

Arno Therapeutics, Inc  
Form 10-Q  
November 14, 2016

**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, 2016

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number: **000-52153**

**ARNO THERAPEUTICS, INC.**

**(Exact Name Of Registrant As Specified In Its Charter)**

Delaware                      **52-2286452**  
**(State of Incorporation) (I.R.S. Employer Identification No.)**

**200 Route 31 North, Suite 104, Flemington, New Jersey 08822**

**(Address of principal executive offices)(Zip Code)**

**(862) 703-7170**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of November 9, 2016, there were 49,349,749 shares of common stock, par value \$0.0001 per share, of Arno Therapeutics, Inc. issued and outstanding.



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References to “the Company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q refer to Arno Therapeutics, Inc., a Delaware corporation, unless the context indicates otherwise.

## Forward-Looking Statements

This Quarterly Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The forward-looking statements are only predictions and provide our current expectations or forecasts of future events and financial performance and may be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “plans,” “intends,” “may,” “will” or “should” or, in each case, negative, or other variations or comparable terminology, though the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements include all matters that are not historical facts and include, without limitation, statements concerning our business strategy, outlook, objectives, future milestones, plans, intentions, goals, future financial conditions, our research and development programs and planning for and timing of any clinical trials, the possibility, timing and outcome of submitting regulatory filings for our product candidates under development, research and development of particular drug products, the development of financial, clinical, manufacturing and marketing plans related to the potential approval and commercialization of our drug products, and the period of time for which our existing resources will enable us to fund our operations.

Forward-looking statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Examples of the risks and uncertainties include, but are not limited to:

- the risk that we may be unable to secure immediate additional capital to fund our continuing operations; the risk that recurring losses, negative cash flows and the inability to raise additional capital could threaten our ability to continue as a going concern;

- the risk that we may not successfully develop and market our product candidates, and even if we do, we may not become profitable;

- risks relating to the progress of our research and development; risks relating to significant, time-consuming and costly research and development efforts, including pre-clinical studies, clinical trials and testing, and the risk that clinical trials of our product candidates may be delayed, halted or fail;

- risks relating to the rigorous regulatory approval process required for any products that we may develop independently, with our development partners or in connection with any collaboration arrangements; the risk that changes in the national or international political and regulatory environment may make it more difficult to gain FDA or other regulatory approval of our drug product candidates;

- risks that the FDA or other regulatory authorities may not accept any applications we file;

- risks that the FDA or other regulatory authorities may withhold or delay consideration of any applications that we file or limit such applications to particular indications or apply other label limitations;
- risks that, after acceptance and review of applications that we file, the FDA or other regulatory authorities will not approve the marketing and sale of our drug product candidates;
- risks relating to our drug manufacturing operations, including those of our third-party suppliers and contract manufacturers;
- risks relating to the ability of our development partners and third-party suppliers of materials, drug substance and related components to provide us with adequate supplies and expertise to support manufacture of drug product for initiation and completion of our clinical studies; and
- risks relating to the transfer of our manufacturing technology to third-party contract manufacturers.

Other risks that may affect forward-looking statements contained in this report are described under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. These risks, including those described above, could cause our actual results to differ materially from those described in the forward-looking statements. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document. The risks discussed in this report should be considered in evaluating our prospects and future performance.

**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements.**

ARNO THERAPEUTICS, INC.

CONDENSED BALANCE SHEETS

	<b>September 30, 2016</b>	December 31, 2015
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,124,079	\$ 66,988
Prepaid expenses and other current assets	203,354	260,694
Total current assets	2,327,433	327,682
Property and equipment, net	17,741	23,103
Security deposit	10,455	10,455
Total assets	\$ 2,355,629	\$ 361,240
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$ 1,065,320	\$ 1,010,215
Accrued expenses and other current liabilities	455,737	1,124,690
Convertible notes, net of financing costs of \$10,091 at December 31, 2015	-	2,089,909
Capital lease obligation- short term	4,306	3,853
Deferred rent	2,084	1,910
Total current liabilities	1,527,447	4,230,577
Capital lease obligation- long term	782	4,070
Derivative liabilities	6,541,644	4,750,687
Total liabilities	8,069,873	8,985,334
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value, 35,000,000 shares authorized, none issued and outstanding	-	-



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Common stock, \$0.0001 par value, 500,000,000 shares authorized, 47,849,036 and 20,408,616 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	8,213	5,469
Common stock subscribed (428,571 shares subscribed as of September 30, 2016)	150,000	-
Additional paid-in capital	97,122,946	84,665,390
Accumulated deficit	(102,995,403	) (93,294,953 )
Total stockholders' deficit	(5,714,244	) (8,624,094 )
Total liabilities and stockholders' deficit	\$ 2,355,629	\$ 361,240

See accompanying notes to the unaudited condensed financial statements.

## ARNO THERAPEUTICS, INC.

## CONDENSED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,	2015	30,	2015
	2016		2016	
Operating expenses:				
Research and development	\$ 1,115,623	\$ 1,792,758	\$ 4,716,112	\$ 6,915,408
General and administrative	1,115,644	1,082,031	3,650,975	3,800,865
Total operating expenses	2,231,267	2,874,789	8,367,087	10,716,273
Loss from operations	(2,231,267 )	(2,874,789 )	(8,367,087 )	(10,716,273 )
Other income/(expense):				
Interest income	904	530	3,889	7,625
Interest expense	(214 )	(349 )	(14,982 )	(1,139 )
Other income/(expense), net	(1,618,438 )	2,195,301	(1,322,270 )	3,196,814
Total other income/(expense)	(1,617,748 )	2,195,482	(1,333,363 )	3,203,300
Net loss	\$ (3,849,015 )	\$ (679,307 )	\$ (9,700,450 )	\$ (7,512,973 )
Net loss per share - basic & diluted	\$ (0.09 )	\$ (0.03 )	\$ (0.23 )	\$ (0.37 )
Weighted-average shares outstanding- basic & diluted	44,705,825	20,408,616	41,691,545	20,408,616

See accompanying notes to the unaudited condensed financial statements.

## ARNO THERAPEUTICS, INC.

## CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT

(unaudited)

	PREFERRED STOCK SHARES	COMMON STOCK SHARES	COMMON STOCK AMOUNT	COMMON STOCK SUBSCRIBED	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT	
Balance at January 1, 2016	-	-	20,408,616	\$ 5,469	\$ -	\$ 84,665,390	\$(93,294,953 )	\$(8,624,094 )
Issuance of common shares upon conversion of note payable and accrued interest		6,081,858	608		2,128,044			2,128,652
Issuance of common shares pursuant to a stock purchase agreement, net of issuance costs of \$68,251		15,072,139	1,507		5,205,492			5,206,999
Common stock and warrants sold in private placement, net of issuance costs of \$22,413		6,286,423	629		2,177,208			2,177,837
Common shares subscribed				150,000				150,000
Net loss	-	-	-	-	-	(9,700,450 )		(9,700,450 )
Stock based compensation for services	-	-	-	-	2,946,812	-		2,946,812

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Balance at September 30, 2016	-	-	47,849,036	\$ 8,213	\$ 150,000	\$ 97,122,946	\$(102,995,403 )	\$(5,714,244 )
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See accompanying notes to the unaudited condensed financial statements.

## ARNO THERAPEUTICS, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (9,700,450	) \$ (7,512,973
Adjustment to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	5,362	5,822
Stock-based compensation	2,946,812	2,857,289
Change in fair value of derivative liability	1,790,957	(3,186,087
Amortization of financing costs	10,091	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	57,340	6,876
Accounts payable	55,105	432,846
Accrued expenses	(640,301	) (426,833
Deferred rent	174	341
Net cash used in operating activities	(5,474,910	) (7,822,719
Cash flows from financing activities:		
Payment of capital lease obligation	(2,835	) (2,445
Proceeds from issuance of common stock and Series F warrants in private placement, net of issuance costs of \$22,413	2,177,837	-
Proceeds from subscription of common stock	150,000	-
Proceeds from issuance of common stock, net of issuance costs of \$68,251	5,206,999	-
Net cash provided by (used in) financing activities	7,532,001	(2,445
Net increase (decrease) in cash and cash equivalents	2,057,091	(7,825,164
Cash and cash equivalents at beginning of period	66,988	7,948,436
Cash and cash equivalents at end of period	\$ 2,124,079	\$ 123,272
Supplemental schedule of cash flows information:		
Cash paid for interest	\$ 748	\$ 1,139
Supplemental schedule of non-cash investing and financing activities:		
Conversion of notes payable to common stock	\$ 2,100,000	\$ -

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Conversion of accrued interest to common stock	\$ 28,652	\$ -
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See accompanying notes to the unaudited condensed financial statements.

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**ARNO THERAPEUTICS, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

March 31, 2016

(unaudited)

**1. DESCRIPTION OF BUSINESS**

Arno Therapeutics, Inc. (“Arno” or the “Company”) is developing innovative drug candidates intended to treat patients with cancer and other life threatening diseases. The Company was incorporated in Delaware in March 2000, at which time its name was Laurier International, Inc. (“Laurier”). Pursuant to an Agreement and Plan of Merger dated March 6, 2008 (as amended, the “Merger Agreement”), by and among the Company, Arno Therapeutics, Inc., a Delaware corporation formed on August 1, 2005 (“Old Arno”), and Laurier Acquisition, Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“Laurier Acquisition”), on June 3, 2008, Laurier Acquisition merged with and into Old Arno, with Old Arno remaining as the surviving corporation and a wholly-owned subsidiary of Laurier. Immediately following this merger, Old Arno merged with and into Laurier and Laurier’s name was changed to Arno Therapeutics, Inc. These two merger transactions are hereinafter collectively referred to as the “Merger.” Immediately following the Merger, the former stockholders of Old Arno collectively held 95% of the outstanding common stock of Laurier, assuming the issuance of all shares issuable upon the exercise of outstanding options and warrants, and all of the officers and directors of Old Arno in office immediately prior to the Merger were appointed as the officers and directors of Laurier immediately following the Merger. Further, Laurier was a non-operating shell company prior to the Merger. The merger of a private operating company into a non-operating public shell corporation with nominal net assets is considered to be a capital transaction in substance, rather than a business combination, for accounting purposes. Accordingly, the Company treated this transaction as a capital transaction without recording goodwill or adjusting any of its other assets or liabilities. All costs incurred in connection with the Merger have been expensed. Upon completion of the Merger, the Company adopted Old Arno’s business plan.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company has not yet generated any revenue from the sale of products and, through September 30, 2016, its efforts have been principally devoted to developing its licensed technologies and raising capital. The Company has experienced negative cash flows from operating activities since its inception and has an accumulated deficit of approximately \$103.0 million at September 30, 2016. The Company expects to incur substantial and increasing losses and to have negative net cash flows from operating activities as it enhances its technology portfolio and engages in further research and development activities, particularly from conducting clinical trials, manufacturing activities and pre-clinical studies.

The accompanying unaudited Condensed Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q adopted under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of Arno's management, the accompanying Condensed Financial Statements contain all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. The interim results for the periods ended September 30, 2016 are not necessarily indicative of results for the full 2016 fiscal year or any other future interim periods.

These unaudited Condensed Financial Statements have been prepared by management and should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates and assumptions principally relate to services performed by third parties but not yet invoiced, estimates of the fair value and forfeiture rates of stock options issued to employees and consultants, and estimates of the probability in the fair value of derivative liabilities. Actual results could differ from those estimates.

## **Research and Development**

Research and development costs are charged to expense as incurred. Research and development includes employee costs, fees associated with operational consultants, contract clinical research organizations, contract manufacturing organizations, clinical site fees, contract laboratory research organizations, contract central testing laboratories, licensing activities, and allocated office, insurance, depreciation, and facilities expenses. The Company accrues for costs incurred as the services are being provided by monitoring the status of the study and the invoices received from its external service providers. The Company adjusts its accruals when actual costs become known. Costs related to the acquisition of technology rights for which development work is still in process are charged to operations as incurred and considered a component of research and development expense.



## **Warrant Liability**

The Company accounts for the warrants issued in connection with the 2013, 2012 and 2010 Purchase Agreements (see Note 8) in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that the Company classify the warrant instrument as a liability at its fair value and adjusts the instrument to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. The fair value of warrants issued by the Company, in connection with private placements of securities, has been estimated using a Monte Carlo simulation model and, in doing so, the Company's management utilized a third-party valuation report. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company's future expected stock prices and minimizes standard error.

## **Recent Accounting Pronouncements**

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-01, "Financial Instruments" ("ASU 2016-01"). Equity investments not accounted for under the equity method of accounting will be measured at fair value, with changes in fair value recognized in current earnings. ASU 2016-01 becomes effective for fiscal years beginning after December 15, 2017. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial statements, results of operations or related financial statement disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. ASU 2016-02 becomes effective for the Company on January 1, 2019, and early adoption is permitted upon issuance. The Company is evaluating the potential impact of adopting this standard on its financial statements.

In March 2016, the FASB issued two updates to Derivatives and Hedging (Topic 815). Accounting Standards Update No. 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" ("ASU 2016-05"). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, on its own, require dedesignation of that hedge accounting relationship provided that all other hedge accounting criteria continue to be met. Accounting Standards Update No. 2016-06, "Contingent Put and Call Options in Debt Instruments" ("ASU 2016-06"). ASU 2016-06 clarifies that an entity is required to assess the embedded call or put option solely in accordance with a specific four-step decision sequence and are not also required to assess whether the contingency for exercising the option is indexed to interest rate or credit risk. ASU 2016-05 and ASU 2016-06 will take effect for public companies in fiscal years beginning after December 15, 2016, including

interim periods within those fiscal years. The Company does not believe the requirements of these updates will have a material effect in the presentation of its financial statements.

In March 2016, the FASB issued an update to Compensation- Stock Compensation (Topic 718). Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for reporting periods beginning after December 31, 2016. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.

In August 2016, the FASB issued an update to Statement of Cash Flows (Topic 230). Accounting Standards Update No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance in the presentation and classification of eight specific cash flow issues in the statement of cash flows. ASU 2016-15 will take effect for public companies in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.

### **3. LIQUIDITY AND CAPITAL RESOURCES**

Cash resources as of September 30, 2016 were approximately \$2.1 million, compared to approximately \$0.1 million as of December 31, 2015. Based on resources at September 30, 2016 and the current plan of expenditure for continuing the development of the Company's current product, the Company believes that its existing capital resources, including the \$3.0 million of proceeds received, or that will be received, from our August 2016 Purchase Agreement, are only sufficient to fund its operations into January 2017. The Company is therefore in immediate need of additional capital to fund its continuing operations beyond such period. Further, the Company will need substantial additional capital in order to complete the development and obtain regulatory approval of its product candidates, if ever. The Company depends on its ability to raise additional funds through various potential sources, such as equity and debt financing, or from a transaction in which it would license rights to its product candidates to another pharmaceutical company. The Company will continue to fund operations from cash on hand and through sources of capital similar to those previously described. The Company cannot assure that it will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs.

The long-term success of the Company depends on its ability to develop new products to the point of regulatory approval and subsequent revenue generation and, accordingly, to raise enough capital to finance these developmental efforts. Management plans to raise additional capital either by selling shares of its stock or other securities, issuing additional indebtedness or by licensing the rights to one or more of its product candidates to finance the continued operating and capital requirements of the Company. Amounts raised will be used to further develop the Company's product candidates, acquire rights to additional product candidates and for other working capital purposes. While the Company will extend its best efforts to raise additional capital to fund all operations into January, 2017 and beyond, management can provide no assurances that the Company will be successful in raising sufficient funds. If the Company is not successful, it may be required to discontinue its operations.

In addition, to the extent that the Company raises additional funds by issuing shares of its common stock or other securities convertible or exchangeable for shares of common stock, stockholders will experience dilution, which may be significant. In the event the Company raises additional capital through debt financings, the Company may incur significant interest expense and become subject to covenants in the related transaction documentation that may affect the manner in which the Company conducts its business. To the extent that the Company raises additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to its technologies or product candidates, or grant licenses on terms that may not be favorable to the Company. Any or all of the foregoing may have a material adverse effect on the Company's business and financial performance. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments that might result from the inability of the Company to continue as a going concern.

#### **4. BASIC AND DILUTED INCOME/(LOSS) PER SHARE**

Basic net loss per share is calculated by dividing the loss available to common shareholders by weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated similarly to basic loss per share except that the denominator is based on the weighted-average number of shares of common stock and other dilutive securities outstanding during the period. The potential dilutive shares of common stock resulting from the assumed exercise of stock options and warrants are determined under the treasury stock method.

As of September 30, 2016 and 2015, potentially dilutive securities include:

	Nine Months Ended September 30,	
	2016	2015
Warrants to purchase common stock	7,598,439	4,455,231

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Options to purchase common stock	4,154,304	-
Total potentially dilutive securities	11,752,743	4,455,231

For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted net loss per share as their effect is anti-dilutive. In addition to the potentially dilutive securities, the aggregate number of common equivalent shares (related to options and warrants) that have been excluded from the computations of diluted loss per common share at September 30, 2016 and 2015 were 56,585,279 and 30,707,113, respectively, as their exercise prices are greater than the fair market price per common share as of September 30, 2016 and 2015, respectively.

### 5. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY

#### License Agreements

##### *Onapristone License Agreement*

The Company's rights to onapristone are governed by a license agreement with Invavis Pharmaceuticals, Inc. ("Invavis"), dated February 13, 2012. Under this agreement, the Company holds an exclusive, royalty-bearing license for the rights to commercialize onapristone for all therapeutic uses. The license agreement provides the Company with worldwide rights to develop and commercialize onapristone with the exception of the commercialization rights in France; provided that the Company has an option to acquire French commercial rights from Invavis upon notice to Invavis together with additional consideration.

The onapristone license agreement provides the Company with exclusive, worldwide rights to a United States provisional patent application that relates to assays for predictive biomarkers for anti-progestin efficacy. The Company intends to expand its patent portfolio by filing additional patent applications covering the use of onapristone, the manufacture of onapristone and/or a companion diagnostic product. If the pending patent application issues, the issued patent would be scheduled to expire in 2031.

The Company made a one-time cash payment of \$500,000 to Invivis upon execution of the license agreement on February 13, 2012. Additionally, Invivis will receive performance-based cash payments of up to an aggregate of \$15.1 million upon successful completion of clinical and regulatory milestones relating to onapristone, which milestones include the marketing approval of onapristone in multiple indications in the United States or the European Union as well as Japan. The first milestone was due upon the dosing of the first patient in a pharmacokinetic study and was achieved during August 2013 and the Company made a \$150,000 payment to Invivis during October 2013. The Company made its next milestone payment of \$100,000 to Invivis upon the dosing of the first subject in the first Company-sponsored Phase I clinical trial of onapristone in January 2014. A milestone payment of \$350,000 for the enrollment of the first patient in a Phase II clinical trial sponsored by Arno was paid in July 2015. In addition, the Company will pay Invivis low single digit sales royalties based on net sales of onapristone by the Company or any of its sublicensees. Pursuant to a separate services agreement which expired in April 2014, Invivis provided the Company with certain clinical development support services, which includes the assignment of up to two full-time employees to perform such services, in exchange for a monthly cash payment of approximately \$70,833. Effective April 1, 2014, the Company renewed the services agreement for a period of one year for a monthly cash payment of \$50,000 and certain other performance based milestones. The services agreement was not renewed upon its expiration on April 1, 2015.

Under the license agreement with Invivis, the Company also agreed to indemnify and hold Invivis and its affiliates harmless from any and all claims arising out of or in connection with the production, manufacture, sale, use, lease, consumption or advertisement of onapristone, provided, however, that the Company shall have no obligation to indemnify Invivis for claims that (a) any patent rights infringe third party intellectual property, (b) arise out of the gross negligence or willful misconduct of Invivis, or (c) result from a breach of any representation, warranty confidentiality obligation of Invivis under the license agreement. The license agreement will terminate upon the later of (i) the last to expire valid claim contained in the patent rights, and (ii) February 13, 2032. In general, Invivis may terminate the license agreement at any time upon a material breach by the Company to the extent the Company fails to cure any such breach within 90 days after receiving notice of such breach or in the event the Company files for bankruptcy. The Company may terminate the agreement for any reason upon 90 days' prior written notice.

#### *University of Minnesota License*

In February 2014, we entered into an Exclusive Patent License Agreement with the Regents of the University of Minnesota, or "UM", pursuant to which we were granted an exclusive, worldwide, royalty-bearing license for the rights to develop and commercialize technology embodied by certain patent applications relating to a gene expression signature derived from archived breast cancer tissue samples. We plan to develop and commercialize this technology as part of our companion diagnostic development program as a tool to identify progesterone-stimulated pathway activation, which in turn may identify patients who would be more likely to benefit from treatment with onapristone.

The license agreement requires us to use commercially reasonable efforts to commercialize the licensed technology as soon as practicable, and includes several performance milestones relating to the development and commercialization

of the technology to be achieved by us at specified dates. Under the terms of the agreement, we made a small one-time cash payment and reimbursed UM for past patent expenses it has incurred. The agreement also provides that we will pay royalties to UM on net sales of “Licensed Products” (as defined in the agreement) at a rate in the low-single digits, which royalty obligation terminates on a licensed product-by-licensed product and country-by-country basis upon the first date when there is no longer a valid claim under a licensed patent or patent application covering such licensed product in the country where the licensed product is made or sold.

The term of the license agreement continues until the last date on which there is any active licensed patent or pending patent application. UM may terminate the agreement earlier upon a breach by us of one or more of our obligations that remains uncured for a period specified in the agreement. UM may also terminate the agreement if we voluntarily file for bankruptcy or similar proceeding, or if a petition for an involuntary bankruptcy proceeding is filed and is not released for 60 days. The agreement may be immediately terminated upon notice to us if we commence or maintain a proceeding in which we assert that the licensed patents are invalid or unenforceable. We may terminate the agreement at any time and for any reason upon 90 days’ written notice.

The license agreement further provides that we will indemnify and hold UM and its affiliates harmless from any and all suits, actions, claims, liabilities, demands, damages, losses or expenses relating to our exercise of its rights under the agreement, including our right to commercialize the licensed technology. UM is required to indemnify us with respect to claims relating to or resulting from its breach of the agreement.

#### ***AR-12 and AR-42 License Agreements***

The Company’s rights to both AR-12 and AR-42 are governed by separate license agreements with The Ohio State University Research Foundation (“Ohio State”) entered into in January 2008. Pursuant to each of these agreements, Ohio State granted the Company exclusive, worldwide, royalty-bearing licenses to commercialize certain patent applications, know-how and improvements relating to AR-12 and AR-42 for all therapeutic uses.

Under our license agreement for AR-12, we have exclusive, worldwide rights to seven issued U.S. patent and three pending U.S. patent applications that relate to AR-12, AR-12 analogs, and particular uses of AR-12 according to our business plan. On July 9, 2015, the Company and The Ohio State Innovation Foundation (formerly, The Ohio State Research Foundation) (“Ohio State”) entered into an amendment, dated effective as of May 15, 2015 (the “Amendment”), to the parties’ License Agreement dated January 3, 2008 (the “AR-12 License”), pursuant to which the Company was granted an exclusive license to certain patents and other technology relating to its AR-12 product candidate. The purpose of the Amendment was to clarify the scope of AR-12 analogs covered by the license grant in the original AR-12 License. In addition, the Amendment provides the Company with a first option to an exclusive license to patents and other technology relating to compounds related to AR-12 held by Ohio State. The issued patents include composition of matter claims. The issued patents are currently scheduled to expire in 2024. If the pending patent applications issue, the latest of the issued patent or patents would be scheduled to expire in 2034. In 2014, we filed a provisional patent application directed to methods using AR-12 that, if issued, would expire in 2035. In addition, Arno has exclusive rights to a pending US and international patent application directed to AR-12 formulations which, if issued, would expire in 2034.

Under our license agreement for AR-42, we have exclusive, worldwide rights to one issued and two pending U.S. patent applications that relate to AR-42 and particular uses of AR-42 according to our business plan. If one of the pending patent applications issues, the issued patent or patents would be scheduled to expire in 2024. If the other pending patent application issues, it would be scheduled to expire in 2034.

In 2008, pursuant to our license agreements for AR-12 and AR-42, we made one-time cash payments to Ohio State in the aggregate amount of \$450,000 and reimbursed it for past patent expenses. Additionally, we are required to make performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-12 and AR-42 in the U.S., Europe and Japan. The license agreements for AR-12 and AR-42 provide for aggregate potential milestone payments of up to \$6.1 million for AR-12, of which \$5.0 million is due only after marketing approval in the United States, Europe and Japan, and \$5.1 million for AR-42, of which \$4.0 million is due only after marketing approval in the United States, Europe and Japan. In September 2009, we paid Ohio State a milestone payment upon the commencement of the Phase I clinical study of AR-12. Pursuant to the license agreements for AR-12 and AR-42, we must pay Ohio State royalties on net sales of licensed products at rates in the low-single digits. To the extent we enter into a sublicensing agreement relating to either or both of AR-12 or AR-42, we will be required to pay Ohio State a portion of all non-royalty income received from such sublicensee.

The license agreements with Ohio State further provide that we will indemnify Ohio State from any and all claims arising out of the death of or injury to any person or persons or out of any damage to property, or resulting from the production, manufacture, sale, use, lease, consumption or advertisement of either AR-12 or AR-42, except to the extent that any such claim arises out of the gross negligence or willful misconduct of Ohio State. The license agreements for AR-12 and AR-42, respectively, expire on the later of (i) the expiration of the last valid claim contained in any licensed patent and (ii) 20 years after the effective date of the license. Ohio State will generally be able to terminate either license upon our breach of the terms of the license the extent we fail to cure any such breach within 90 days after receiving notice of such breach or our bankruptcy. We may terminate either license upon 90 days’ prior written notice.

### ***AR-67 License Agreement***

During the nine months ended September 30, 2016, the Company sold to a third party for approximately \$500,000 the Company's research data related to AR-67, a product candidate the development of which was halted by the Company and the license to which was terminated in 2012. The proceeds from the sale have been recorded as a component of other income in the condensed statement of operations.

## **6. CONVERTIBLE NOTES PAYABLE**

On October 21, 2015, the Company issued a series of 6% convertible promissory notes (the "6% Notes") in the aggregate principal amount of \$2,100,000 with an original maturity date of October 21, 2016. The 6% Notes provided for automatic conversion into shares of the Company's equity securities upon the closing of a "qualified financing," defined as one in which the Company received cumulative gross proceeds of at least \$3,500,000 (including the \$2,100,000 of proceeds from the sale of the 6% Notes) through the issuance of shares of its equity securities, either alone or as part of units with other equity or equity-linked securities of the Company, at a conversion price equal to the price paid by investor for such equity securities in the qualified financing. The Company incurred \$12,528 of issuance costs related to the 6% Notes.

On January 12, 2016, in connection with the Company's entry into the January 2016 Purchase Agreement (See Note 8) the \$2,100,000 principal balance and accrued interest of \$28,652 under the 6% Notes was converted into 6,081,858 shares of the Company's common stock at a per share price of \$0.35 per share. In addition the remaining unamortized issuance costs of \$10,091 was expensed.

## **7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company defines fair value as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value estimates presented in the table below are based on information available to the Company as of September 30, 2016.

The accounting standard regarding fair value measurements discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:



- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

- These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company has determined the fair value of certain liabilities using the market approach. The following table presents the Company's fair value hierarchy for these liabilities measured at fair value on a recurring basis as of September 30, 2016:

	Fair Value September 30, 2016	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Liabilities:</b>				
Warrant liability - 2012 Series A	\$2,079,948	\$ -	\$ -	\$ 2,079,948
Warrant liability - 2012 placement agent	3,689	-	-	3,689
Warrant liability - 2013 Series D	4,454,068	-	-	4,454,068
Warrant liability - 2013 placement agent	3,939	-	-	3,939
Total	\$6,541,644	\$ -	\$ -	\$ 6,541,644

The following table presents the Company's fair value hierarchy for these liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Fair Value December 31, 2015	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Liabilities:</b>				
Warrant liability - 2012 Series A	\$1,753,969	\$ -	\$ -	\$ 1,753,969
Warrant liability - 2012 placement agent	7,661	-	-	7,661
Warrant liability - 2013 Series D	2,985,512	-	-	2,985,512
Warrant liability - 2013 placement agent	3,545	-	-	3,545
Total	\$4,750,687	\$ -	\$ -	\$ 4,750,687

The following table provides a summary of changes in fair value of the Company's liabilities, as well as the portion of losses included in income attributable to unrealized depreciation that relate to those liabilities held at September 30, 2016:

### Fair Value Measurement Using Significant Unobservable Inputs (Level 3)

	Total Warrant Liability	2013 Series E	2013 Series D	2013 Placement Agent	2012 Series B	2012 Series A	2012 Placement Agent	2010 Class B
Balance at January 1, 2015	\$6,671,524	\$25,737	\$3,011,249	\$18,907	\$12,381	\$3,507,938	\$67,246	\$28,066
Total gains or losses:								
Unrealized appreciation/(depreciation)	(1,920,837)	(25,737)	(25,737)	(15,362)	(12,381)	(1,753,969)	(59,585)	(28,066)
Balance at December 31, 2015	\$4,750,687	\$-	\$2,985,512	\$3,545	\$-	\$1,753,969	\$7,661	\$-
Total gains or losses:								
Unrealized appreciation/(depreciation)	1,790,957		1,468,556	394		325,979	(3,972)	
Balance at September 30, 2016	\$6,541,644	\$-	\$4,454,068	\$3,939	\$-	\$2,079,948	\$3,689	\$-
Value per Warrant	\$0.132	\$-	\$0.157	\$0.060	\$-	\$0.099	\$0.013	\$-

## 8. STOCKHOLDERS' EQUITY

### Common Stock

As of September 30, 2016, the Company had 47,849,036 shares of common stock issued and outstanding and approximately 68,338,022 shares of common stock reserved for issuance upon the exercise of outstanding options and warrants.

On January 12, 2016, the Company entered into a Stock Purchase Agreement (the "January 2016 Purchase Agreement") with certain purchasers identified therein (the "Purchasers") pursuant to which the Company agreed to sell, and the Purchasers agreed to purchase, an aggregate of 21,153,997 shares of the Company's common stock at a purchase price of \$0.35 per share for an aggregate gross proceeds of approximately \$7.4 million, including \$2,128,652 from the automatic conversion of the outstanding principal and accrued and unpaid interest under the 6% Notes. An aggregate

of 6,081,858 shares were sold under the January 2016 Purchase Agreement pursuant to the conversion of the 6% Notes sold pursuant to the January 2016 Purchase Agreement.

On August 15, 2016, the Company entered into a Securities Purchase Agreement (the “August 2016 Purchase Agreement”) with certain purchasers pursuant to which it agreed to issue and sell in a private placement 8,501,421 units of its securities at a price of \$0.35 per unit, with each unit consisting of one share of common stock and a five-year Series F Common Stock Purchase Warrant to purchase one-half share (rounded to the nearest whole share) of common stock at an exercise price of \$0.4375 per share (the “Series F Warrants”). On August 15 the Company closed on the sale of 6,286,423 units for proceeds of approximately \$2.2 million and on October 4, 2016 the Company closed on the sale of 285,714 units for an additional \$100,000 in proceeds. In connection with the October closing the Company received \$150,000 of the proceeds prior to September 30, 2016 and has recorded the proceeds as a stock subscription as of September 30, 2016. The closing on the sale of the remaining 1,929,284 units, which will result in additional gross proceeds to us of approximately \$675,250, is subject to the satisfaction of customary closing conditions, including the effectiveness of a registration statement under the Securities Act covering the resale of the shares and warrant shares sold pursuant to the purchase agreement. The Company filed a registration statement covering such shares on October 12, 2016 and it was declared effective by the Securities and Exchange Commission on November 3, 2016. On November 4, 2016, the Company closed on 1,214,999 units, which resulted in additional gross proceeds to the Company of approximately \$425,250. There are 714,285 units (\$250,000 in proceeds) subject to the August 2016 Purchase Agreement that remain to be closed upon.

## Warrants

In accordance with the 2010 sale and issuance of Series A preferred stock, the Company issued two-and-one-half-year “Class A” warrants to purchase an aggregate of 152,740 shares of Series A Preferred Stock at an initial exercise price of \$8.00 per share (the “2010 Class A Warrants”) and five-year Class B warrants to purchase an aggregate of 801,885 shares of Series A Preferred Stock at an initial exercise price of \$9.20 per share (the “2010 Class B Warrants,” and together with the 2010 Class A Warrants, the “2010 Warrants”). Upon the automatic conversion of the Series A Preferred Stock in January 2011, the 2010 Warrants automatically converted to the right to purchase an equal number of shares of common stock. The terms of the warrants contain an anti-dilutive price adjustment provision, such that, in the event the Company issues common shares at a price below the current exercise price of the 2010 Warrants, the exercise price will be decreased pursuant to a customary “weighted-average” formula. In accordance with this provision and as a result of the issuances made pursuant to the 2012 Purchase Agreement and 2013 Purchase Agreement, the exercise price of the 2010 Class B warrants has been adjusted to \$3.55 per share. Because of this anti-dilution provision and the inherent uncertainty as to the probability of future common share issuances, the Black-Scholes option pricing model the Company uses for valuing stock options could not be used. Management used a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report to determine the warrant liability to be approximately \$0.0 million at December 31, 2015. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company’s future expected stock prices and minimizes standard error. This valuation is revised on a quarterly basis until the warrants are exercised or they expire, with the changes in fair value recorded in other income (expense) on the statement of operations. The 2010 Class A warrants, representing the right to purchase an aggregate of 152,740 shares of common stock, expired unexercised during the year ended December 31, 2013, and the Class B warrants, representing the right to purchase an aggregate of 801,885 shares of common stock, expired unexercised during September 2015.

Pursuant to the 2012 Purchase Agreement for the sale and issuance of 8% Senior Convertible Debentures, the Company issued five-year Series A Common Stock Purchase Warrants (The “Series A Warrants”) to purchase an aggregate of approximately 6,190,500 shares of common stock at an initial exercise price of \$4.00 per share and 18-month Series B Common Stock Purchase Warrants (The “Series B Warrants” and together with the Series A Warrant, the “2012 Warrants”) to purchase an aggregate of approximately 6,190,500 shares of common stock at an initial exercise price of \$2.40 per share. The terms of the 2012 Warrants contain a “full-ratchet” anti-dilutive price adjustment provision. In accordance with such full-ratchet anti-dilution provision, in the event that the Company sells or issues additional shares of common stock, including securities convertible or exchangeable for common stock (subject to customary exceptions), at a per share price less than the applicable 2012 Warrant exercise price, such warrant exercise price will be reduced to an amount equal to the issuance price of such subsequently issued shares; after such time as the Company has raised at least \$12 million in additional equity financing, the 2012 Warrants are subject to further anti-dilution protection based on a weighted-average formula. Further, the anti-dilution provisions of the 2012 Warrants provide that, in addition to a reduction in the applicable exercise price, the number of shares purchasable thereunder is increased such that the aggregate exercise price of the warrants (exercise price per share multiplied by total number of shares underlying the warrants) remained unchanged. In accordance with the terms of this anti-dilution provision and as a result of the Company’s issuances under the 2013 Purchase Agreement, the exercise price of the Series A Warrants was reduced to \$2.40 per share and the aggregate number of shares underlying such warrants was increased to 10,317,464 shares. Further in accordance with the terms of this anti-dilution provision

and as a result of the Company's issuances under the 2016 Purchase Agreement, the exercise price of the Series A Warrants was reduced to \$1.36 per share and the aggregate number of shares underlying such warrants was increased to 18,207,273 shares. In August, 2016 further in accordance with the terms of this anti-dilution provision and as a result of the Company's issuances under the 2016 Securities Agreement, the exercise price of the Series A Warrants was reduced to \$1.18 per share and the aggregate number of shares underlying such warrants was increased to 21,009,562 shares. The 2012 Warrants also contain a provision that may require the Company to repurchase such warrants from their holders in connection with a sale of the Company or similar transactions. As a result of such anti-dilution and repurchase provisions, the Company is required to record the fair value of the 2012 Warrants as a liability on the accompanying balance sheet. Because of this anti-dilution provision and the inherent uncertainty as to the probability of future common share issuances, the Black-Scholes option pricing model the Company uses for valuing stock options could not be used. Management used a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report to determine the warrant liability to be approximately \$2.1 million and \$1.8 million at September 30, 2016 and December 31, 2015, respectively. The Debentures were converted to common stock in 2013. At the time of the conversion of the Debentures, the expiration date of the Series B Warrants was extended to October 31, 2014, and was thereafter further extended to January 31, 2015. The Series B warrants, representing the right to purchase an aggregate of approximately 6,190,500 shares of common stock, expired unexercised on January 31, 2015.

In connection with the sale of the Debentures and 2012 Warrants, the Company engaged Maxim Group LLC, or Maxim, to serve as placement agent. In consideration for its services, the Company paid Maxim a placement fee of \$1,035,000. In addition, the Company issued to an affiliate of Maxim 7,500 shares of common stock and five-year warrants to purchase an additional 283,750 shares of common stock at an initial exercise price of \$2.64 per share. The warrants issued to Maxim are in substantially the same form as the 2012 Warrants issued to the investors, except that they do not include certain anti-dilution provisions contained in the investors' 2012 Warrants. However, the placement warrants do contain a provision that could require the Company to repurchase the warrants from the holder in connection with a sale of the Company or similar transaction. As a result of such repurchase provision, the Company is required to record the fair value of such warrants as a liability on the accompanying balance sheet. Management used a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report to determine the warrant liability to be approximately \$0.0 million at September 30, 2016 and December 31, 2015, respectively.

Under the terms of the 2013 Purchase Agreement for the issuance and sale of common stock, each Purchaser received Series D Common Stock Purchase Warrant (a “Series D Warrant”) and a Series E Common Stock Warrant (a “Series E Warrant” and together with the Series D Warrant, the “2013 Warrants”) and had the option to elect to receive a Series C Common Stock Purchase Warrant (a “Series C Warrant”) in lieu of a share in connection with each unit it purchased. The Series C Warrants have a five-year term and are exercisable at an initial exercise price of \$0.01 per share. The Series D Warrants have a five-year term and are exercisable at an initial exercise price of \$4.00 per share, subject to adjustment for stock splits, combinations, recapitalization events and certain dilutive issuances (as described below). The Series E Warrants were initially exercisable until October 31, 2014, which exercise date was subsequently extended by the Company to January 31, 2015. The initial exercise price of the Series E Warrants was \$2.40 per share, subject to adjustment for stock splits, combinations, recapitalization events and certain dilutive issuances (as described below). The applicable exercise price of the Series D Warrants and Series E Warrants (but not the Series C Warrants) is subject to a weighted-average price adjustment in the event the Company makes future issuances of common stock or rights to acquire common stock (subject to certain exceptions) at a per share price less than the applicable warrant exercise price. In accordance with the terms of this anti-dilution provision and as a result of the Company’s issuances under the 2016 Purchase Agreement, the exercise price of the Series D warrants was reduced from \$4.00 to \$2.14 per share and the aggregate number of shares underlying such warrants was increased from 12,868,585 to 24,053,398 shares. Further in accordance with the terms of this anti-dilution provision and as a result of the Company’s issuances under the August 2016 Purchase Agreement, the exercise price of the Series D Warrants was reduced to \$1.81 per share and the aggregate number of shares underlying such warrants was increased to 28,369,815 shares. The 2013 Warrants also contain a provision that may require the Company to repurchase such warrants from their holders in connection with a sale of the Company or similar transactions. As a result of such anti-dilution and repurchase provisions, the Company is required to record the fair value of the 2013 Warrants as a liability on the accompanying balance sheet. Because of this anti-dilution provision and the inherent uncertainty as to the probability of future common share issuances, the Black-Scholes option pricing model the Company uses for valuing stock options could not be used. Management used a Monte Carlo simulation model and, in doing so, utilized a third-party valuation report to determine the warrant liability for the Series D Warrants to be approximately \$4.5 million and \$3.0 million at September 30, 2016 and December 31, 2015, respectively. The Series E Warrants, representing the right to purchase an aggregate of 12,868,585 shares of common stock, expired unexercised on January 31, 2015. The 2013 Warrants are required to be exercised for cash, provided that if during the term of the Warrants there is not an effective registration statement under the Securities Act covering the resale of the shares issuable upon exercise of the Warrants, then the Warrants may be exercised on a cashless (net exercise) basis.

Pursuant to the terms of the August 2016 Purchase Agreement for the issuance and sale of common stock, the Company issued Series F Warrants to purchase an aggregate of approximately 3,145,208 shares of common stock. The Series F Warrants have a five-year term and are exercisable at an initial exercise price of \$0.4375 per share, subject to adjustment for stock splits, combinations, recapitalization events. The Series F Warrants are required to be exercised for cash, provided that if during the term of the warrants there is not an effective registration statement under the Securities Act covering the resale of the shares issuable upon exercise of the Series F Warrants, then the warrants may be exercised on a cashless (net exercise) basis.

Below is a table that summarizes all outstanding warrants to purchase shares of the Company’s common stock as of September 30, 2016:

Description	Grant Date	Warrants Issued	Exercise Price	Weighted Average Exercise Price	Expiration Date	Exercised	Warrants Outstanding
2012 Series A	11/26/2012	17,966,139	\$ 1.1786	\$ 1.1786	11/26/2017	-	17,966,139
2012 Placement	11/26/2012	261,250	\$ 2.6400	\$ 2.6400	11/26/2017	-	261,250
2012 Series A	12/18/2012	3,043,423	\$ 1.1786	\$ 1.1786	12/18/2017	-	3,043,423
2012 Placement	12/18/2012	22,500	\$ 2.6400	\$ 2.6400	12/18/2017	-	22,500
2013 Series C	10/29/2013	4,455,231	\$ 0.0100	\$ 0.0100	10/29/2018	-	4,455,231
2013 Series D	10/29/2013	28,369,815	\$ 1.8144	\$ 1.8144	10/29/2018	-	28,369,815
2013 Placement	10/29/2013	65,650	\$ 2.6400	\$ 2.6400	10/29/2018	-	65,650
2016 Series F	08/15/2016	3,143,208	\$ 0.4375	\$ 0.4375	08/15/2021	-	3,143,208
		57,327,216		\$ 1.37		-	57,327,216

## 9. STOCK BASED COMPENSATION

The Company's 2005 Stock Option Plan (the "2005 Plan") was originally adopted by the Board of Directors of Old Arno in August 2005, and was assumed by the Company on June 3, 2008 in connection with the Merger. After giving effect to the Merger, there were initially 373,831 shares of the Company's common stock reserved for issuance under the 2005 Plan. On April 25, 2011, the Company's Board of Directors (the "Board") approved an amendment to the 2005 Plan to increase the number of shares of common stock issuable under the 2005 Plan to 875,000 shares. On January 14, 2013, the Board approved an amendment to the 2005 Plan to increase the number of shares of common stock issuable under the 2005 Plan to 945,276 shares. On October 7, 2013, the Board adopted an amendment to the 2005 Plan, as amended that increased the number of shares of common stock authorized for issuance thereunder from 945,276 to 11,155,295. Under the 2005 Plan, incentives may be granted to officers, employees, directors, consultants, and advisors. Incentives under the 2005 Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options, (b) stock appreciation rights, (c) stock awards, (d) restricted stock and (e) performance shares.

The 2005 Plan is administered by the Board, or a committee appointed by the Board, which determines recipients and types of awards to be granted, including the number of shares subject to the awards, the exercise price and the vesting schedule. The term of stock options granted under the 2005 Plan cannot exceed 10 years. Options shall not have an exercise price less than the fair market value of the Company's common stock on the grant date, and generally vest over a period of three to four years.

The 2005 Plan expired on March 31, 2016 with 7,018,549 options outstanding which will continue to vest. No further awards will be made pursuant to this plan.



On March 14, 2016, the Board of the Company adopted the Company’s 2016 Equity Incentive Plan (the “2016 Plan”). The 2016 Plan replaces the Company’s 2005 Plan. Incentives under the 2016 Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options, (b) stock appreciation rights, (c) stock awards, (d) restricted stock and (e) performance shares. The stock to be awarded or optioned under the 2016 Plan will consist of authorized but unissued or reacquired shares of common stock. The maximum aggregate number of shares of common stock reserved and available for awards under the 2016 Plan is 9,000,000 shares; provided, that all shares of stock reserved and available under the 2016 Plan will constitute the maximum aggregate number of shares of stock that may be issued through incentive stock options.

Any employee, director, or consultant may participate in the 2016 Plan; provided, however, that only employees are eligible to receive incentive stock options. Additionally, the Company may grant certain performance-based awards to “covered employees” in compliance with Section 162(m) of the Internal Revenue Code. These covered employees include our executive officers. No person may be granted options, stock appreciation rights, restricted stock awards, restricted stock units or performance awards under the 2016 Plan for more than 4,000,000 shares of common stock in any calendar year.

The term of stock options granted under the 2016 Plan cannot exceed 10 years. Options shall not have an exercise price less than the fair market value of the Company’s common stock on the grant date, and generally vest over a period of three to four years. Incentive stock options may not be granted after March 13, 2026.

As of September 30, 2016, there are 5,007,743 shares available for future grants and awards under the 2016 Plan, which covers stock options, warrants and restricted stock awards.

Stock-based compensation costs under the Company’s equity incentive plans for the three and nine month periods ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development	\$ 220,960	\$ 275,429	\$ 703,324	\$ 830,180
General and administrative	804,487	658,900	2,243,488	2,027,109
Total	\$ 1,025,447	\$ 934,329	\$ 2,946,812	\$ 2,857,289

The Company grants stock options to employees and members of the Board of Directors with the exercise prices equal to the closing price of the underlying shares of the Company’s common stock on the date that the options are granted.

Options granted have a term of 10 years from the grant date. Options granted to employees generally vest over a three-year period and options granted to members of the Board of Directors vest in equal monthly installments over a one-year period from the date of grant. Options to members of the Board of Directors are granted on an annual basis and represent compensation for services performed on the Board of Directors. Compensation cost for stock options is charged against operations on a straight-line basis between the grant date for the option and each vesting date. The Company estimates the fair value of the stock options on the grant date by applying the Black-Scholes option pricing valuation model. The application of this valuation model involves assumptions that are highly subjective, judgmental and sensitive in the determination of compensation cost.

In addition during the nine months ended September 30, 2016 the Company granted stock options to members of senior management that contain certain conditions to the exercisability of the shares subject thereto (“Contingent Options”) with the exercise prices equal to the closing price of the underlying shares of the Company’s common stock on the date that the options are granted. The Contingent Options granted have a term of 10 years from the grant date. The Contingent Options are exercisable only to the extent that the Company’s outstanding Series A Warrants and Series D Warrants are exercised prior to their expiration. Compensation cost for the Contingent Options is charged against operations over the implicit, explicit or derived requisite service period unless the market condition is satisfied at an earlier date, in which case any unrecognized compensation cost would be recognized immediately upon satisfaction of the market condition. If the requisite service is not rendered, all previously recognized compensation cost would be reversed. If the requisite service is rendered, the recognized compensation is not reversed even if the market condition is never satisfied. The Company utilized a Monte Carlo simulation model for the valuation of market options. The application of this valuation model involves assumptions that are highly subjective, judgmental and sensitive in the determination of compensation cost.

The Company issued the following stock options during the three and nine month periods ended September 30, 2016 and 2015, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock Options	-	-	2,459,799	-
Contingent Options	-	-	1,621,106	-
Total granted	-	-	4,080,905	-

The Company estimated the fair value of the stock options granted using the Black-Scholes option-pricing model. The Company estimated the fair value of the Market Options granted using the Monte Carlo simulation model. The following key assumptions were used for both option grants for the nine months ended September 30, 2016 as no options were granted in the three months ended September 30, 2016 and the three and nine months ended September 30, 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected volatility	N/A	N/A	82% - 85%	N/A
Expected term	N/A	N/A	6 years	N/A
Dividend yield	N/A	N/A	0.0%	N/A
Risk-free interest rate	N/A	N/A	1.14% - 1.55%	N/A
Stock price	N/A	N/A	\$0.30 - \$0.37	N/A
Forfeiture rate	N/A	N/A	0.0%	N/A

A summary of the status of the options issued under the Company's equity incentive plans at September 30, 2016, and information with respect to the changes in options outstanding, is as follows:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at December 31, 2015	7,027,658	\$ 2.57	\$7,824
Granted	4,080,905	0.37	414,296
Exercised	-	-	-

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Cancelled	(97,757 )	2.23	-
Options outstanding at September 30, 2016	11,010,806	\$ 1.76	\$ 422,120
Options vested and expected to vest at September 30, 2016	11,010,806	\$ 1.76	\$ 422,120
Exercisable at September 30, 2016	6,658,434	\$ 2.53	\$ 30,677
Shares available for grant under the 2016 Plan	5,007,743		

The following table summarizes information about stock options outstanding at September 30, 2016:

Exercise Price	Outstanding		Exercisable		
	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 0.30	88,648	9.28	\$ 0.30	19,699	\$ 0.30
\$ 0.36	48,399	9.09	\$ 0.36	13,444	\$ 0.36
\$ 0.37	4,017,257	9.52	\$ 0.37	258,496	\$ 0.37
\$ 0.85	136,785	8.09	\$ 0.85	79,791	\$ 0.85
\$ 1.30	100,000	8.02	\$ 1.30	59,375	\$ 1.30
\$ 2.40	5,097,075	6.46	\$ 2.40	4,852,574	\$ 2.40
\$ 2.90	1,420,259	7.32	\$ 2.90	1,272,672	\$ 2.90
\$ 8.00	65,000	3.82	\$ 8.00	65,000	\$ 8.00
\$ 19.38	37,383	1.53	\$ 19.38	37,383	\$ 19.38
Total	11,010,806	7.72	\$ 1.76	6,658,434	\$ 2.53

The grant date fair value of options vested under the Company's equity incentive plans was approximately \$952,576 and \$935,446 for the three months ended September 30, 2016 and 2015, and \$2,802,664 and \$3,590,708 for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, total unrecognized estimated compensation cost related to stock options granted prior to that date was approximately \$1,784,552 which is expected to be recognized over a weighted-average vesting period of 2.5 years. This unrecognized estimated employee compensation cost does not include any estimate for forfeitures of performance-based stock options.

Common stock, stock options or other equity instruments issued to non-employees (including consultants and all members of the Company's Scientific Advisory Board) as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is expensed as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

## 10. SUBSEQUENT EVENTS

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As described above under “Note 8, Stockholders’ Equity - Common Stock,” on October 4, 2016, the Company closed on the sale of an additional 285,714 shares of common stock and Series F Warrants to purchase 142,857 shares of common stock pursuant to the August 2016 Purchase Agreement, resulting in gross proceeds of \$100,000. The closing on the sale of the remaining 1,929,284 units, which will result in additional gross proceeds to us of approximately \$675,250, is subject to the satisfaction of customary closing conditions, including the effectiveness of a registration statement under the Securities Act covering the resale of the shares and warrant shares sold pursuant to the purchase agreement.

The registration statement covering such shares and warrant shares was declared effective on November 3, 2016 by the Securities and Exchange Commission. The Company closed on the sale of 1,214,999 units on November 4, 2016, which resulted in additional gross proceeds to us of approximately \$425,250. There are 714,285 units (\$250,000 proceeds) subject to the August 2016 Purchase Agreement that remain to be closed upon.

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

### Overview

We are focused on developing innovative products for the treatment of cancer and other life threatening diseases. We currently have exclusive worldwide rights to three innovative clinical stage compounds with unique mechanisms of action that have the potential to be first-in-class therapeutics.

The following is a summary of our product development pipeline:

**Onapristone** – We are currently developing onapristone, an oral anti-progestin hormone blocker that has been shown to have considerable anti-tumor activity in patients with breast cancer. Onapristone appears to have a unique ability to block the activation of the progesterone receptor and inhibit tumor growth. In connection with the development of onapristone, we have engaged Leica Biosystems to develop an immunohistochemistry based diagnostic test to identify tumors with the activated form of the progesterone receptor (APR), which is intended to identify patients more likely to benefit from treatment with onapristone. Additional biomarker development is ongoing to develop a diagnostic test to identify progesterone receptor (PR) in tumor types other than breast cancer.

In April 2014, we enrolled the first patient in a Phase I/II clinical trial of onapristone in men with advanced castration-resistant prostate cancer, or CRPC, after failure of abiraterone or enzalutamide. This study is currently being conducted at three sites in the United Kingdom, led by the Royal Marsden NHS Foundation Trust in London. The randomized, open-label trial is designed to evaluate the safety and anti-cancer activity of onapristone in the defined patient population. The Phase I component of the study evaluated onapristone extended-release tablet formulations in five dose levels (10-50 mg, twice daily) in patients with prostate cancer and has completed enrollment. The protocol has been amended to study the combination of onapristone plus abiraterone in a Phase I setting with an expansion phase. In addition, the protocol also includes a Phase II cohort of patients that will be enrolled to gain additional understanding of the onapristone as a potential treatment in men with CRPC. The Phase II aspect of the study includes a component that will evaluate the combination of onapristone plus Zytiga® (abiraterone acetate) in men who have had evidence of progression of disease while on abiraterone acetate. The ongoing phase 2 clinical trial evaluating the combination of onapristone plus abiraterone acetate has completed the lead-in phase at 30 mg BID of onapristone plus “full dose” abiraterone acetate (5 patients) and the independent data review committee (DRC) found the combination safe and recommended moving forward with the 50 mg BID onapristone dose. The onapristone 50 mg BID plus “full dose” abiraterone acetate cohort is currently accruing patients in the UK and US. It is anticipated that the DRC will have safety data from first group of patients (approximately 6 patients) treated at the 50 mg BID dose of onapristone in combination with abiraterone acetate for review in October 2016. Another component of this Phase II aspect of the study will further evaluate the safety profile and potential anti-cancer activity of single agent onapristone in men with advanced CRPC after failure of abiraterone or enzalutamide. Screening of patients under the amended study protocol began in the first quarter of 2016 and the Phase II study will include approximately 75 patients.

In addition, in December 2014, we enrolled the first patient in the expansion phase of our ongoing Phase I/II clinical trial evaluating onapristone in women with progesterone receptor (PR) expressing tumors. The protocol was subsequently amended to include a formal Phase II study in patients with recurrent or metastatic endometrioid tumors that have been shown to express PR, and who have received no more than one prior chemotherapy and no prior hormone therapy. Patients in the Phase II endometrioid cancer component of the study received 50mg of extended release onapristone twice daily, the dose determined by an independent data review committee to be safely administered to patients based on the results of the Phase I component of this study. The study also incorporated a diagnostic test targeting women with tumors expressing APR, which was intended to select those patients more likely to respond to onapristone treatment. In April 2016, we determined to close this clinical trial to further accrual in order to focus our resources on our prostate cancer program.

**AR-12 and analogues** – AR-12 was initially being developed as an orally available agent which demonstrated to inhibit multiple different kinase targets. We believe AR-12 may also cause malignant cell death through the induction of stress in the endoplasmic reticulum and recent work has demonstrated that AR-12 inhibits various molecular protein chaperones including GRP78, HSP70, HSP90 and HSP27. We have completed a Phase I clinical trial of AR-12 in adult patients with advanced or recurrent solid tumors or lymphoma using the original non optimized formulation of AR-12. Subsequently, an improved formulation of AR-12 that has been shown to substantially increase bioavailability in preclinical models has been developed. Based on additional pre-clinical research conducted on AR-12, we are currently pursuing various opportunities with the potential for securing non-dilutive funding, via government and philanthropic agency grants and contracts, for further research into the potential use of AR-12 as an anti-microbial agent. In April 2015, the EMA granted two orphan drug designations for AR-12 for the treatment of cryptococcosis and tularaemia. Cryptococcosis is an infectious disease of the lungs caused by the fungus *Cryptococcus neoformans* and is one of the most common life-threatening fungal infections in people with AIDS. Tularaemia is an infection which can be spread from animals to humans that is caused by the bacterium *Francisella tularensis* and is a Category A Priority Pathogen on the National Institute of Allergy and Infectious Disease (NIAID) list of Biodefense and Emerging Infectious Diseases. A CRADA is in place with the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) for the evaluation of AR-12 and analogues against pathogens of biodefense interests. Other analogues of AR-12 such as AR-13 are being investigated for activity against certain microbial pathogens through a number of collaborations.



**AR-42** – AR-42 is being developed as an orally available, broad spectrum inhibitor of both histone and non-histone deacetylation proteins, or Pan-DAC, which play an important role in the regulation of gene expression, cell growth and survival. AR-42 recently completed an investigator-initiated dose escalation clinical study with an expansion phase in adult subjects with relapsed or refractory hematological malignancies (multiple myeloma, chronic lymphocytic leukemia (CLL), or lymphoma) and solid tumors. The recommended Phase II dose, or RP2D, in patients with hematological malignancies has been determined and the expansion phase of the program has been completed. The protocol has been amended to include a separate solid tumor dose escalation cohort and expansion phase. The solid tumor component of the study has been completed. We also supported an investigator initiated Phase I study of AR-42 in combination with decitabine in patients with hematological malignancies that was initiated during the third quarter of 2013. The FDA has granted two orphan drug designations for AR-42 for the treatment of meningioma and the treatment of schwannoma of the central nervous system. Meningioma and schwannoma are rare, benign tumors that can present in different locations within the brain and the spinal cord and may cause substantial morbidity for those affected individuals. Additionally, AR-42 has been granted three orphan drug designations by the European Medicines Agency, or EMA, for the treatment of neurofibromatosis type 2 (NF2), the treatment of meningioma and the treatment of schwannoma. NF2 is a rare genetic disorder characterized by the growth of noncancerous tumors in the brain and spinal cord, juvenile cataracts, and neurofibromas of the skin. Additional investigator sponsored clinical trials of AR-42 are currently underway or being planned. Preclinical data indicates that AR-42 may be additive/synergistic with certain immuno-oncology therapeutic targets and additional preclinical investigations are underway to determine the best developmental path for these potential combination therapies.

We have no product sales to date and we will not generate any product revenue until we receive approval from the FDA or equivalent foreign regulatory bodies to begin selling our pharmaceutical product candidates. Developing pharmaceutical products is a lengthy and very expensive process. Assuming we do not encounter any unforeseen safety or other issues during the course of developing our product candidates, we do not expect to complete the development of a product candidate for several years, if ever. To date, almost all of our development expenses have been incurred on each of our product candidates: Onapristone, AR-12, AR-42 and AR-67 (a compound we are no longer developing). As we proceed with the clinical development of our product candidates, primarily focusing our resources on onapristone, our research and development expenses will further increase. To the extent we are successful in acquiring additional product candidates for our development pipeline, our need to finance further research and development will continue increasing. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance the development of the products. To date, our major sources of working capital have been proceeds from private and public sales of our common and preferred stock and debt financings.

Research and development, or R&D, expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, costs related to obtaining and maintaining our product license agreements, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. We expense our R&D costs as they are incurred.

General and administrative, or G&A, expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, accounting, legal and other professional fees, business development expenses, rent, business insurance and other corporate expenses.

Our results include non-cash compensation expense as a result of the issuance of stock options. We expense the fair value of stock options over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial performance and product development. Stock-based compensation expense is included in the respective categories of expense in the statements of operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

## **Results of Operations**

***General and Administrative Expenses.*** G&A expenses for each of the three month periods ended September 30, 2016 and 2015 were approximately \$1.1 million and \$1.1 million, respectively. Spending was flat for the third quarter of 2016 over the same period in 2015.

G&A expenses for each of the nine month periods ended September 30, 2016 and 2015 were approximately \$3.7 million and \$3.8 million, respectively. The decrease of approximately \$0.1 million for the nine months of 2016 over the same period in 2015 is primarily the result of decreased compensation expense.

**Research and Development Expenses.** R&D expenses for each of the three month periods ended September 30, 2016 and 2015 were approximately \$1.1 million and \$1.8 million, respectively. The decrease of approximately \$0.7 million for the third quarter of 2016 compared to the same period in 2015 is primarily due to a decrease in spending for our lead product candidate, onapristone and general research and development. Total direct onapristone development costs for the quarter ended September 30, 2016 were approximately \$0.6 million compared to approximately \$1.0 million for the quarter ended September 30, 2015. This decrease of approximately \$0.4 million over the same period of 2015 is primarily due to decreased spending on onapristone's clinical trials of \$0.3 million and non-clinical research activities of \$0.1 million. The company also incurred lower compensation costs of \$0.1 million in 2016 over the same period of 2015.

R&D expenses for the nine month periods ended September 30, 2016 and 2015 were approximately \$4.7 million and \$6.9 million, respectively. The decrease of approximately \$2.2 million for the nine months of 2016 compared to the same period in 2015 is primarily due to a decrease in spending for our lead product candidate, onapristone and general research and development. Total direct onapristone development costs for the nine months ended September 30, 2016 were approximately \$3.3 million compared to approximately \$4.5 million for the nine months ended September 30, 2015. This decrease of approximately \$1.2 million over the same period of 2015 is primarily due to decreased spending on onapristone's clinical trials of \$0.2 and non-clinical research activities of \$1.0 million. The company also incurred lower compensation costs of \$0.6 million in 2016 over the same period of 2015.

The following table summarizes our R&D expenses incurred for preclinical support, contract manufacturing of clinical supplies, clinical trial services provided by third parties and milestone payments for in-licensed technology for each of our product candidates for the three and nine month periods ended September 30, 2016 and 2015, as well as the cumulative amounts since we began development of each product candidate through September 30, 2016. The table also summarizes unallocated costs, which consist of personnel, facilities and other costs not directly allocable to specific development programs (the amounts stated are expressed in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative amounts during development
	2016	2015	2016	2015	
Onapristone	\$ 649	\$ 1,021	\$ 3,278	\$ 4,459	\$ 35,065
Other R&D Projects	124	367	428	877	26,317
Unallocated R&D	343	405	1,010	1,579	17,150
Total	\$ 1,116	\$ 1,793	\$ 4,716	\$ 6,915	\$ 78,532

Our expenditures on current and future clinical development programs are expected to be substantial and to increase particularly in relation to our available capital resources. Based on our current development plans, during the fiscal year 2016 we anticipate external development costs to be approximately \$3.7 million for onapristone and \$0.5 for other research and development projects. However, these planned expenditures are subject to many uncertainties, including the availability of necessary capital, the results of clinical trials and whether we develop any of our drug

candidates with a partner or independently. As a result of such uncertainties, it is very difficult to accurately predict the duration and completion costs of our research and development projects or whether, when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. The duration and cost of clinical trials may vary significantly over the life of a project as a result of unanticipated events arising during clinical development and a variety of factors, including:

- the number of trials and studies in a clinical program;
- the number of patients who participate in the trials;
- the number of sites included in the trials;
- the rates of patient recruitment and enrollment;
- the duration of patient treatment and follow-up;
- the costs of manufacturing our drug candidates; and
- the costs, requirements, timing of, and ability to secure regulatory approvals.

**Interest Income.** Interest income for the three months ended September 30, 2016 and 2015 was \$904 and \$530 respectively. The increase in interest income compared to the same period in 2015 is primarily due to higher average cash balances held during 2016 compared to the same period of 2015.

Interest income for the nine months ended September 30, 2016 and 2015 was \$3,889 and \$7,625 respectively. The decrease in interest income compared to the same period in 2015 is primarily due to lower average cash balances held during 2016 compared to the same period of 2015.

**Interest Expense.** Interest expense for the three months ended September 30, 2016 and 2015 was \$214 and \$349 respectively. The decrease in interest expense in 2016 over 2015 is the result of lower interest expense on capitalized leases.

Interest expense for the nine months ended September 30, 2016 and 2015 was \$14,982 and \$1,139 respectively. The increase in interest expense in 2016 over 2015 is the result of interest expense and amortization of financing costs associated with convertible notes issued in October, 2015.

**Other Income (Expense).** Other expense for the three months ended September 30, 2016 was approximately \$1.6 million compared to other income of approximately \$2.2 million for the three months ended September 30, 2015. The change in 2016 over 2015 is related to noncash adjustments to the warrant liability primarily driven by increased number of warrants outstanding partly offset by \$0.4 million of proceeds from the sale of AR-67 preclinical and clinical data package.

Other expense for the nine months ended September 30, 2016 was approximately \$1.3 million compared to other income of approximately \$3.2 million for the nine months ended September 30, 2015. The change in 2016 over 2015 is related to noncash adjustments to the warrant liability primarily driven by lower valuation price per warrant outstanding partly offset by \$0.5 million of proceeds from the sale of AR-67 preclinical and clinical data package.

### Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of September 30, 2016 and December 31, 2015 and our net changes in cash and cash equivalents for the three and nine months ended September 30, 2016 and 2015 (the amounts stated are expressed in thousands):

	September 30, 2016	December 31, 2015
Liquidity and capital resources		
Cash and cash equivalents	\$ 2,124	\$ 67
Working capital	800	(3,903 )
Stockholders' deficit	(5,714 )	(8,624 )

  

	Nine Months Ended September 30,	
Cash flow data	2016	2015
Cash used in:		
Operating activities	\$ (5,475 )	\$ (7,823 )
Investing activities	-	-
Financing activities	7,532	(2 )
Net increase/(decrease) in cash and cash equivalents	\$ 2,057	\$ (7,825 )

Our total cash resources as of September 30, 2016 were approximately \$2.1 million compared to approximately \$0.1 million as of December 31, 2015. As of September 30, 2016, we had approximately \$8.1 million in liabilities (of which approximately \$6.5 million represented non-cash derivative liabilities), and a net working capital of approximately \$0.8 million. We realized net loss of approximately \$9.7 million and had negative cash flow from

operating activities of \$5.5 million for the nine months ended September 30, 2016. As we continue to develop our product candidates, we expect to incur substantial and increasing losses, which will continue to generate negative net cash flows from operating activities as we expand our technology portfolio and engage in further research and development activities, particularly the conduct of additional pre-clinical studies and clinical trials.

From inception through September 30, 2016, we have financed our operations through private sales of our equity and debt securities. As we have not generated any revenue from operations to date, and we do not expect to generate revenue for several years, if ever, we will need to raise substantial additional capital in order to continue to fund our research and development, including our long-term plans for clinical trials and new product development, as well as to fund operations generally. We may seek to raise additional funds through various potential sources, such as equity and debt financings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure such additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs.

In January 2016, we completed a private placement of 21,153,997 shares of our common stock at a purchase price of \$0.35 per share for an aggregate gross proceeds of approximately \$7.4 million, including the satisfaction of \$2.1 million of indebtedness represented by convertible notes that we issued in October 2015. The number of shares sold in the private placement included an aggregate of 6,081,858 shares that were issued upon the automatic conversion of the Company's convertible notes issued in the principal amount of \$2.1 million and \$28,652 of accrued interest.

On August 15, 2016, we entered into a Securities Purchase Agreement with certain purchasers pursuant to which we agreed to issue and sell in a private placement 8,501,421 units of our securities at a price of \$0.35 per unit, with each unit consisting of one share of common stock and a five-year warrant to purchase one-half share (rounded to the nearest whole share) of common stock at an exercise price of \$0.4375 per share. On August 15, October 4 and November 4, 2016 we closed on the sale of a total 7,787,136 units, resulting in total gross proceeds to us of approximately \$2.7 million. There are 714,285 units (\$250,000 proceeds) subject to the August 2016 Purchase Agreement that remain to be closed upon.

Based on our current development plans, we believe our existing cash resources, including approximately the \$3.0 million proceeds received, or that will be received, pursuant to the August 2016 securities purchase agreement, are sufficient to fund our operations into January 2017. We are therefore in immediate need of additional capital to fund its continuing operations beyond such period. Further, we will need substantial additional capital in order to complete the development and obtain regulatory approval of our product candidates, if ever. Based on the various options for future clinical studies of onapristone, AR-12 and AR-42, our projected cash needs are difficult to predict. In addition, there are other factors which may also cause our actual cash requirements to vary materially, including changes in the focus and direction of our research and development programs; the acquisition and pursuit of development of new product candidates; competitive and technical advances; costs of commercializing any of the product candidates; and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights. If we are unable to raise additional funds when needed, we may not be able to continue development and regulatory approval of our products, and we could be required to delay, scale back or eliminate some or all of our research and development programs and we may need to wind down our operations altogether. Each of these alternatives would likely have a material adverse effect on our business and may result in a loss of your entire investment in our common stock.

The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our research activities;
- the costs of hiring additional full-time personnel;
- the number and scope of our research programs;
- the progress of our pre-clinical and clinical development activities;
- the costs and timing of manufacturing our drug candidates;
- the progress of the development efforts of parties with whom we have entered into research and development agreements;
- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- the cost involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the cost and timing of regulatory approvals.

We have based our estimates on assumptions that may prove to be wrong. We may need to obtain additional funds sooner than planned or in greater amounts than we currently anticipate. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments that might result from the inability of the Company to continue as a going concern.

### ***License Agreement Commitments***

*Onapristone License Agreement*

Our rights to onapristone are governed by a license agreement with Invivis dated February 13, 2012. Under this agreement, we hold an exclusive, royalty-bearing license for the rights to commercialize onapristone for all therapeutic uses. The license agreement provides us with worldwide commercial rights to onapristone with the exception of France, although under the license agreement we have an option to acquire French commercial rights from Invivis by providing notice to Invivis and making a cash payment.

The onapristone license agreement provides us with exclusive, worldwide rights to a U.S. patent that relates to assays for predictive biomarkers for anti-progestin efficacy. We intend to expand our patent portfolio by filing additional patent applications covering the use and manufacture of onapristone and/or a companion diagnostic product. This patent is scheduled to expire in 2031.

We made a one-time cash payment of \$500,000 to Invivis upon execution of the license agreement on February 13, 2012. Additionally, Invivis will receive performance-based cash payments of up to an aggregate of \$15.1 million upon successful completion of clinical and regulatory milestones relating to onapristone, which milestones include the marketing approval of onapristone in multiple indications in the United States or the European Union as well as Japan. The first milestone was due upon the dosing of the first patient in a pharmacokinetic study and was achieved during August 2013 and we made a \$150,000 payment to Invivis during October 2013. We made our next milestone payment of \$100,000 to Invivis upon the dosing of the first subject in the first Company-sponsored Phase I clinical trial of onapristone in January 2014. A milestone payment of \$350,000 for the enrollment of the first patient in a Phase II clinical trial sponsored by Arno was paid in July 2015. In addition, we will pay Invivis low single digit sales royalties based on net sales of onapristone by us or any of our sublicensees. Pursuant to a separate services agreement which expired in April 2014, Invivis provided us with certain clinical development support services, which included the assignment of up to two full-time employees to perform such services, in exchange for a monthly cash payment of approximately \$70,833. Effective April 1, 2014, we renewed the services agreement for a period of one year for a monthly cash payment of \$50,000 and certain other performance based milestones. The services agreement was not renewed upon its expiration on April 1, 2015.



Under the license agreement with Invivis, we also agreed to indemnify and hold Invivis and its affiliates harmless from any and all claims arising out of or in connection with the production, manufacture, sale, use, lease, consumption or advertisement of onapristone, provided, however, that we shall have no obligation to indemnify Invivis for claims that (a) any patent rights infringe third party intellectual property, (b) arise out of the gross negligence or willful misconduct of Invivis, or (c) result from a breach of any representation, warranty, or confidentiality obligation of Invivis under the license agreement. The license agreement will terminate upon the later of (i) the last to expire valid claim contained in the patent rights, and (ii) February 13, 2032. In general, Invivis may terminate the license agreement at any time upon a material breach by us to the extent we fail to cure any such breach within 90 days after receiving notice of such breach or in the event we file for bankruptcy. We may terminate the agreement for any reason upon 90 days' prior written notice.

#### *University of Minnesota License*

In February 2014, we entered into an Exclusive Patent License Agreement with the Regents of the University of Minnesota, or UM, pursuant to which we were granted an exclusive, worldwide, royalty-bearing license for the rights to develop and commercialize technology embodied by certain patent applications relating to a gene expression signature derived from archived breast cancer tissue samples. We plan to develop and commercialize this technology as part of our companion diagnostic development program as a tool to identify progesterone-stimulated pathway activation, which in turn may identify patients who would be more likely to benefit from treatment with onapristone.

The license agreement requires us to use commercially reasonable efforts to commercialize the licensed technology as soon as practicable, and includes several performance milestones relating to the development and commercialization of the technology to be achieved by us at specified dates. Under the terms of the agreement, we made a small one-time cash payment and reimbursed UM for past patent expenses it has incurred. The agreement also provides that we will pay royalties to UM on net sales of "Licensed Products" (as defined in the agreement) at a rate in the low-single digits, which royalty obligation terminates on a licensed product-by-licensed product and country-by-country basis upon the first date when there is no longer a valid claim under a licensed patent or patent application covering such licensed product in the country where the licensed product is made or sold.

The term of the license agreement continues until the last date on which there is any active licensed patent or pending patent application. UM may terminate the agreement earlier upon a breach by us of one or more of our obligations that remains uncured for a period specified in the agreement. UM may also terminate the agreement if we voluntarily file for bankruptcy or similar proceeding, or if a petition for an involuntary bankruptcy proceeding is filed and is not released for 60 days. The agreement may be immediately terminated upon notice to us if we commence or maintain a proceeding in which we assert that the licensed patents are invalid or unenforceable. We may terminate the agreement at any time and for any reason upon 90 days' written notice.

The license agreement further provides that we will indemnify and hold UM and its affiliates harmless from any and all suits, actions, claims, liabilities, demands, damages, losses or expenses relating to our exercise of our rights under the agreement, including our right to commercialize the licensed technology. UM is required to indemnify us with respect to claims relating to or resulting from its breach of the agreement.

*AR-12 and AR-42 License Agreements*

Our rights to AR-12 and AR-42 are governed by separate license agreements with The Ohio State University Innovation Foundation (formerly The Ohio State Research Foundation), or Ohio State, entered into in January 2008. Pursuant to each of these agreements, we have exclusive, worldwide, royalty bearing licenses for the rights to commercialize technologies embodied by certain issued patents, patent applications, know-how and improvements relating to AR-12 and AR-42 for all therapeutic uses.

Under our license agreement for AR-12, we have exclusive, worldwide rights to seven issued U.S. patent and three pending U.S. patent applications that relate to AR-12, AR-12 analogs, and particular uses of AR-12 according to our business plan. On July 9, 2015, the Company and The Ohio State Innovation Foundation (formerly, The Ohio State Research Foundation) (“Ohio State”) entered into an amendment, dated effective as of May 15, 2015 (the “Amendment”), to the parties’ License Agreement dated January 3, 2008 (the “AR-12 License”), pursuant to which the Company was granted an exclusive license to certain patents and other technology relating to its AR-12 product candidate. The purpose of the Amendment was to clarify the scope of AR-12 analogs covered by the license grant in the original AR-12 License. In addition, the Amendment provides the Company with a first option to an exclusive license to patents and other technology relating to compounds related to AR-12 held by Ohio State. The issued patents include composition of matter claims. The issued patents are currently scheduled to expire in 2024. If the pending patent applications issue, the latest of the issued patent or patents would be scheduled to expire in 2034. In 2014, we filed a provisional patent application directed to methods using AR-12 that, if issued, would expire in 2035. In addition, Arno has exclusive rights to a pending US and international patent application directed to AR-12 formulations which, if issued, would expire in 2034.

Under our license agreement for AR-42, we have exclusive, worldwide rights to one issued and two pending U.S. patent applications that relate to AR- 42 and particular uses of AR-42 according to our business plan. If one of the pending patent applications issues, the issued patent or patents would be scheduled to expire in 2024. If the other pending patent application issues, it would be scheduled to expire in 2034.

In 2008, pursuant to our license agreements for AR-12 and AR-42, we made one-time cash payments to Ohio State in the aggregate amount of \$450,000 and reimbursed it for past patent expenses. Additionally, we are required to make performance-based cash payments upon successful completion of clinical and regulatory milestones relating to AR-12 and AR-42 in the U.S., Europe and Japan. The license agreements for AR-12 and AR-42 provide for aggregate potential milestone payments of up to \$6.1 million for AR-12, of which \$5.0 million is due only after marketing approval in the United States, Europe and Japan, and \$5.1 million for AR-42, of which \$4.0 million is due only after marketing approval in the United States, Europe and Japan. In September 2009, we paid Ohio State a milestone payment upon the commencement of the Phase I clinical study of AR-12. Pursuant to the license agreements for AR-12 and AR-42, we must pay Ohio State royalties on net sales of licensed products at rates in the low-single digits. To the extent we enter into a sublicensing agreement relating to either or both of AR-12 or AR-42, we will be required to pay Ohio State a portion of all non-royalty income received from such sublicensee.

The license agreements with Ohio State further provide that we will indemnify Ohio State from any and all claims arising out of the death of or injury to any person or persons or out of any damage to property, or resulting from the production, manufacture, sale, use, lease, consumption or advertisement of either AR-12 or AR-42, except to the extent that any such claim arises out of the gross negligence or willful misconduct of Ohio State. The license agreements for AR-12 and AR-42, respectively, expire on the later of (i) the expiration of the last valid claim contained in any licensed patent and (ii) 20 years after the effective date of the license. Ohio State will generally be able to terminate either license upon our breach of the terms of the license the extent we fail to cure any such breach within 90 days after receiving notice of such breach or our bankruptcy. We may terminate either license upon 90 days' prior written notice.

### **Off -Balance Sheet Arrangements**

There were no off-balance sheet arrangements as of September 30, 2016.

### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis, including research and development and clinical trial accruals, and stock-based compensation estimates. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our financial statements and accompanying notes.

***Research and Development Expenses and Accruals***

R&D expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, costs related to obtaining and maintaining our product licenses, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables.

Our cost accruals for clinical trials and other R&D activities are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and clinical research organizations, or CROs, clinical study sites, laboratories, consultants, or other clinical trial vendors that perform the activities. Related contracts vary significantly in length, and may be for a fixed amount, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of these elements. Activity levels are monitored through close communication with the CROs and other clinical trial vendors, including detailed invoice and task completion review, analysis of expenses against budgeted amounts, analysis of work performed against approved contract budgets and payment schedules, and recognition of any changes in scope of the services to be performed. Certain CROs and significant clinical trial vendors provide an estimate of costs incurred but not invoiced at the end of each quarter for each individual trial. The estimates are reviewed and discussed with the CRO or vendor as necessary, and are included in R&D expenses for the related period. For clinical study sites, which are paid periodically on a per-subject basis to the institutions performing the clinical study, we accrue an estimated amount based on subject screening and enrollment in each quarter. All estimates may differ significantly from the actual amount subsequently invoiced, which may occur several months after the related services were performed.

In the normal course of business we contract with third parties to perform various R&D activities in the on-going development of our product candidates. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, and the completion of portions of the clinical trial or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical trials and other R&D activities are recognized based on our estimate of the degree of completion of the event or events specified in the specific contract.

No adjustments for material changes in estimates have been recognized in any period presented.

### ***Stock-Based Compensation***

Our results include non-cash compensation expense as a result of the issuance of stock, stock options and warrants. We have issued stock options to employees, directors, consultants and Scientific Advisory Board members under two stock option plans.

We expense the fair value of employee stock-based compensation over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using either the Black-Scholes option-pricing model or Monte Carlo simulation model. These valuation models require us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the weighted-average period of time that the options granted are expected to be outstanding, the volatility of our common stock, the risk-free interest rate and the estimated rate of forfeitures of unvested stock options.

Stock options or other equity instruments to non-employees (including consultants and all members of our Scientific Advisory Board) issued as consideration for goods or services received by us are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial and development performance. Stock-based compensation expense is included in the respective categories of expense in the Statements of Operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

### ***Warrant Liability***

We account for the warrants issued in connection with the 2013 private placement, the 2012 private placement and the 2010 private placement in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that we classify the warrant instrument as a liability at its fair value and adjust the instrument to fair value at each reporting period. This liability is subject to

re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. The fair value of warrants issued by us, in connection with private placements of securities, has been estimated using a Monte Carlo simulation model. The Monte Carlo simulation is a generally accepted statistical method used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of our future expected stock prices and minimizes standard error.

### ***Recent Accounting Pronouncements***

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, "Financial Instruments" ("ASU 2016-01"). Equity investments not accounted for under the equity method of accounting will be measured at fair value, with changes in fair value recognized in current earnings. ASU 2016-01 becomes effective for fiscal years beginning after December 15, 2017. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial statements, results of operations or related financial statement disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. ASU 2016-02 becomes effective for the Company on January 1, 2019, and early adoption is permitted upon issuance. The Company is evaluating the potential impact of adopting this standard on its financial statements.

In March 2016, the FASB issued two updates to Derivatives and Hedging (Topic 815). Accounting Standards Update No. 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" ("ASU 2016-05"). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, on its own, require dedesignation of that hedge accounting relationship provided that all other hedge accounting criteria continue to be met. Accounting Standards Update No. 2016-06, "Contingent Put and Call Options in Debt Instruments" ("ASU 2016-06"). ASU 2016-06 clarifies that an entity is required to assess the embedded call or put option solely in accordance with a specific four-step decision sequence and are not also required to assess whether the contingency for exercising the option is indexed to interest rate or credit risk. ASU 2016-05 and ASU 2016-06 will take effect for public companies in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company does not believe the requirements of these updates will have a material effect in the presentation of its financial statements.

In March 2016, the FASB issued an update to Compensation- Stock Compensation (Topic 718). Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for reporting periods beginning after December 31, 2016. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.



In August 2016, the FASB issued an update to Statement of Cash Flows (Topic 230). Accounting Standards Update No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance in the presentation and classification of eight specific cash flow issues in the statement of cash flows. ASU 2016-15 will take effect for public companies in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the potential impact of adopting this standard on its financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

### **Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not involved in any pending legal proceedings.

### Item 1A. Risk Factors.

*An investment in our common stock involves significant risk. You should carefully consider the information described in the following risk factor, together with the other information appearing elsewhere in this report, before making an investment decision regarding our common stock. You should also consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Annual Report”) under the caption “Item 1A. Risk Factors.” If any of the risks described below or in our 2015 Annual Report actually occur, our business, financial conditions, results of operation and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or a part of your investment in our common stock. Moreover, the risks described below and in our 2015 Annual Report are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, operating results, prospects or financial condition.*

***We are in immediate need of additional financing to fund our continuing operations beyond January 2017, and substantial additional capital in order to complete the development of any of our product candidates. If we are unable to obtain such additional capital, we will be forced to delay, reduce or eliminate our product development programs and may be forced to cease our operations altogether.***

We are in immediate need of additional capital to fund our operations. As of September 30, 2016, we had approximately \$2.1 million in cash and cash resources, and a net working capital of approximately \$0.8 million. During the year ended December 31, 2015 and the nine months ended September 30, 2016, we had negative cash flow from operating activities of \$10.0 million and \$5.5 million, respectively, and we expect our negative cash flows from operations to continue for the foreseeable future. Including the \$3.0 million of proceeds received, or that will be received, from our August 2016 Purchase Agreement, we believe that our existing capital is only sufficient to fund our operations into January 2017 based on the current plan of expenditure on continuing development of the current product candidates. We are therefore in immediate need of additional capital. Further, beyond funding our basic corporate activities, we require substantial additional funds to support our continued research and development activities, and the anticipated costs of preclinical studies and clinical trials, regulatory approvals and eventual commercialization.

Since we do not currently generate any revenue from operations, nor do we expect to for the foreseeable future, the most likely sources of such additional capital include private placements of our equity securities, including our common stock or securities convertible into or exchangeable for our common stock, debt financing or funds from a potential strategic licensing or collaboration transaction in which we would license or otherwise relinquish the rights to one or more of our product candidates. To the extent that we raise additional capital by issuing equity securities, our stockholders will likely experience dilution, which may be significant depending on the number of shares we may issue and the price per share. If we raise additional funds through collaborations and licensing arrangements, it may be necessary to relinquish some rights to our technologies, product candidates or products, or grant licenses on terms that are not favorable to us. If we raise additional funds by incurring debt, we could incur significant interest expense and become subject to restrictive covenants that could affect the manner in which we conduct our business.

We currently have no committed sources of additional capital and our access to capital funding is always uncertain. Despite our ability to secure adequate capital in the past, there is no assurance that additional equity or debt financing will be available to us when needed, on acceptable terms or even at all. If we fail to obtain the necessary additional capital when needed, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs. In addition, we could be forced to discontinue product development, reduce or forego attractive business opportunities and even cease our operations altogether.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Pursuant to an Asset Purchase Option Agreement dated March 21, 2016, as amended, between the Company and Vivacitas Oncology Inc. (“Vivacitas”), on September 30, 2016, the Company sold all of its rights to the remaining assets related to the Company’s former AR-67 development program, which the Company had terminated in early 2012. Such assets consisted primarily of pre-clinical and clinical data, regulatory documentation and correspondence and certain intellectual property and know-how. In consideration for these assets, Vivacitas paid the Company \$500,000.



**Item 6. Exhibits.**

**Exhibit No. Exhibit Description**

- 4.1 Form of Series F Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 16, 2016).
- 10.1 Securities Purchase Agreement Form of Securities Purchase Agreement dated August 15, 2016, among the Company and the Purchasers named therein (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 16, 2016).
- 10.2 Registration Rights Agreement dated August 15, 2016, among the Company and the Holders identified therein (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 16, 2016).
- 31.1 Certification of Principal Executive Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from Arno Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Condensed Statements of Operations for the three and nine months ended September 30, 2016 and September 30, 2015 (iii) Condensed Statement of Stockholders' Deficit for the period from January 1, 2016 through September 30, 2016, (iv) Condensed Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015, and (v) Notes to Condensed Financial Statements.

**SIGNATURES**

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

**ARNO THERAPEUTICS,  
INC.**

Date: November 14, 2016 By: /s/ Alexander A. Zukiwski  
Chief Executive Officer  
(Principal Executive Officer)

**INDEX TO EXHIBITS FILED WITH THIS REPORT**

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- 32