may not be able to enter into such arrangements on acceptable terms, if at all.

We anticipate that we will require additional funding. If we are unable to obtain such additional funding on a timely basis, whether through payments under existing or future collaborations or license agreement or sales of debt or equity, we may be required to:

delay, limit, reduce or terminate preclinical studies, clinical trials or other development activities for one or more of our drug candidates; or

delay, limit, reduce or prevent us from establishing sales and marketing capabilities, either internally or through third parties, or other activities that may be necessary to commercialize our drug candidates.

### **New Accounting Pronouncements**

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition Revenue from Contracts with Customers*, which amends the guidance in former ASC 605, *Revenue Recognition*, and is effective for public companies for fiscal years beginning after December 15, 2016. We are currently evaluating the impact of the provisions of ASC 606.

In August 2014, the FASB issued an accounting standards update, *Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which is included in ASC 205, *Presentation of Financial Statements*. This update provides an explicit requirement for management to assess an entity's ability to continue as a going concern, and to provide

**Table of Contents**

related footnote disclosure in certain circumstances. The guidance will be effective for fiscal years beginning after December 15, 2016, and applied prospectively; early adoption is also permitted. We do not expect adoption of this guidance to have a material impact on our financial condition or results of operations.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as of September 30, 2014.

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**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our current cash balances in excess of operating requirements are invested in cash equivalents, short-term marketable securities, which consist of time deposits and investments in money market funds with commercial banks and financial institutions, short-term commercial paper, and government obligations with an average maturity of less than one year, and long-term investments. All marketable securities and long-term investments are considered available for sale. The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing risk of loss. This objective may be adversely affected by the ongoing economic downturn and volatile business environment and continued unpredictable and unstable market conditions. Our marketable securities and long-term investments are subject to interest rate risk and will fall in value if market interest rates increase. While as of the date of this filing, we are not aware of any downgrades, material losses, or other significant deterioration in the fair value of our cash equivalents, marketable securities or long-term investments since September 30, 2014, no assurance can be given that further deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or marketable securities or our ability to meet our financing objectives. Further dislocations in the credit market may adversely impact the value and/or liquidity of marketable securities and long-term investments owned by us. To help manage this risk, we limit our investments to investment grade securities and deposits are with investment grade financial institutions. We believe that the realization of losses due to changes in credit spreads is unlikely as we currently have the ability to hold our investments for a sufficient period of time to recover the fair value of the investment and there is sufficient evidence to indicate that the fair value of the investment is recoverable. We do not use derivative financial instruments in our investment portfolio. We do not believe that a 10% change in interest rate percentages would have a material impact on the fair value of our investment portfolio or our interest income.

**ITEM 4. CONTROLS AND PROCEDURES***Evaluation of Disclosure Controls & Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. 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. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

*Changes in Internal Control Over Financial Reporting*

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably

likely to materially affect, our internal control over financial reporting.

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**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1A. Risk Factors**

You should carefully consider the following risk factors, in addition to other information included in this quarterly report on Form 10-Q and in other documents we file with the SEC, in evaluating Curis and our business. If any of the following risks occur, our business, financial condition and operating results could be materially adversely affected. The following risk factors restate and supersede the risk factors previously disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013.

**RISKS RELATING TO OUR FINANCIAL RESULTS AND NEED FOR FINANCING**

**We have incurred substantial losses, expect to continue to incur substantial losses for the foreseeable future and may never generate significant revenue or achieve profitability.**

As of September 30, 2014, we had an accumulated deficit of approximately \$773,866,000. We have incurred net losses of \$13,040,000 for the nine months ended September 30, 2014, and \$12,322,000, \$16,417,000 and \$9,859,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Other than Erivedge, which was developed and is being commercialized by our collaborators Roche and Genentech, we have not successfully commercialized any products to date, either alone or in collaboration with others.

We have historically derived a substantial portion of our operating cash flow from the research funding, milestone payments and royalty revenues under collaboration agreements with third parties. We expect that our only source of cash flows from operations for the foreseeable future will be:

up-front license payments and research and development funding that we may receive if we are able to successfully enter into new collaboration agreements for our technologies under development;

contingent cash payments that we may receive for the achievement of development objectives under any new collaborations or our existing collaborations with Genentech and LLS; and

royalty payments that are contingent upon the successful commercialization of products based upon these collaborations.

We may not be able to successfully enter into or continue any corporate collaborations and the timing, amount and likelihood of us receiving payments under such collaborations is highly uncertain.

Our wholly-owned subsidiary Curis Royalty, received a \$30,000,000 loan pursuant to a credit agreement entered into by and among Curis, Curis Royalty and BioPharma-II. In connection with the loan, we transferred to Curis Royalty our right to certain future royalty and royalty-related payments on commercial sales of Erivedge by Genentech. The loan and accrued interest will be repaid by Curis Royalty from the proceeds of the royalty and royalty-related payments that it receives from time to time from Genentech. Curis Royalty will be entitled to receive and distribute to Curis only those royalty amounts, if any, in excess of the amounts it is required to remit each quarter to BioPharma-II. As a result, for the foreseeable future, we will only receive royalties under our collaboration agreement with Genentech to the extent net sales are generated at a level sufficient to derive royalties in excess of Curis Royalty's



obligation to remit such royalties to BioPharma-II in repayment of the loan.

To become and remain profitable, we must develop and eventually commercialize one or more drug candidates with significant market potential. This will require us to be successful in a range of challenging activities, including completing preclinical testing and clinical trials of our drug candidates, obtaining marketing approval for these drug candidates, manufacturing, marketing and selling those drugs for which we may obtain marketing approval and satisfying any post-marketing requirements. We may never succeed in these activities and, even if we do, may never generate revenues that are significant or large enough to achieve profitability. We are currently only in early clinical testing for our most advanced drug candidates. For the foreseeable future, we will need to spend significant capital in an effort to develop and commercialize products and we expect to incur substantial operating losses. Our failure to become and remain profitable would, among other things, depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our research and development programs or continue our operations.

**Table of Contents**

**We will require substantial additional capital, which may be difficult to obtain.**

We will require substantial funds to continue our research and development programs and to fulfill our planned operating goals. In particular, our currently planned operating and capital requirements include the need for substantial working capital to support our research and development activities for CUDC-427, CUDC-907, and other drug candidates that we may seek to develop in the future and to fund our general and administrative costs and expenses.

We anticipate that existing cash, cash equivalents, marketable securities, investments and working capital at September 30, 2014 should enable us to maintain current and planned operations into 2016. Our future capital requirements, however, may vary from what we currently expect. There are a number of factors that may affect our planned future capital requirements and accelerate our need for additional working capital, many of which are outside our control, including the following:

unanticipated costs in our research and development programs;

the timing and cost of obtaining regulatory approvals for our drug candidates;

the timing, receipt and amount of payments, if any, from current and potential future collaborators;

the timing and amount of payments due to licensors of patent rights and technology used in our drug candidates;

the costs of commercialization activities for any of our product candidates that receive marketing approval, to the extent such costs are not the responsibility of one of our collaborators, including the costs and timing of establishing product sales, marketing, distribution and manufacturing capabilities;

unplanned costs to prepare, file, prosecute, maintain and enforce patent claims and other patent-related costs, including litigation costs and technology license fees; and

unexpected losses in our cash investments or an inability to otherwise liquidate our cash investments due to unfavorable conditions in the capital markets.

**Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish rights to our technologies or drug candidates.**

Identifying potential drug candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our drug candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of drug candidates that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us

on acceptable terms, or at all.

We may seek additional funding through public or private financings of debt or equity. For example, in July 2013 we entered into a sales agreement with Cowen and Company, LLC, or Cowen, pursuant to which, from time to time, we may offer and sell through Cowen, acting as agent, up to \$30,000,000 of registered common stock pursuant to our universal shelf registration statement in one or more at the market or other specified offerings. We have received gross proceeds of approximately \$16,900,000 as of September 30, 2014 through such sales. The market for emerging life science stocks in general, and the market for our common stock in particular, are highly volatile. Due to this and various other factors, including potentially adverse general market conditions and the early stage of development of our drug candidates, additional funding may not be available to us on acceptable terms, if at all, and we may not be able to sell shares under the arrangement with Cowen at favorable prices, if at all. In addition, the terms of any potential financing may be dilutive or otherwise adversely affect other rights of our stockholders. We also expect to seek additional funds through arrangements with

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**Table of Contents**

collaborators, licensees or other third parties. These arrangements would generally require us to relinquish or encumber rights to some of our technologies or drug candidates, and we may not be able to enter into such arrangements on acceptable terms, if at all.

If we are unable to obtain such additional funding on a timely basis, whether through payments under existing or future collaborations or license agreement or sales of debt or equity, we may be required to:

delay, limit, reduce or terminate preclinical studies, clinical trials or other development activities for one or more of our drug candidates; or

delay, limit, reduce or terminate our establishment of sales and marketing capabilities, either internally or through third parties, or other activities that may be necessary to commercialize our drug candidates.

**We transferred and encumbered certain royalty and royalty-related payments on the commercial sales of Erivedge in connection with our credit agreement with BioPharma-II and, as a result, we could lose all rights to future royalty and royalty-related payments.**

In December 2012, our wholly-owned subsidiary, Curis Royalty, received a \$30,000,000 loan pursuant to a credit agreement with BioPharma-II. In connection with the loan, we transferred to Curis Royalty our right to receive certain future royalty and royalty-related payments on the commercial sales of Erivedge that we receive from Genentech. The loan and accrued interest will be repaid by Curis Royalty using such royalty and royalty-related payments. To secure repayment of the loan, Curis Royalty granted a first priority lien and security interest (subject only to permitted liens) to BioPharma-II in all of its assets and all real, intangible and personal property, including all of its right, title and interest in and to the royalty and royalty-related payments. The loan constitutes an obligation of Curis Royalty, and is intended to be non-recourse to Curis.

Per the terms of the credit agreement, neither Curis nor Curis Royalty guaranteed any level of future royalty or royalty-related payments or the value of such payments as collateral to the loan. However, in certain circumstances, the obligations of Curis Royalty under the credit agreement to repay the loan may be accelerated, including:

if any payment of principal is not made within three days of when such payment is due and payable or otherwise made in accordance with the terms of the credit agreement;

if any representations or warranties made in the credit agreement or any other transaction document prove to be incorrect or misleading in any material respect when made;

if there occurs a default in the performance of affirmative and negative covenants set forth in the credit agreement or under certain ancillary transaction documents;

the failure by Genentech to pay material amounts owed under the collaboration agreement with Genentech because of an actual breach or default by Curis under the collaboration agreement;

a material breach or default by Curis Royalty under certain ancillary transaction documents, in each case, which breach or default is not cured within 30 days after written demand thereof by BioPharma-II;

the voluntary or involuntary commencement of bankruptcy proceedings by either Curis or Curis Royalty and other insolvency related defaults;

any materially adverse effect on the binding nature of any of the transaction documents or the Genentech collaboration agreement;

if any person shall be designated as an independent director of Curis Royalty other than in accordance with its limited liability company operating agreement; or

if Curis shall at any time cease to own, of record and beneficially, 100% of the equity interests in Curis Royalty.

If any of the above were to occur, Curis Royalty may not have sufficient funds to pay the accelerated obligation and BioPharma-II could foreclose on the secured royalty and royalty-related payment stream. In such an event, we could lose our right to royalty and royalty-related payments not transferred to BioPharma-II, including those we would otherwise be entitled to receive if, or when, Curis Royalty satisfied its obligations to BioPharma-II under the credit agreement.

**Table of Contents**

**Fluctuations in our quarterly and annual operating results could adversely affect the price of our common stock.**

Our quarterly and annual operating results may fluctuate significantly. Some of the factors that may cause our operating results to fluctuate on a period-to-period basis include:

the status of, and level of expenses incurred in connection with, our preclinical and clinical development programs, including development costs relating to CUDC-427, CUDC-907 and Debio 0932;

any intellectual property infringement lawsuit or other litigation in which we may become involved;

the implementation of restructuring and cost-savings strategies;

the occurrence of an event of default under the credit agreement by and among Curis, Curis Royalty and BioPharma II;

any changes in the fair value of our warrant liability;

the implementation or termination of collaboration, licensing, manufacturing or other material agreements with third parties, and non-recurring revenue or expenses under any such agreement; and

compliance with regulatory requirements.

**Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.**

Our general business strategy and prospects may be adversely affected by the uncertain economic conditions, volatile business environment and continued unpredictable and unstable market conditions, both domestically and abroad. If equity and credit markets are unfavorable, it is likely to make future debt or equity financing more difficult, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon research and development plans.

At September 30, 2014, we had \$56,081,000 of cash, cash equivalents and investments consisting of cash, money market, commercial paper, corporate debt securities, and government obligations. A deterioration in conditions of the global credit and financial markets could negatively impact our current portfolio of cash equivalents and marketable securities and our ability to meet our financing objectives. Further dislocations in the credit market may adversely impact the value and liquidity of marketable securities owned by us.

There is a possibility that our stock price may decline due to the volatility of the stock market in recent years.

**RISKS RELATING TO THE DEVELOPMENT AND COMMERCIALIZATION OF OUR PRODUCTS**

**We are reliant on Genentech and Roche for the successful development and commercialization of Erivedge. If Genentech does not successfully commercialize Erivedge for advanced BCC, or develop Erivedge for other indications, our future prospects may be substantially harmed.**

In January 2012, Erivedge was approved by the FDA as the first and only FDA-approved medicine for people with advanced BCC. Erivedge has also been approved in a number of foreign countries. Genentech and/or Roche have filed regulatory submissions in additional territories seeking approval to commercialize Erivedge for this same indication. Genentech and Roche are also conducting phase 2 clinical trials of Erivedge in patients with less severe forms of BCC, a phase 1b/2 trial in relapsed/ refractory AML and MDS, and Erivedge is currently being tested in other cancers under collaborative agreements between Genentech and either third-party investigators or the NCI. Our levels of revenue in each period and our near-term prospects substantially depend upon Genentech's ability to successfully develop and commercialize Erivedge in one or more additional indications and to demonstrate its safety and efficacy, as well as its superiority over existing therapies and standards of care. The development and commercialization of Erivedge could be unsuccessful if:

Erivedge for the treatment of advanced BCC is no longer accepted as safe, efficacious, cost-effective, and preferable to current therapies in the medical community and by third-party payors;

**Table of Contents**

Genentech and/or Roche fails to continue to apply the necessary financial resources and expertise to manufacturing, marketing and selling Erivedge for advanced BCC and to regulatory approvals for this indication outside of the U.S.;

Genentech and/or Roche do not continue to develop and implement effective marketing, sales and distribution strategies and operations, for development and commercialization of Erivedge for advanced BCC;

Genentech and/or Roche do not continue to develop, validate and maintain a commercially viable manufacturing process for Erivedge that is compliant with current good manufacturing practices;

Genentech and Roche do not obtain full approval to commercialize Erivedge in the EU based upon the results of the STEVIE trial;

Genentech and/or Roche do not successfully obtain third party reimbursement and generate commercial demand that results in sales of Erivedge for advanced BCC in any geographic areas where requisite approvals have been, or may be, obtained;

we or Genentech and/or Roche encounter any third party patent interference, derivation, *inter partes* review, post-grant review, reexamination or patent infringement claims with respect to Erivedge;

Genentech and/or Roche do not comply with any and all regulatory and legal requirements applicable to the sale of Erivedge for advanced BCC;

competing products are approved for the same indications as Erivedge;

new safety risks are identified; and/or

Erivedge does not demonstrate acceptable safety and efficacy in current or future clinical trials, or otherwise does not meet applicable regulatory standards for approval in indications other than advanced BCC.

In addition, pursuant to the terms of our credit agreement with BioPharma-II, for the foreseeable future we will only retain royalty revenue under our collaboration agreement with Genentech to the extent that sales are generated by Genentech and Roche at a level sufficient for us to receive royalties in excess of the obligation of our wholly-owned subsidiary, Curis Royalty, to remit such royalties to BioPharma-II.

**The therapeutic efficacy of drug candidates being developed by us and our collaborators is unproven in humans, and we may not be able to successfully develop and commercialize drug candidates pursuant to these programs.**



Our drug candidates are novel chemical entities and their potential benefit as therapeutic cancer drugs is unproven. Our ability to generate revenues from these drug candidates, which we do not expect will occur in the short term, if ever, will depend heavily on their successful development and commercialization, which is subject to many potential risks. For example, our drug candidates may not prove to be effective inhibitors of the molecular targets they are being designed to act against and may not demonstrate in patients any or all of the pharmacological benefits that may have been demonstrated in preclinical studies. These drug candidates may interact with human biological systems in unforeseen, ineffective or harmful ways. If the FDA determines that any of our drug candidates are associated with significant side effects or have characteristics that are unexpected, we may need to delay or abandon their development or limit development to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Moreover, many drug candidates that initially showed promise in early stage testing for treating cancer have later been found to cause side effects that prevented further development of the compound or their removal from the market. As a result of these and other risks described herein that are inherent in the development and commercialization of novel therapeutic agents, we may never successfully develop, enter into or maintain third party licensing or collaboration transactions with respect to, or successfully commercialize drug candidates, in which case we will not achieve profitability and the value of our stock may decline.

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

Because we have limited financial and managerial resources, we focus on research programs and drug candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other drug candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to

## **Table of Contents**

fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future proprietary research and development programs and drug candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that drug candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such drug candidate.

**We depend on Genentech for the development of Erivedge. If Genentech fails or delays in developing or commercializing Erivedge, our business prospects and operating results would suffer and our stock price would likely decline.**

We currently have a collaboration with Genentech, a member of the Roche Group, pursuant to which we have granted to Genentech exclusive rights to develop and commercialize products based upon our Hedgehog pathway technologies. Our collaboration agreement with Genentech has resulted in the approval in the United States, European Union and several other countries of Erivedge for the treatment of advanced basal cell carcinoma. The commercial success of Erivedge in this patient population is dependent on continued investment by Genentech and Roche and development and market approvals in indications other than in basal cell carcinoma will require significant investments from Genentech and Roche. The success of either the further development or commercialization of Erivedge in advanced basal cell carcinoma and potentially in additional indications are dependent on a number of factors, including the following:

Genentech is a wholly-owned member of the Roche Group and as such is subject to the risk that Roche could determine to re-prioritize Genentech's commercial or development programs which could reduce Genentech's efforts on the development or commercialization of Erivedge or cause Genentech to terminate our collaboration.

Genentech has significant discretion in determining the efforts and resources that it will apply to its respective collaboration with us. The timing and amount of any cash payments that we may receive under this collaborative arrangement will depend on, among other things, Genentech and Roche's efforts, allocation of resources and successful development and commercialization of our drug candidates under its agreement with us.

We have granted clinical development rights to Genentech under its agreement. If Genentech or Roche fail to allocate sufficient time, attention and resources to clinical trials of Erivedge under these collaborations, or fail to comply with good clinical practices or other applicable regulatory requirements for such clinical trials, the successful clinical development and commercialization of such drug candidates is likely to be adversely affected, as will our ability to generate revenue from such collaborations.

Genentech may develop and commercialize, either alone or with others, products that are similar to or competitive with Erivedge. For example, Genentech is seeking to develop several other cancer drug therapies.

Roche may enter into one or more transactions with third parties, including a merger, consolidation, reorganization, sale of substantial assets, sale of substantial stock or change of control. Any such transaction could divert the attention of Genentech's management and adversely affect its ability to retain and motivate key personnel who are important to the continued development of the program under such collaboration. In addition, an acquirer could determine to reprioritize Genentech's development programs such that Genentech ceases to diligently pursue the development of our programs, and/or terminates its collaboration with us.

Genentech may, under specified circumstances, terminate its collaboration with us on short notice and for circumstances outside of our control, which could make it difficult for us to attract new collaborators or adversely affect how we are perceived in the scientific, biotech, pharma and financial communities.

Genentech has the first right to maintain or defend intellectual property rights associated with the drug candidate under its agreements and, although we may have the right to assume the maintenance and defense of our intellectual property rights if Genentech does not, our ability to do so may be compromised by our Genentech's acts or omissions.

Genentech may utilize our intellectual property rights in such a way as to invite litigation that could jeopardize or invalidate our intellectual property rights or expose us to potential liability.

**Table of Contents**

Genentech may not comply with all applicable regulatory requirements, may select clinical investigators who are not qualified or who fail to comply with protocols or applicable regulatory requirements, or may fail to report safety data in accordance with all applicable regulatory requirements.

If Genentech was to breach or terminate its arrangement with us, the development and commercialization of Erivedge could be delayed, curtailed or terminated because we may not have sufficient financial resources or capabilities to continue development and commercialization of the drug candidate on our own.

If Genentech fails to successfully develop and commercialize our drug candidates under collaboration, we may not be able to develop and commercialize these candidates independently or successfully enter into one or more alternative collaborations, in which event our financial condition, results of operations and stock price may be adversely affected.

**We may not be successful in establishing additional strategic collaborations, which could adversely affect our ability to develop and commercialize products.**

Our current strategy is to seek corporate collaborators or licensees for the further development and commercialization of one or more of our drug candidates. We do not currently have the resources or capacity to advance these programs into later stage clinical development (i.e., phase 3) or commercialization on our own. As such, our success will depend, in part, on either our ability to build such capacity or our ability to enter into one or more such collaborations for CUDC-907, CUDC-427 and Debio 0932. We face significant competition in seeking appropriate collaborators and a number of recent business combinations in the biotechnology and pharmaceutical industry may continue to result in a reduced number of potential future collaborators. In addition, collaborations are complex and time-consuming to negotiate and document. Moreover, we may not be successful in our efforts to establish a collaboration or other alternative arrangements because our research and development pipeline may be insufficient, our programs may be deemed to be at too early of a stage of development for collaborative effort and/or third parties may not view our drug candidates and programs as having the requisite potential to demonstrate safety and efficacy or sufficiently differentiated compared to existing or emerging treatments. We are also restricted under the terms of certain of our existing collaboration agreements from entering into collaborations regarding or otherwise developing product candidates that are similar to the product candidates that are subject to those agreements, such as developing product candidates that inhibit the same molecular target. In addition, collaboration agreements that we enter into in the future may contain further restrictions on our ability to enter into potential collaborations or to otherwise develop specified product candidates. Even if we are successful in our efforts to establish new collaborations, the terms that we agree upon may not be favorable to us and such collaboration agreements may not lead to development or commercialization of drug candidates in the most efficient manner or at all.

Moreover, if we fail to establish and maintain additional collaborations related to our drug candidates:

the development of certain of our current or future drug candidates may be terminated or delayed;

our cash expenditures related to development of certain of our current or future drug candidates would increase significantly and we may need to seek additional financing;

we may be required to hire additional employees or otherwise develop expertise, such as additional clinical, regulatory, sales and marketing expertise, for which we have not budgeted;

we will bear all of the risk related to the development of any such drug candidates; and

our future prospects may be adversely affected and our stock price could decline.

**If preclinical studies and clinical trials of our drug candidates are not successful then our future profitability and success could be adversely affected.**

In order to obtain regulatory approval for the commercial sale of our drug candidates, we and any current or potential future collaborators will be required to complete extensive preclinical studies as well as clinical trials in humans to demonstrate to the FDA and foreign regulatory authorities that our drug candidates are safe and effective for each indication for which approval is sought.

Development, including preclinical and clinical testing, is a long, expensive and uncertain process. Preclinical testing and clinical trials of our drug candidates may not be successful. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in earlier development, and we cannot be certain that we will not face similar setbacks. We and our collaborators could experience delays or failures in preclinical testing or clinical trials of any of our drug candidates for a number of reasons including, for example:

preclinical studies or clinical trials may produce negative, inconsistent or inconclusive results;

**Table of Contents**

we or any collaborators may decide, or regulators may require us, to conduct additional preclinical studies or clinical trials or terminate testing for a particular drug candidate;

the results from preclinical studies and early clinical trials may not be statistically significant or predictive of results that will be obtained from expanded, advanced clinical trials;

preclinical and clinical data are often susceptible to varying interpretations and analyses and even if we, or our collaborators, believe that the results of clinical trials for our product candidates to be successful, regulatory authorities may disagree with our interpretations and analyses;

we may encounter difficulties or delays in manufacturing sufficient quantities of the drug candidate used in any preclinical study or clinical trial;

we may have delays in reaching or fail to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;

the cost of clinical trials of our drug candidates may be greater than we anticipate;

the timing and completion of clinical trials of our drug candidates depend on, among other factors, the number of patients required to be enrolled in the clinical trials and the rate at which those patients are enrolled, and any increase in the required number of patients, decrease in recruitment rates or difficulties retaining trial participants may result in increased costs, program delays or program termination;

our products under development may not be effective in treating cancer or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may prevent or limit their commercial use;

we, our clinical investigators, or our current or potential future collaborators and subcontractors, may fail to comply with applicable regulatory requirements, including good clinical practices and requirements regarding the disclosure of clinical trial information;

institutional review boards, regulators, including the FDA or its foreign equivalents, or any collaborators may hold, suspend or terminate our clinical research or the clinical trials of our drug candidates for various reasons, including failure to achieve established success criteria, noncompliance with regulatory requirements or if, in their opinion, the participating subjects are being exposed to unacceptable health risks; and

we, along with any of our current or potential future collaborators and subcontractors, may not employ, in any capacity, persons who have been debarred under the FDA's Application Integrity Policy, or similar policy under foreign regulatory authorities, nor may we or any of our current or potential future collaborators or subcontractors use disqualified clinical investigators or institutions to perform clinical trials of our drug candidates. Employment or use of such a debarred or disqualified person or institution may result in delays in FDA's or foreign equivalent's review or approval of our products, or the rejection of data developed with the involvement of such person(s) or institution(s).

If we are required to conduct additional clinical trials or other testing of our drug candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our drug candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

be delayed in obtaining marketing approval for our drug candidates;

not obtain marketing approval at all;

obtain approval for indications that are not as broad as intended or with labeling that highlights undesirable safety risks;

have the product removed from the market after obtaining marketing approval;

be subject to additional post-marketing testing requirements;

be subject to restrictions on how the product is distributed or used; or

be unable to obtain reimbursement for use of the product.

## **Table of Contents**

If any of the above were to occur, our reputation and our ability to raise additional capital will be materially impaired and our stock price is likely to decline.

### **If we experience delays in the enrollment of patients in our clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.**

We may not be able to initiate or continue clinical trials for our drug candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials. Patient enrollment is a significant factor in the timing of clinical trials, and is affected by many factors, including:

the size and nature of the patient population;

the severity of the disease under investigation;

the proximity of patients to clinical sites;

the eligibility criteria and design for the trial; and

clinicians and patients' perceptions as to the potential advantages and risks of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating.

In addition, many of our competitors have ongoing clinical trials for drug candidates that could be competitive with our drug candidates. Patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' drug candidates or rely upon treatment with existing therapies that may preclude them from eligibility for our clinical trials.

Enrollment delays in our clinical trials may result in increased development costs for our drug candidates, which would cause the value of our stock price to decline. Moreover, our inability to enroll a sufficient number of patients for any of our current or future clinical trials, and/or the reporting of adverse events by companies with competing drug candidates, could result in significant delays or may require us to abandon one or more clinical trials altogether.

### **We rely in part on third parties to conduct clinical trials of our internally-developed drug candidates, and if such third parties perform inadequately, including failing to meet deadlines for the completion of such trials, research or testing, then we will not be able to successfully develop and commercialize drug candidates and grow our business.**

For the foreseeable future, we expect to rely substantially on third parties such as consultants, clinical investigators, contract research organizations and other similar entities to complete certain aspects of our preclinical testing and clinical trials and provide services in connection with such clinical trials. Despite having contractual remedies available to us under our agreements with such contractors, we cannot control whether or not they devote sufficient time, skill and resources to our ongoing development programs. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. These third parties may not complete



activities on schedule, or at all, or may not conduct our clinical trials in accordance with the clinical trial protocol or design. In addition, the FDA and its foreign equivalents require us to comply with certain standards, referred to as good clinical practices, and applicable regulatory requirements, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements. If any of the third party contractors on whom we rely do not comply with good clinical practices or other applicable regulatory requirements, we may not be able to use the data and reported results from the applicable trial. Any failure by a third party to conduct our clinical trials as planned or in accordance with regulatory requirements could delay or otherwise adversely affect our efforts to obtain regulatory approvals for and commercialize our drug candidates.

**If we and our collaborative partners do not obtain, or if there are delays in obtaining, necessary regulatory approvals, then we will not be able to commercialize our drug candidates and our business will be materially impaired and the market price of our common stock could substantially decline.**

We and our collaborators will be required to obtain regulatory approval in order to successfully advance drug candidates through the clinic and prior to marketing and selling such products. We have limited experience in filing and prosecuting applications to obtain marketing approval. The process of obtaining required regulatory approvals is expensive

## Table of Contents

and the time required for these approvals is uncertain and typically takes a number of years, depending on the type, complexity and novelty of the product. During the course of this process, the FDA or a foreign equivalent may determine that a drug candidate is not effective, or is only moderately effective, or has undesirable or unintended side effects, toxicities, safety profile or other characteristics that preclude our obtaining marketing approval. With respect to our internal programs, we have limited experience in filing and prosecuting applications to obtain marketing approval.

Any regulatory approval to market a product may be subject to limitations on the approved indicated uses for which we or our collaborative partners may market the product, to labeling that highlights undesirable safety risks, or to distribution and use restrictions or other requirements under a Risk Evaluation and Mitigation Strategy, or REMS. These limitations may restrict the size of the market for the product and affect reimbursement by third-party payors. In addition, regulatory agencies may not grant approvals on a timely basis or may revoke or significantly modify previously granted approvals.

We and our collaborators are subject to numerous foreign regulatory requirements governing the manufacturing and marketing of potential future products outside of the U.S. The approval procedure varies among countries, additional testing may be required in some jurisdictions, and the time required to obtain foreign approvals often differs from that required to obtain FDA approvals. Moreover, approval by the FDA or a foreign equivalent does not ensure approval by regulatory authorities in other countries, and vice versa.

In addition, regulatory agencies may change existing requirements or adopt new requirements or policies. We and any collaborative partners may be slow to adapt or may not be able to adapt to these changes or new requirements.

As a result of these factors, we and any collaborators may not successfully begin or complete clinical trials and/or obtain regulatory approval to market and sell drug candidates in the time periods estimated, if at all. Moreover, if we or any collaborators incur costs and delays in development programs or fail to successfully develop and commercialize products based upon our technologies, our ability to generate revenues will be materially impaired and our stock price could decline.

**Any product candidate for which we obtain marketing approval could be subject to post-marketing restrictions or withdrawal from the market and we may be subject to substantial penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with such products.**

Even if we or any collaborators obtain regulatory approval of a drug candidate, such product, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of the product, including the requirement to implement a risk evaluation and mitigation strategy. The FDA closely regulates the post-approval marketing and promotion of products to ensure products are marketed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use and if we do not market our products for their approved indications, we may be subject to enforcement action for, among other things, off-label marketing. Violations of the Federal Food, Drug, and Cosmetic Act relating to the promotion or manufacturing of prescription

products may lead to investigations by the FDA, Department of Justice, and state Attorneys General alleging violations of federal and state healthcare fraud and abuse laws, as well as state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our products, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

restrictions on such products, manufacturers or manufacturing processes;

restrictions on the labeling or marketing of a product;

restrictions on product distribution or use;

requirements to conduct post-marketing studies or clinical trials;

warning letters;

**Table of Contents**

withdrawal of the products from the market;

refusal to approve pending applications or supplements to approved applications that we submit;

recall of products;

fines, restitution or disgorgement of profits or revenue;

suspension or withdrawal of regulatory approvals;

refusal to permit the import or export of our products;

product seizure; or

injunctions or the imposition of civil or criminal penalties.

**Our current and future relationships with customers and third-party payors in the U.S. and elsewhere may be subject, directly or indirectly, to applicable anti-kickback, fraud and abuse, false claims, transparency, health information privacy and security, and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens, and diminished profits and future earnings.**

Healthcare providers, physicians and third-party payors in the U.S. and elsewhere will play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. In addition, we may be subject to transparency laws and patient privacy regulation by U.S. federal and state governments and by governments in foreign jurisdictions in which we conduct our business. The applicable federal, state, and foreign healthcare laws and regulations that may affect our ability to operate include:

the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid;

federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, which impose criminal and civil penalties, including civil whistleblower or *qui tam*

actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;

the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their respective implementing regulations, which imposes obligations, including mandatory contractual terms, on covered healthcare providers, health plans, and healthcare clearinghouses, as well as their business associates, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

the federal Open Payments program, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or other transfers of value made to physicians, and teaching hospitals with data collection, requirements for manufacturers to submit reports to CMS on the 90th day of each calendar year, and disclosure of such information to be made by CMS on a publicly available website beginning in September 2014; and

analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant

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**Table of Contents**

compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers; state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government funded healthcare programs.

**Governments outside the United States tend to impose strict price controls, which may adversely affect our revenues, if any.**

In some countries, such as the countries of the EU, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we, or our collaborators, may be required to conduct a clinical trial that compares the cost-effectiveness of our product to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be materially harmed.

**If we or any of our collaborators fail to achieve market acceptance for any approved products, our future revenue and ability to achieve profitability may be adversely affected.**

Our future products, including those developed under collaborations with third parties, may not gain commercial acceptance among physicians, patients and third-party payors, even if necessary marketing approvals have been obtained. The degree of market acceptance of our drug candidates, if approved for commercial sale, will depend on a number of factors, including:

the prevalence and severity of any side effects;

efficacy and potential advantages compared to alternative treatments;

the price we charge for our drugs;

convenience and ease of administration compared to alternative treatments;

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

our ability to successfully develop companion diagnostics that effectively identify patient populations likely to benefit from treatment with our therapeutic products;

the strength of marketing and distribution support; and

sufficient third party coverage or reimbursement.

The potential market opportunities for our product candidates are difficult to precisely estimate. Our estimates of the potential market opportunities are predicated on many assumptions including industry knowledge and publications, third party research reports and other surveys. While we believe that our internal assumptions are reasonable, these assumptions involve the exercise of significant judgment on the part of our management, are inherently uncertain and the reasonableness of these assumptions has not been assessed by an independent source. If any of the assumptions proves to be inaccurate, the actual markets for our product candidates could be smaller than our estimates of the potential market opportunities.

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**Table of Contents**

**RISKS RELATED TO OUR BUSINESS, INDUSTRY, STRATEGY AND OPERATIONS**

**We and our collaborators may not achieve projected research, development, commercialization and marketing goals in the time frames that we or they announce, which could have an adverse impact on our business and could cause our stock price to decline.**

We set goals for, and make public statements regarding, the timing of certain accomplishments, such as the commencement and completion of preclinical studies, initiation and completion of clinical trials, and other developments and milestones under our proprietary programs and those programs being developed under collaboration agreements. Genentech is a wholly-owned member of the Roche Group, and Roche has also made public statements regarding its expectations for the clinical development, commercialization and marketing of Erivedge, and may in the future make additional statements about its goals and expectations for Erivedge and/or its collaboration with us. The actual timing of these events can vary dramatically due to a number of factors including without limitation delays or failures in our and our current and potential future collaborators' preclinical studies or clinical trials, the amount of time, effort and resources committed to our programs by us and our current and potential future collaborators and the uncertainties inherent in the regulatory approval and commercialization process. As a result:

our or our current and potential future collaborators' preclinical studies and clinical trials may not advance or be completed in the time frames we or they announce or expect;

we or our current and potential future collaborators may not make regulatory submissions, receive regulatory approvals or commercialize approved products as planned; and

we or our current and potential future collaborators may not be able to adhere to our current schedule for the achievement of key milestones under any of our internal or collaborative programs.

If we or any collaborators fail to achieve research, development and commercialization goals as planned, our business could be materially adversely affected and the price of our common stock could decline.

**We face substantial competition, which may result in our competitors discovering, developing or commercializing products before or more successfully than we do.**

Our drug candidates face competition from existing and new technologies and products being developed by biotechnology, medical device and pharmaceutical companies, as well as universities and other research institutions. For example, we are aware of several biotechnology and pharmaceutical companies that have drug development programs relating to compounds that modulate the Hedgehog pathway. We believe that there are currently at least five other companies that have progressed Hedgehog pathway inhibitors into clinical development: Eli Lilly and Company, Exelixis, Inc. (in co-development with the Bristol-Myers Squibb Company); Pfizer Inc.; Novartis; and Millennium: The Takeda Oncology Company. In February 2014, Novartis announced that its Hedgehog pathway inhibitor met the primary endpoint in a pivotal phase 2 trial in patients with advanced basal cell carcinoma. Under the terms of our collaboration agreement with Genentech, our royalty would be reduced in any country where another drug that binds to the same molecular target receives regulatory approval for the same indication as Erivedge and is subsequently commercialized in that country.



In addition, there are several companies developing drug candidates that target the same molecular targets that we are targeting or that are testing drug candidates in the same cancer indications that we are testing. For example, while we are not aware of other molecules in clinical testing that are designed as one chemical entity to target both PI3K and HDAC, there are commercially-available drugs that individually target HDAC or PI3K and there are multiple companies testing HDAC or PI3K inhibitors that are in various stages of clinical development. In addition, Debiopharm, Novartis and TetraLogic are all developing antagonists of IAP proteins and several companies are investigating HSP90 inhibitors.

Many of our competitors have substantially greater capital resources, research and development staffs and facilities, and more extensive experience than we have. As a result, efforts by other biotechnology, medical device and pharmaceutical companies could render our programs or products uneconomical or result in therapies superior to those that we develop alone or with a collaborator. For those programs that we have selected for internal development, we face competition from companies that are more experienced in product development and commercialization, obtaining regulatory approvals and product manufacturing. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Other smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial

**Table of Contents**

sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs. As a result, any of these companies may be more successful in obtaining collaboration agreements or other monetary support, approval and commercialization of their products and/or may develop competing products more rapidly and/or at a lower cost.

If we are not able to compete effectively, then we may not be able, either alone or with others, to advance the development and commercialization of our drug candidates, which would adversely affect our ability to grow our business and become profitable.

**Product liability lawsuits against us could divert our resources, cause us to incur substantial liabilities and limit commercialization of any products that we may develop.**

Product liability claims are inherent in the process of researching, developing and commercializing human health care products and could expose us to significant liabilities and prevent or interfere with the development or commercialization of our drug candidates. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or a breach of warranties. Regardless of their merit or eventual outcome, product liability claims would require us to spend significant time, money and other resources to defend such claims, could result in:

decreased demand for our product candidates or products that we may develop;

injury to our reputation and significant negative media attention;

withdrawal of clinical trial participants;

significant costs to defend resulting litigation;

substantial monetary awards to trial participants or patients;

reduced resources of our management to pursue our business strategy; and

the inability to commercialize any products that we may develop

Although we currently have product liability insurance for our clinical trials, this insurance is subject to deductibles and coverage limitations and may not be adequate in scope to protect us in the event of a successful product liability claim. Product liability insurance is expensive and may be difficult to retain. As such, it is possible that we will not be able to retain product liability insurance on acceptable terms, if at all, or that our product liability insurance coverage will prove to be inadequate to protect us from all potential claims.

**If we are not able to attract and retain key management and scientific personnel and advisors, we may not successfully develop our drug candidates or achieve our other business objectives.**

We depend upon our senior management team. The loss of the service of any of the key members of our senior management may significantly delay or prevent the achievement of product development and other business objectives. Our officers all serve pursuant to at will employment arrangements and can terminate their employment with us at any time. We do not maintain key man life insurance on any of these officers. Replacing key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to research, develop and successfully commercialize products in our areas of core competency.

Our ability to operate successfully will depend on our ability to attract and retain qualified personnel, consultants and advisors. We face intense competition for qualified individuals from numerous pharmaceutical and biotechnology companies, universities, governmental entities and other research institutions. We may be unable to attract and retain these individuals, and our failure to do so would have an adverse effect on our business.

**We may seek to acquire complementary businesses and technologies or otherwise seek to expand our operations to grow our business, which may divert management resources and adversely affect our financial condition and operating results.**

We may seek to expand our operations, including without limitation through internal growth and/or the acquisition of businesses and technologies that we believe are a strategic complement to our business model. We may not be able to

**Table of Contents**

identify suitable acquisition candidates or expansion strategies and successfully complete such acquisitions or successfully execute any such other expansion strategies. We may never realize the anticipated benefits of any efforts to expand our business. Furthermore, the expansion of our business, either through internal growth or through acquisitions, poses significant risks to our existing operations, financial condition and operating results, including:

a diversion of management from our existing operations;

increased operating complexity of our business, requiring greater personnel and resources;

significant additional cash expenditures to expand our operations and acquire and integrate new businesses and technologies;

unanticipated expenses and potential delays related to integration of the operations, technology and other resources of any acquired companies;

uncertainty related to the value, benefits or legitimacy of intellectual property or technologies acquired;

retaining and assimilating key personnel and the potential impairment of relationships with our employees;

incurrence of debt, other liabilities and contingent liabilities, including potentially unknown contingent liabilities; and

dilutive stock issuances.

**Any business that we conduct in China will expose us to risks resulting from adverse changes in political, legal and economic policies of the Chinese government, which could impede our efforts in China and materially and adversely affect the development of our targeted cancer drug candidates.**

We have a subsidiary in China, Curis Shanghai, which is currently licensed to conduct business but is not operational.

Conducting business in China exposes us to a variety of risks and uncertainties that are unique to China. The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Recent evidence of a slowdown in the pace of growth of the Chinese economy could result in interruptions of our development efforts in China. If our research and development efforts in China are delayed due to

such interruptions, we may not realize the reductions in costs anticipated from doing business in China. We would also have to consider moving our chemistry and/or biology research that is currently conducted by contract research organizations in China to U.S. or European providers, thereby potentially either increasing our overall costs for such services or reducing the total number of chemists and or/biologists that we could engage. In addition, we cannot predict the effect of future developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Our business could be materially harmed by any changes in the political, legal or economic climate in China or the inability to enforce applicable Chinese laws and regulations.

**If the estimates we make and the assumptions on which we rely in preparing our financial statements prove inaccurate, our actual results may vary significantly.**

Our financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges taken by us and related disclosure. Such estimates and judgments include the carrying value of our property, equipment and intangible assets, revenue recognition, the value of certain liabilities, including the fair value of our warrant liability, the repayment term of our loan with BioPharma-II and stock-based compensation expense. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. However, these estimates and judgments, or the assumptions underlying them, may change over time. Accordingly, our actual financial results may vary significantly from the estimates contained in our financial statements.

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**Table of Contents**

For a further discussion of the estimates and judgments that we make and the critical accounting policies that affect these estimates and judgments, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates set forth in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Our business and operations would suffer in the event of system failures.**

Despite the implementation of security measures, our internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Any system failure, accident or security breach that causes interruptions in our operations could result in a material disruption of our product development programs. To the extent that any disruption or security breach results in a loss or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we may incur liability and the further development of our drug candidates may be delayed.

**RISKS RELATING TO OUR INTELLECTUAL PROPERTY**

**We may not be able to obtain and maintain patent protection for our technologies and products, our licensors may not be able to obtain and maintain patent protection for the technology or products that we license from them and the patent protection we or they do obtain may not be sufficient to stop our competitors from using similar technology.**

The long-term success of our business depends in significant part on our ability to:

obtain patents to protect our technologies and discoveries;

protect trade secrets from disclosure to third-party competitors;

operate without infringing upon the proprietary rights of others; and

prevent others from infringing on our proprietary rights.

The patent positions of pharmaceutical and life science companies, including ours, are generally uncertain and involve complex legal, scientific and factual questions. The laws, procedures and standards that the U.S. Patent and Trademark Office and various foreign intellectual property offices use to grant patents, and the standards that courts use to interpret patents, are not always applied predictably or uniformly and have changed in significant ways and are expected to continue to change. In addition, the laws of foreign countries may not protect our rights to the same extent or in the same manner as the laws of the U.S. For example, European patent law restricts the patentability of methods of treatment of the human body more than U.S. law does. Consequently, the level of protection, if any, that will be obtained and provided by our patents if we attempt to enforce them, and they are challenged, is uncertain.

Patents may not issue from any of the patent applications that we own or license. If patents do issue, the type and extent of patent claims issued to us may not be sufficient to protect our technology from exploitation by our competitors. Our patents also may not afford us protection against competitors with similar technology. Assuming the other requirements for patentability are met, currently, the first to file a patent application is generally entitled to the

patent. Prior to March 16, 2013, in the United States, patent applications were subject to a first to invent rule of law. Applications filed on or after March 16, 2013 (with the exception of certain applications claiming priority to applications filed prior to March 16, 2013, such as continuations and divisionals) are subject to a first to file rule of law. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the U.S. and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Additionally, how the U.S. Patent & Trademark Office and U.S. courts will interpret the new laws remains significantly uncertain at this time. We cannot be certain that any existing or future application will be subject to the first to file or first to invent rule of law, that we were the first to make the inventions claimed in our existing patents or pending patent applications subject to the prior laws, or that we were the first to file for patent protection of such inventions subject to the new laws.

We may not have rights under patents that may cover one or more of our drug candidates. In some cases, these patents may be owned or controlled by third-party competitors and may prevent or impair our ability to exploit our technology. As a result, we or our current or potential future collaborative partners may be required to obtain licenses under third-party patents to develop and commercialize some of our drug candidates. If we are unable to secure licenses to such patented technology on acceptable terms, we or our collaborative partners may not be able to develop and commercialize the affected drug candidate or candidates.

## **Table of Contents**

It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Moreover, in some circumstances, we do not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology or products that we license from third parties and are reliant on our licensors. For example, we do not control the prosecution of certain patent rights licensed to us under our IAP agreement with Genentech. Therefore, we cannot be certain that these patents and applications will be prosecuted and enforced in a manner consistent with the best interests of our business.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the U.S. and abroad. Such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated or held unenforceable, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing and regulatory review of new drug candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

### **We may become involved in expensive and unpredictable patent litigation or other contentious intellectual property proceedings, which could result in liability for damages or require us to cease our development and commercialization efforts.**

There are substantial litigation and other adversarial opposition proceedings regarding patent and other intellectual property rights in the pharmaceutical and life science industries. We may become a party to patent litigation or other proceedings regarding intellectual property rights.

Situations that may give rise to patent litigation or other disputes over the use of our intellectual property include:

- initiation of litigation or other proceedings against third parties to enforce our patent rights, to seek to invalidate the patents held by these third parties or to obtain a judgment that our drug candidates do not infringe the third parties' patents;

- participation in interference and/or derivation proceedings to determine the priority of invention if our competitors file U.S. patent applications that claim technology also claimed by us;

- initiation of opposition, reexamination, post grant review or inter partes review proceedings by third parties that seek to limit or eliminate the scope of our patent protection;

- initiation of litigation by third parties claiming that our processes or drug candidates or the intended use of our drug candidates infringes their patent or other intellectual property rights; and

- initiation of litigation by us or third parties seeking to enforce contract rights relating to intellectual property that may be important to our business.



The costs associated with any patent litigation or other proceeding, even if resolved favorably, will likely be substantial and a distraction to management. Some of our competitors may be able to sustain the cost of such litigation or other proceedings more effectively than we can because of their substantially greater financial resources. In addition, our collaborators and licensors may have rights to file and prosecute claims of infringement of certain of our intellectual property and we are reliant on them. If a patent litigation or other intellectual property proceeding is resolved unfavorably, we or any collaborative partners may be enjoined from manufacturing or selling our future products without a license from the other party and be held liable for significant damages. Moreover, we may not be able to obtain required licenses on commercially acceptable terms or any terms at all. In addition, we could be held liable for lost profits if we are found to have infringed a valid patent, or liable for treble damages if we are found to have willfully infringed a valid patent. Litigation results are highly unpredictable and we or any collaborative partner may not prevail in any patent litigation or other proceeding in which we may become involved. Any changes in, or unexpected interpretations of the patent laws may adversely affect our ability to enforce our patent position. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could damage our ability to compete in the marketplace.

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**Table of Contents**

**We face risks relating to the enforcement of our intellectual property rights in China that could adversely affect our business.**

We have historically conducted synthetic chemistry work through a contract research agreement with a medicinal chemistry provider in China. We seek to protect our intellectual property rights under this arrangement through, among other things, non-disclosure and assignment of invention covenants. Enforcement of intellectual property rights and confidentiality protections in China may not be as effective as in the U.S. or other countries. Policing unauthorized use of proprietary technology is difficult and expensive, and we might need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of Chinese courts in handling intellectual property litigation varies, and outcomes are unpredictable. Further, such litigation may require significant expenditure of cash and management efforts and could harm our business, financial condition and results of operations. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation.

**If we are unable to keep our trade secrets confidential, our technology and proprietary information may be used by others to compete against us.**

We rely significantly on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect this information through confidentiality and intellectual property license or assignment provisions in agreements with our employees, consultants and other third-party contractors, including our contract research agreement with a medicinal chemistry provider in China, as well as through other security measures. The confidentiality and intellectual property provisions of our agreements and security measures may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

**If we fail to comply with our obligations in the agreements under which we license rights to technology from third parties, we could lose license rights that are important to our business.**

We are party to agreements that provide for licenses to us of intellectual property or sharing of rights to intellectual property that is important to our business, and we may enter into additional agreements in the future that provide licenses to us of valuable technology. These licenses impose, and future licenses may impose, various commercialization, milestone and other obligations on us, including the obligation to terminate our use of patented subject matter under certain contingencies. If a licensor becomes entitled to, and exercises, termination rights under a license, we would lose valuable rights and could lose our ability to develop our products. We may need to license other intellectual property to commercialize future products. Our business may suffer if any current or future licenses terminate, if the licensors fail to abide by the terms of the license or fail to prevent infringement by third parties, if the licensed patents or other rights are found to be invalid or if we are unable to enter into necessary licenses on acceptable terms.

**We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.**

As is common in the biotechnology and pharmaceutical industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their 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 costs and be a distraction to management.



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Table of Contents

**RISKS RELATING TO MANUFACTURING AND SALES**

**We depend on third parties to produce our drug candidates, and if these third parties do not successfully formulate or manufacture these drug candidates, our business will be harmed.**

We have no manufacturing experience or manufacturing capabilities. In order to continue to develop drug candidates, apply for regulatory approvals, and commercialize products, we or any collaborators must be able to manufacture drug candidates in adequate clinical and commercial quantities, in compliance with regulatory requirements, including those related to quality control and quality assurance, at acceptable costs and in a timely manner. The manufacture of our drug candidates may be complex, difficult to accomplish and difficult to scale-up when large-scale production is required. Manufacture may be subject to delays, inefficiencies and poor or low yields of quality products. The cost of manufacturing some of our drug candidates may make them prohibitively expensive.

To the extent that we or any collaborators seek to enter into manufacturing arrangements with third parties, we and such collaborators will depend upon these third parties to perform their obligations in a timely and effective manner and in accordance with government regulations. Contract manufacturers may breach their manufacturing agreements because of factors beyond our and our collaborators' control or may terminate or fail to renew a manufacturing agreement based on their own business priorities at a time that is costly or inconvenient for us and our collaborators.

Any contract manufacturers with whom we or our collaborators enter into manufacturing arrangements will be subject to ongoing periodic, unannounced inspection by the FDA and corresponding state and foreign agencies or their designees to ensure strict compliance with current good manufacturing practices and other governmental regulations and corresponding foreign standards. Any failure by contract manufacturers, collaborators, or us to comply with applicable regulations could result in sanctions being imposed, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of drug candidates, delays, suspension or withdrawal of approvals, imposition of clinical holds, seizures or recalls of drug candidates, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business. If we or a collaborator need to change manufacturers, the FDA and corresponding foreign regulatory agencies must approve any new manufacturers in advance. This would involve testing and pre-approval inspections to ensure compliance with FDA and foreign regulations and standards.

If third-party manufacturers fail to perform their obligations, our competitive position and ability to generate revenue may be adversely affected in a number of ways, including;

we and any collaborators may not be able to initiate or continue certain preclinical and/or clinical trials of products that are under development;

we and any collaborators may be delayed in submitting applications for regulatory approvals for our drug candidates; and

we and any collaborators may not be able to meet commercial demands for any approved products.

**Because we rely on a limited number of suppliers for the raw materials used in our drug candidates, any delay or interruption in the supply of such raw materials could lead to delays in the manufacture and supply of our drug candidates.**

We rely on third parties to supply certain raw materials necessary to produce our drug candidates for preclinical studies and clinical trials. There are a small number of suppliers for certain raw materials that we use to manufacture our drug candidates. We purchase these materials from our suppliers on a purchase order basis and do not have long-term supply agreements in place. Such suppliers may not sell these raw materials to us at the times we need them or on commercially reasonable terms, or delivery of these raw materials may be delayed or interrupted. Although we generally do not begin a preclinical study or clinical trial unless we believe we have a sufficient supply of a drug candidate to complete such study or trial, any significant delay in the supply of raw materials for our drug candidates for an ongoing clinical trial due to the need to replace a third-party supplier could considerably delay completion of certain preclinical studies and/or clinical trials. Moreover, if we were unable to purchase raw materials after regulatory approval had been obtained for our drug candidates, the commercial launch of our drug candidates would be delayed or there would be a shortage in supply, which would impair our ability to generate revenues from the sale of our drug candidates.

**Table of Contents**

**We have no sales or marketing experience and, as such, plan to depend significantly on third parties who may not successfully market and sell any products we develop.**

We have no sales, marketing or product distribution experience or capabilities. If we receive required regulatory approvals to commercialize any of our drug candidates, we plan to rely primarily on sales, marketing and distribution arrangements with third parties, including our collaborative partners. For example, as part of our agreements with Genentech, we have granted Genentech the exclusive rights to distribute certain products resulting from such collaboration, and Genentech is currently commercializing Erivedge. We may have to enter into additional marketing and/or sales arrangements in the future and we may not be able to enter into these additional arrangements on terms that are favorable to us, if at all. In addition, we may have limited or no control over the sales, marketing and distribution activities of these third parties and sales through these third parties could be less profitable to us than direct sales. These third parties could sell competing products and may devote insufficient sales efforts to our products. Our future revenues will be materially dependent upon the success of the efforts of these third parties.

We may seek to independently market and sell products that are not already subject to agreements with other parties. If we determine to perform sales, marketing and distribution functions ourselves, we could face a number of additional risks, including:

we may not be able to attract and build a significant and skilled marketing staff or sales force;

the cost of establishing a marketing staff or sales force may not be justifiable in light of the revenues generated by any particular product; and

our direct sales and marketing efforts may not be successful.

**Even if we successfully commercialize any products under development, either alone or in collaboration, we face uncertainty with respect to pricing, third-party reimbursement and healthcare reform, all of which could adversely affect the commercial success of our drug candidates.**

Our ability to collect significant revenues from sales of our products, if commercialized successfully, may depend on our ability, and the ability of any current or potential future collaboration partners or customers, to obtain adequate levels of coverage and reimbursement for such products from third-party payers such as:

government health administration authorities;

private health insurers;

health maintenance organizations;

pharmacy benefit management companies; and

other healthcare-related organizations.

A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Third party payers are increasingly challenging the prices charged for medical products and services. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. We cannot be sure that reimbursement will be available for any product that we commercialize and, if reimbursement is available, the level of reimbursement. Reimbursement may impact the demand for, or the price of, any drug candidate for which we obtain marketing approval. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any drug candidate for which we obtain marketing approval.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or a foreign equivalent. Moreover, eligibility for reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research,

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**Table of Contents**

development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs, and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the US. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies. Our inability to promptly obtain coverage and profitable payment rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of any product candidate that we develop, restrict or regulate post-approval activities and affect our ability to profitably sell profitably or commercialize any product candidate for which we obtain marketing approval or that we may in-license. The pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by legislative initiatives. Current laws, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved product.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the MMA, changed the way Medicare covers and pays for pharmaceutical products. Cost reduction initiatives and other provisions of this legislation could limit coverage of and reduce the price that we receive for any approved products. While the MMA applies only to product benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the MMA or other healthcare reform measures may result in a similar reduction in payments from private payors.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively PPACA. Among the provisions of PPACA of importance to our potential products are the following:

- an annual, nondeductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;

- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13.0% of the average manufacturer price for branded and generic drugs, respectively;

- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers, and enhanced penalties for noncompliance;



a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for a manufacturer's outpatient drugs to be covered under Medicare Part D;

extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;

expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the federal poverty level beginning in 2014, thereby potentially increasing a manufacturer's Medicaid rebate liability;

expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;

the new requirements under the federal Open Payments program and its implementing regulations;

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**Table of Contents**

a new requirement to annually report product samples that manufacturers and distributors provide to physicians; and

a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

In addition, other legislative changes have been proposed and adopted since PPACA was enacted. These changes include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, which went into effect in April 2013. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several types of providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding.

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

### **RISKS RELATED TO OUR COMMON STOCK**

**If we fail to meet the requirements for continued listing on the NASDAQ Global Market, our common stock could be delisted from trading, which would adversely affect the liquidity of our common stock and our ability to raise additional capital.**

Our common stock is currently listed for quotation on the NASDAQ Global Market. We are required to meet specified financial requirements in order to maintain our listing on the NASDAQ Global Market. One such requirement is that we maintain a minimum bid price of at least \$1.00 per share for our common stock. Although we currently comply with the minimum bid requirement, our bid price has remained relatively low and has fallen within a range of \$1.00 to \$2.00 per share for several consecutive recent months of trading. Our bid price could fall below \$1.00 per share in the future. If our bid price falls below \$1.00 per share for 30 consecutive business days, we will receive a deficiency notice from NASDAQ advising us that we have 180 days to regain compliance by maintaining a minimum bid price of at least \$1.00 for a minimum of ten consecutive business days. Under certain circumstances, NASDAQ could require that the minimum bid price exceed \$1.00 for more than ten consecutive days before determining that a company complies. If in the future we fail to satisfy the NASDAQ Global Market's continued listing requirements, we may transfer to the NASDAQ Capital Market, which generally has lower financial requirements for initial listing, to avoid delisting, or, if we fail to meet its listing requirements, the OTC Bulletin Board. Any potential delisting of our common stock from the NASDAQ Global Market would make it more difficult for our stockholders to sell our stock in the public market and would likely result in decreased liquidity and increased volatility for our common stock.

**Our stock price may fluctuate significantly and the market price of our common stock could drop below the price paid.**

The trading price of our common stock has been volatile and is likely to continue to be volatile in the future. For example, our stock traded within a range of a high price of \$5.65 and a low price of \$1.19 per share for the period January 1, 2012 through November 4, 2014. The stock market, particularly in recent years, has experienced significant volatility with respect to pharmaceutical and biotechnology company stocks. Prices for our stock will be determined in the marketplace and may be influenced by many factors, including:

announcements regarding new technologies and/or drug candidates by us or our competitors;

market conditions in the biotechnology and pharmaceutical sectors;

rumors relating to us or our collaborators or competitors;

litigation or public concern about the safety of our drug candidates;

**Table of Contents**

actual or anticipated variations in our quarterly operating results and any subsequent restatement of such results;

the amount and timing of any royalty revenue we receive from Genentech related to Erivedge;

actual or anticipated changes to our research and development plans;

deviations in our operating results from the estimates of securities analysts;

entering into new collaboration agreements or termination of existing collaboration agreements;

adverse results or delays in clinical trials being conducted by us or any collaborators;

any intellectual property or other lawsuits involving us;

third-party sales of large blocks of our common stock;

sales of our common stock by our executive officers, directors or significant stockholders;

equity sales by us of our common stock to fund our operations;

the loss of any of our key scientific or management personnel;

FDA or international regulatory actions;

the limited trading volume in our common stock; and

general economic and market conditions, including recent adverse changes in the domestic and international financial markets.

While we cannot predict the individual effect that these factors may have on the price of our common stock, these factors, either individually or in the aggregate, could result in significant variations in price during any given period of time.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and

resources.

**Future sales of shares of our common stock, including shares issued upon the exercise of currently outstanding options and warrants or pursuant to our universal shelf registration statement could result in dilution to our stockholders and negatively affect our stock price.**

Most of our outstanding common stock can be traded without restriction at any time. As such, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell such shares, could reduce the market price of our common stock. In addition, we have a significant number of shares that are subject to outstanding options and warrants and in the future we may issue additional options, warrants or other derivative securities convertible into our common stock. The exercise of any such options, warrants or other derivative securities, and the subsequent sale of the underlying common stock could cause a further decline in our stock price. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Furthermore, as of September 30, 2014, we have outstanding warrants to purchase 1,373,517 shares of our common stock that contain antidilution adjustment provisions that will result in a decrease in the price and an increase in the number of shares of common stock issuable upon exercise of such warrants in the event of certain issuances of common stock by us at prices below \$3.55 per share. To the extent that we are required to adjust the price and number of shares underlying these warrants as a result of this antidilution clause, and thereafter such warrants are exercised, additional shares of our common stock will be issued that will be eligible for resale in the public market, which could result in added dilution to our security holders and could also have an adverse effect on the market price of our common stock.

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**Table of Contents**

We currently have on file with the SEC a universal shelf registration statement which allows us to offer and sell registered common stock, preferred stock and warrants from time to time pursuant to one or more offerings at prices and terms to be determined at the time of sale. For example, in July 2013 we entered into a sales agreement with Cowen pursuant to which, from time to time, we may offer and sell through Cowen, acting as agent, up to \$30,000,000 of the registered common stock that was on this shelf registration statement pursuant to one or more at the market offerings. We have received gross proceeds of approximately \$16,900,000 as of September 30, 2014 through such sales. In addition, with our prior written approval, Cowen may also sell these shares of common stock by any other method permitted by law, including in privately negotiated transactions. Sales of substantial amounts of shares of our common stock or other securities under this registration statement could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities.

**If we are not able to maintain effective internal controls under Section 404 of the Sarbanes-Oxley Act, our business and stock price could be adversely affected.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires us, on an annual basis, to review and evaluate our internal controls, and requires our independent auditors to attest to the effectiveness of our internal controls. Any failure by us to maintain the effectiveness of our internal controls in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act, as such requirements exist today or may be modified, supplemented or amended in the future, could have a material adverse effect on our business, operating results and stock price.

**We do not intend to pay dividends on our common stock, and any return to investors will come, if at all, only from potential increases in the price of our common stock.**

At the present time, we intend to use available funds to finance our operations. Accordingly, while payment of dividends rests within the discretion of our board of directors, no common stock dividends have been declared or paid by us and we have no intention of paying any common stock dividends in the foreseeable future.

**Insiders have substantial influence over us and could delay or prevent a change in corporate control.**

As of September 30, 2014, we believe that our directors, executive officers and principal stockholders, together with their affiliates, owned, in the aggregate, approximately 25% of our outstanding common stock. As a result, these stockholders, if acting together, will be able to exert influence over the management and affairs of our company and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership could harm the market price of our common stock by:

delaying, deferring or preventing a change in control of our company;

impeding a merger, consolidation, takeover or other business combination involving our company; or

entrenching our management or the board of directors.

**We have anti-takeover defenses that could delay or prevent an acquisition that our stockholders may consider favorable or prevent attempts by our stockholders to replace or remove our current management and the market price of our common stock may be lower as a result.**

Provisions of our certificate of incorporation, our bylaws and Delaware law may have the effect of deterring unsolicited takeovers or delaying or preventing changes in control of our management, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interest. For example, we have divided our board of directors into three classes that serve staggered three-year terms, we may issue shares of our authorized blank check preferred stock and our stockholders are limited in their ability to call special stockholder meetings.

**Table of Contents**

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. These provisions could discourage, delay or prevent a change in control transaction.

**Item 6. Exhibits**

(a) Exhibits.

See exhibit index.



Table of Contents

**SIGNATURE**

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.

CURIS, INC.

Dated: November 10, 2014

By: /s/ MICHAEL P. GRAY  
**Michael P. Gray**

Chief Financial and Business Officer

(Principal Financial and Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document