Viking Therapeutics, Inc.
Form 10-Q
November 10, 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 001-37355

VIKING THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	46-1073877 (I.R.S. Employer Identification Number)
12340 El Camino Real, Suite 250	
San Diego, California (Address of Principal Executive Offices)	92130 (Zip Code)

(858) 704-4660

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Number of Shares Outstanding as of October 31, 2016
Common stock, $0.00001 par value	20,170,264

VIKING THERAPEUTICS, INC.

FORM 10-Q FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Viking Therapeutics, Inc.

Balance Sheets

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 3,054,892	$ 768,550
Short-term investments – available for sale	11,562,950	13,335,499
Prepaid expenses and other current assets	1,005,471	1,097,599
Total current assets	15,623,313	15,201,648
Deferred public offering and other financing costs	614,380	157,455
Deposits	80,000	80,000
Total assets	$ 16,317,693	$ 15,439,103
Liabilities, convertible notes and stockholders' equity		
Current liabilities:		
Accounts payable	$ 881,311	$ 592,414
Other accrued liabilities	996,437	1,384,398
Accrued interest, current	22,674	—
Convertible notes payable, current (net of discount of $1,106,817 and $0 at September 30, 2016 and December 31, 2015, respectively)	2,826,135	—
Debt conversion feature liability, current	1,351,135	—
Total current liabilities	6,077,692	1,976,812
Accrued interest, non-current	—	183,611
Convertible notes payable (net of discount of $0 and $348,460 at September 30, 2016 and December 31, 2015, respectively)	—	2,151,540
Debt conversion feature liability	—	2,370,903
Deferred rent	20,476	31,239
Total long-term liabilities	20,476	4,737,293
Total liabilities	6,098,168	6,714,105
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.00001 par value: 10,000,000 shares authorized at September 30, 2016 and December 31, 2015; no shares issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Common stock, $0.00001 par value: 300,000,000 shares authorized at September 30, 2016 and December 31, 2015; 19,895,749 and 9,683,741 shares issued and	199	97

outstanding at September 30, 2016 and December 31, 2015, respectively.		
Additional paid-in capital	66,858,121	54,277,716
Accumulated deficit	(56,632,658)	(45,545,445)
Accumulated other comprehensive loss	(6,137)	(7,370)
Total stockholders’ equity	10,219,525	8,724,998
Total liabilities and stockholders’ equity	$ 16,317,693	$ 15,439,103

See accompanying notes to the financial statements.

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Viking Therapeutics, Inc.

Statements of Operations and Comprehensive Loss

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$—	$—	$—	$—
Operating expenses:				
Research and development	2,104,794	2,507,553	6,353,030	3,747,428
General and administrative	1,159,488	1,780,668	3,756,721	3,628,747
Total operating expenses	3,264,282	4,288,221	10,109,751	7,376,175
Loss from operations	(3,264,282)	(4,288,221)	(10,109,751)	(7,376,175)
Other income (expense):				
Change in fair value of accrued license fees	—	—	—	(9,381,848)
Change in fair value of debt conversion feature liability	(64,514)	(197,496)	444,083	(826,637)
Amortization of debt discount	(431,227)	(240,515)	(1,356,861)	(652,986)
Amortization of financing costs	(45,852)	—	(45,852)	—
Interest expense, net	(1,556)	(10,312)	(18,832)	(75,379)
Total other income (expense)	(543,149)	(448,323)	(977,462)	(10,936,850)
Net loss	(3,807,431)	(4,736,544)	(11,087,213)	(18,313,025)
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on securities	649	7,613	1,233	(4,848)
Comprehensive loss	$(3,806,782)	$(4,728,931)	$(11,085,980)	$(18,317,873)
Basic and diluted net loss per share	$(0.20)	$(0.53)	$(0.74)	$(2.69)
Weighted-average shares used to compute basic and diluted net loss per share	18,991,971	8,947,480	15,052,139	6,802,169

See accompanying notes to the financial statements.

Viking Therapeutics, Inc.

Statements of Cash Flows

(Unaudited)

	Nine months ended September 30, 2016	2015
Cash flows from operating activities		
Net loss	$(11,087,213)	$(18,313,025)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization of debt discount on notes payable	1,356,861	652,986
Amortization of investment premiums	116,962	67,692
Amortization of financing costs	45,852	—
Change in fair value of accrued license fees	—	9,381,848
Change in fair value of debt conversion feature liability	(444,083)	826,637
Stock-based compensation	1,435,752	2,074,004
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	92,129	(1,504,027)
Accounts payable	300,360	137,286
Accrued expenses	(422,999)	1,244,495
Net cash used in operating activities	(8,606,379)	(5,432,104)
Cash flows from investing activities		
Purchases of investments	(12,263,451)	(16,033,042)
Proceeds from sales and maturities of investments	13,846,000	607,000
Net cash provided by (used in) investing activities	1,582,549	(15,426,042)
Cash flows from financing activities		
Proceeds from issuances of common stock, net of underwriting discounts and commissions	10,444,522	25,392,500
Public offering and financing costs	(1,024,581)	(2,733,798)
Repayment of convertible notes payable	(94,861)	—
Value of shares withheld related to employee tax withholding	(25,851)	(418,412)
Repurchases of common stock	—	(38)
Proceeds from stock issuance under employee stock purchase plan	10,943	2,152
Net cash provided by financing activities	9,310,172	22,242,404
Net increase in cash and cash equivalents	2,286,342	1,384,258
Cash and cash equivalents beginning of period	768,550	755,857
Cash and cash equivalents end of period	$3,054,892	$2,140,115
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$205,139	$—
Supplemental disclosure of non-cash investing and financing transactions		
Shares issued in lieu of license fee payment to related party	$—	$29,247,711

Shares issued in lieu of loan payment to related party	$1,200,000	$—
Unpaid deferred public offering and other financing costs	$71,617	$—
Shares issued as commitment fee in connection with Aspire agreement	$440,278	$—
Conversion of notes payable	$—	$456,412
Issuance of common stock to consultant	$—	$28,760

See accompanying notes to the financial statements.

Viking Therapeutics, Inc.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Organization, Liquidity and Management’s Plan, and Summary of Significant Accounting Policies

The Company

Viking Therapeutics, Inc., a Delaware corporation (the “Company”), is a clinical-stage biopharmaceutical company focused on the development of novel, first-in-class or best-in-class therapies for metabolic and endocrine disorders.

The Company was incorporated under the laws of the State of Delaware on September 24, 2012 and its principal executive offices are located in San Diego, California.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying balance sheet as of September 30, 2016, statements of operations for the three and nine months ended September 30, 2016 and 2015 and statements of cash flows for the nine months ended September 30, 2016 and 2015 are unaudited. These unaudited financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes for the year ended December 31, 2015 contained in the Annual Report on Form 10-K filed by the Company with the SEC on March 8, 2016. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary to state fairly the Company’s financial position as of September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015 and cash flows for the nine months ended September 30, 2016 and 2015. The December 31, 2015 balance sheet included herein was derived from the audited financial statements, but does not include all disclosures or notes required by GAAP for complete financial statements.

The financial data and other information disclosed in these notes to the financial statements related to the three and nine months ended September 30, 2016 and 2015 are unaudited. Interim results are not necessarily indicative of results for an entire year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements relate to determining the fair value of the debt conversion feature liability and accounting for certain commitments. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which amends the existing accounting standards for leases. The new standard requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet (with the exception of short-term leases). For lessees, leases will continue to be classified as either operating or financing in the statement of operations. This ASU becomes effective for the Company in the first quarter of fiscal year 2019 and early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach and requires application of the new standard at the beginning of the earliest comparative period presented. The Company is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under this guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the statement of operations. This change eliminates the notion of the additional paid-in capital pool and reduces the complexity in accounting for excess tax benefits and tax deficiencies. The Company currently plans to implement ASU 2016-09 as required in the first quarter of fiscal year 2017. The Company is evaluating the effect that ASU 2016-09 will have on its financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. Currently, GAAP delays recognition of the full amount of credit losses until the loss is probable of occurring. Under this new standard, the statement of operations will reflect an entity’s current estimate of all expected credit losses. The measurement of expected credit losses will be based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. The new standard is effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the effect that ASU 2016-13 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which amends Accounting Standards Codification (“ASC”) Topic 230 to add or clarify guidance on eight classification issues related to the statement of cash flows such as debt prepayment or debt extinguishment costs, and contingent consideration payments made after a business combination. ASU 2016-15 is effective for fiscal periods beginning after December 15, 2017 and must be adopted using a retrospective transition method to each period presented but may be applied prospectively if retrospective application would be impracticable. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the effects that ASU 2016-15 will have on its financial statements and related disclosures.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

Investments Available-for-Sale

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums and accretion of discounts is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income (expense). The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and marketable securities. The Company maintains deposits in federally insured depository institutions in excess of federally insured limits. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. Additionally, the Company has established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

Liquidity and Management’s Plan

In accordance with ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), the Company's management evaluates whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

On April 13, 2016, the Company completed an underwritten public offering of its common stock and warrants to purchase shares of its common stock (the "Offering") pursuant to a registration statement on Form S-1 (File No. 333-208182) that was declared effective on April 7, 2016, and a registration statement on Form S-1MEF (File No. 333-210650) filed pursuant to Rule 462(b) of the Securities Act of 1933, as amended (the "Securities Act"). In the Offering, the Company sold 7,500,000 shares of its common stock and warrants to purchase up to 7,500,000 shares of its common stock at a public offering price of $1.25 per share of common stock and related warrant. The warrants have an exercise price of $1.50 per share of common stock, were immediately exercisable upon issuance and will expire on April 13, 2021. The Company granted the underwriters for the Offering a 45-day option to purchase up to an additional 1,125,000 shares of its common stock and/or warrants to purchase up to an additional 1,125,000 shares of its common stock to cover over-allotments, if any. On April 13, 2016, the underwriters partially exercised the over-allotment option for warrants to purchase an additional 1,125,000 shares of the Company's common stock at a public offering price of $0.01 per warrant to purchase a share of common stock. Upon the closing of the Offering on April 13, 2016, the Company received net proceeds of $7,754,286, after deducting underwriting discounts, commissions and other offering expenses of $1,631,964.

On April 27, 2016, the underwriters for the Offering exercised their over-allotment option to purchase 1,125,000 shares of the Company’s common stock at a public offering price of $1.24 per share. On April 29, 2016, the Company sold the 1,125,000 shares to the underwriters pursuant to the over-allotment option and received additional net proceeds of $1,283,400, after deducting underwriting discounts, commissions and other offering expenses of $111,600.

On June 20, 2016, the Company entered into an Equity Distribution Agreement (the “Distribution Agreement”) with Maxim Group LLC, as sales agent (“Maxim”), pursuant to which the Company may offer and sell, from time to time, through Maxim (the “Maxim Offering”), up to 3,748,726 shares of its common stock. Any shares of common stock offered and sold in the Maxim Offering will be issued pursuant to the Company’s registration statement on Form S-3 (File No. 333-212134) filed with the SEC on June 20, 2016 and the prospectus relating to the Maxim Offering that forms a part of the registration statement on Form S-3. The registration statement on Form S-3 was declared effective by the SEC on July 26, 2016. The number of shares of common stock eligible for sale under the Distribution Agreement will be subject to the limitations of General Instruction I.B.6 of Form S-3. During the three months ended September 30, 2016, the Company sold 17,922 shares of its common stock under the Distribution Agreement resulting in net proceeds to the Company of $25,772, after deducting the sales agent’s commission.

On August 24, 2016, the Company entered into a Common Stock Purchase Agreement (the “Purchase Agreement”) with Aspire Capital Fund, LLC (“Aspire Capital”), pursuant to which Aspire Capital committed to purchase up to an aggregate of $12.5 million of shares of the Company’s common stock over the 30-month term of the Purchase Agreement. Upon execution of the Purchase Agreement, the Company issued and sold to Aspire Capital under the Purchase Agreement 333,333 shares of common stock (the “Initial Shares”) at a price per share of $1.50, for an aggregate purchase price of $500,000. Concurrently with the execution of the Purchase Agreement, and as consideration for Aspire Capital entering into the Purchase Agreement, the Company issued to Aspire Capital 336,116 shares of common stock as a commitment fee (the “Commitment Shares”). Pursuant to the terms of the Purchase Agreement, the Company may, from time to time and subject to certain limitations, direct Aspire Capital to purchase shares of the Company’s common stock using pricing formulas based on average prevailing market prices around the time of each sale. During the three months ended September 30, 2016, no shares were issued pursuant to the Purchase Agreement other than the Initial Shares and the Commitment Shares.

Although it is difficult to predict the Company’s liquidity requirements, based upon the Company’s current operating plan, the Company does not believe that it will have sufficient cash to meet its projected operating requirements for the next 12 months from the filing date of this Quarterly Report on Form 10-Q unless it raises additional capital. As of September 30, 2016, the Company had an accumulated deficit of $56,632,658. These losses have resulted primarily from research and development costs incurred in connection with acquiring the exclusive worldwide rights to the portfolio of five drug candidates from Ligand Pharmaceuticals Incorporated (“Ligand”) pursuant to the master license agreement with Ligand, as amended (the “Master License Agreement”), and the related non-cash interest expense recorded for increases in the deemed fair market value of the license fees payable to Ligand, research and development expenses related to the manufacturing of clinical drug product and clinical development of VK5211, VK2809 and VK0214, consulting fees and general and administrative expenses. The Company anticipates that it will continue to incur net losses for the foreseeable future as it continues the development of its clinical drug candidates and preclinical programs and incurs additional costs associated with being a public company.

Deferred Financing Costs

Deferred financing costs represent legal, accounting and other direct costs related to the Company's efforts to raise capital through a public or private sale of the Company's common stock. Costs related to the public sale of the Company's common stock are deferred until the completion of the applicable offering, at which time such costs are reclassified to additional paid-in-capital as a reduction of the proceeds. Costs related to the private sale of the Company's common stock are deferred until the completion of the applicable offering, at which time such costs are amortized over the term of the applicable purchase agreement.

Revenue Recognition

The Company has not recorded any revenues since its inception. However, in the future, the Company may enter into collaborative research and licensing agreements, under which the Company could be eligible for payments made in the form of upfront license fees, research funding, cost reimbursement, contingent event-based payments and royalties.

Revenue from upfront, nonrefundable license fees is recognized over the period that any related services are provided by the Company. Amounts received for research funding are recognized as revenue as the research services that are the subject of such funding are performed. Revenue derived from reimbursement of research and development costs in transactions where the Company acts as a principal are recorded as revenue for the gross amount of the reimbursement, and the costs associated with these reimbursements are reflected as a component of research and development expense in the statements of operations.

FASB Accounting Standards Codification ("ASC") Topic 605-28, Revenue Recognition – Milestone Method ("ASC 605-28"), established the milestone method as an acceptable method of revenue recognition for certain contingent event-based payments under research and development arrangements. Under the milestone method, a payment that is contingent upon the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved. A milestone is an event (1) that can be achieved based in whole or in part on either the Company's performance or on the occurrence of a specific outcome resulting from the Company's performance, (2) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (3) that would result in additional payments being due to the Company. The determination that a milestone is substantive is subject to management's judgment and is made at the inception of the arrangement. Milestones are considered substantive when the consideration earned from the achievement of the milestone is (a) commensurate with either the Company's performance to achieve the milestone or the enhancement of value of the item delivered as a result of a specific outcome resulting from the Company's performance to achieve the milestone, (b) relates solely to past performance, and (c) is reasonable relative to all deliverables and payment terms in the arrangement.

Other contingent event-based payments received for which payment is either contingent solely upon the passage of time or the results of a collaborative partner's performance are not considered milestones under ASC 605-28. In accordance with ASC Topic 605-25, Revenue Recognition – Multiple-Element Arrangements ("ASC 605-25"), such payments will be recognized as revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured. Revenues recognized for royalty payments, if any, are based upon actual net sales of the licensed compounds, as provided by the collaboration arrangement, in the period the sales occur. Any amounts received prior to satisfying the Company's revenue recognition criteria are recorded as deferred revenue on its balance sheets.

Research and Development Expenses

All costs of research and development are expensed in the period incurred. Research and development costs primarily consist of fees paid to clinical research organizations ("CROs") and clinical trial sites, employee and consultant related expenses, which include salaries, benefits and stock-based compensation for research and development personnel, external research and development expenses incurred pursuant to agreements with third-party manufacturing organizations, facilities costs, travel costs, dues and subscriptions, depreciation and materials used in preclinical studies, clinical trials and research and development.

The Company estimates its preclinical study and clinical trial expenses based on the services it received pursuant to contracts with research institutions and CROs that conduct and manage preclinical studies and clinical trials on the Company's behalf. Clinical trial-related contracts vary significantly in length, and may be for a fixed amount, based on milestones or deliverables, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of these elements. The Company accrues service fees based on work performed, which relies on estimates of total costs incurred based on milestones achieved, patient enrollment and other events. The majority of the Company's service providers invoice the Company in arrears, and to the extent that amounts invoiced differ from its estimates of expenses incurred, the Company accrues for additional costs. The financial terms of these agreements vary from contract to contract and may result in uneven expenses and payment flows. Preclinical study and clinical trial expenses include:

- fees paid to CROs, consultants and laboratories in connection with preclinical studies;
- fees paid to CROs, clinical trial sites, investigators and consultants in connection with clinical trials; and
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fees paid to contract manufacturers and service providers in connection with the production, testing and packaging of active pharmaceutical ingredients and drug materials for preclinical studies and clinical trials.

Payments under some of these agreements depend on factors such as the milestones accomplished, including enrollment of certain numbers of patients, site initiation and the completion of clinical trial milestones. To date, the Company has not experienced any events requiring it to make material adjustments to its accruals for service fees. If the Company does not identify costs that it has begun to incur or if it underestimates or overestimates the level of services performed or the costs of these services, its actual expenses could differ from its estimates which could materially affect its results of operations. Adjustments to the Company’s accruals are recorded as changes in estimates become evident. Furthermore, based on amounts invoiced to the Company by its service providers, the Company may also record payments made to those providers as prepaid expenses that will be recognized as expense in future periods as services are rendered.

In May 2014, the Company entered into the Master License Agreement, pursuant to which it acquired certain rights to a number of research and development programs from Ligand. In doing so, the Company updated its policy on research and development to include the purchase of rights to intangible assets. In accordance with ASC Topic 730, Research and Development, intangible assets that are acquired and have an alternative future use, as defined, should be capitalized and reported as an intangible asset; however, the cost of acquired intangible assets that do not have alternative future uses should be reported as research and development expense as incurred. The Company notes that intangible assets acquired that are in the preclinical or clinical stages of development when acquired, and not approved by the U.S. Food and Drug Administration, are deemed to have not satisfied the definition of having an alternative future use, as defined. Accordingly, assets acquired in the preclinical and clinical stages of development are expensed as incurred in the Company's statement of operations.

Patent Costs

Costs related to filing and pursuing patent applications are expensed as incurred to general and administrative expense, as recoverability of such expenditures is uncertain.

Stock-Based Compensation

The Company generally uses the straight-line or graded vesting method to allocate compensation cost to reporting periods over each optionee's requisite service period, which is generally the vesting period, and estimates the fair value of stock-based awards or restricted stock units to employees and directors using the Black-Scholes option-valuation model. For options with a graded vesting schedule, the Company uses the graded vesting schedule to allocate compensation cost to reporting periods. The Black-Scholes model requires the input of subjective assumptions, including volatility, the expected term and the fair value of the underlying common stock on the date of grant, among other inputs. Stock options granted to non-employees are accounted for using the fair value approach. Stock options granted to non-employees are subject to periodic revaluation over their vesting terms. For restricted stock and restricted stock unit awards, the Company generally uses the straight-line or graded vesting method to allocate compensation cost to reporting periods over the holder's requisite service period, which is generally the vesting period, and uses the fair value at grant date to value the awards. For restricted stock that vests upon the satisfaction of certain performance conditions, the Company recognizes stock-based compensation expense when it becomes probable that the performance conditions will be met. At the point that it becomes probable that the performance conditions will be met, the Company records a cumulative catch-up of the expense from the grant date to the current date, and the Company then amortizes the remainder of the expense over the remaining service period.

Prior to the IPO, the Company accounted for stock-based compensation by measuring and recognizing compensation expense for all stock-based payments made to employees and directors based on estimated award date fair values, which estimates were highly complex and subjective in nature. The Company used the straight-line or graded vesting method to allocate compensation cost to reporting periods over each restricted award's requisite service period, which was generally the vesting period, and estimated the fair value of restricted stock-based awards to employees and consultants using a Monte Carlo market approach simulation method and performed an allocation of value to common stock based on the estimated time to a liquidity event. In addition, the Company accounted for performance-based restricted stock awards to employees by determining the fair value of the restricted stock award at the date of issuance by using the Probability Weighted Expected Return Method ("PWERM") and then assessing at each balance sheet date the probability of the performance criteria being met. If the probability of achieving the criteria was deemed less-than-probable, then no expense was recorded. At the point where the criteria were deemed probable of being met, the Company then began recording stock-based compensation with a cumulative catch-up expense in the period first recognized and then on a straight-line basis over the remaining period for which the performance criteria were expected to be completed.

Income Taxes

The Company accounts for its income taxes using the liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the basis used for financial reporting and income tax reporting purposes. Deferred income taxes are provided based on the enacted tax rates in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more likely than not that the Company will not realize those tax assets through future operations.

ASC Topic 740-10, Income Taxes, clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with GAAP. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Net Loss per Common Share

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, the Company currently does not have any deemed common share equivalents; therefore, its basic and diluted net loss per share calculations are the same.

The following table presents the computation of basic and diluted net loss per common share:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Historical net loss per share				
Numerator				
Net loss attributable to common stockholders	$(3,807,431)	$(4,736,544)	$(11,087,213)	$(18,313,025)
Denominator				
Weighted-average common shares outstanding	19,482,162	9,783,312	15,590,113	8,120,639
Less: Weighted-average shares subject to repurchase	(490,191)	(835,832)	(537,974)	(1,318,470)
Denominator for basic and diluted net loss per share	18,991,971	8,947,480	15,052,139	6,802,169
Basic and diluted net loss per share	$(0.20)	$(0.53)	$(0.74)	$(2.69)

Potentially dilutive securities that are not included in the calculation of diluted net loss per share because their effect is anti-dilutive are as follows (in common equivalent shares):

	As of September 30,	
	2016	2015
Common stock warrants	9,667,500	82,500
Restricted stock units	56,813	84,000
Common stock subject to repurchase	490,191	772,963
Common stock options	835,962	410,144
Shares issuable upon conversion of debt	3,190,021	663,090
	14,240,487	2,012,697

Segments

The Company operates in only one segment. Management uses cash flows as the primary measure to manage its business and does not segment its business for internal reporting or decision making purposes.

2. Investments in Marketable Securities

The Company's investment strategy is focused on capital preservation. The Company invests in instruments that meet the credit quality standards outlined in the Company's investment policy. This policy also limits the amount of credit exposure to any one issue or type of instrument. As of September 30, 2016 and December 31, 2015, the Company's investments were in money market funds, certificates of deposit and corporate debt securities. There were no sales of available-for-sale securities during the three and nine months ended September 30, 2016 or during the year ended December 31, 2015.

The following tables summarize the Company’s short-term investments:

		Gross	
	Amortized	Unrealized	Gross
As of September 30, 2016	Cost	Gains [1]	Unrealized