

SCYNEXIS INC  
Form 10-Q  
November 07, 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 001-36365

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

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

101 Hudson Street  
Suite 3610 07302-6548  
Jersey City, New Jersey  
(Address of principal executive offices) (Zip Code)  
(201)-884-5485  
(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

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As of November 4, 2016, there were 23,990,603 shares of the registrant's Common Stock outstanding.

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QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## SCYNEXIS, INC.

## UNAUDITED CONDENSED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,809	\$ 46,985
Short-term investments	22,544	—
Prepaid expenses and other current assets	1,838	1,452
Total current assets	54,191	48,437
Investments	6,030	—
Other assets	431	419
Deferred offering costs	360	417
Total assets	\$ 61,012	\$ 49,273
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,468	\$ 619
Accrued expenses	1,306	3,149
Accrued severance and retention costs	7	2,639
Deferred revenue, current portion	257	257
Total current liabilities	4,038	6,664
Deferred revenue, non-current	442	635
Deferred rent	25	25
Warrant liability	9,164	—
Loan payable, long-term	14,167	—
Total liabilities	27,836	7,324
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 5,000,000 shares as of September 30, 2016 and December 31, 2015; 0 shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value, 125,000,000 shares authorized as of September 30, 2016, and December 31, 2015; 23,430,868 and 13,905,599 shares issued and outstanding as of September 30, 2016, and December 31, 2015, respectively	23	14
Additional paid-in capital	209,827	192,069
Accumulated deficit	(176,674)	(150,134)
Total stockholders' equity	33,176	41,949
Total liabilities and stockholders' equity	\$ 61,012	\$ 49,273

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

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SCYNEXIS, INC.  
 UNAUDITED CONDENSED STATEMENTS OF OPERATIONS  
 (in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$64	\$ 64	\$193	\$ 193
Operating expenses:				
Research and development, net	4,890	3,458	16,293	10,525
Selling, general and administrative	1,880	4,143	6,086	9,628
Total operating expenses	6,770	7,601	22,379	20,153
Loss from operations	(6,706 )	(7,537 )	(22,186 )	(19,960 )
Other (income) expense:				
Warrant liability fair value adjustment	4,570	—	4,469	—
Interest income	(48 )	(8 )	(115 )	(10 )
Total other expense (income)	4,522	(8 )	4,354	(10 )
Loss from continuing operations	(11,228 )	(7,529 )	(26,540 )	(19,950 )
Discontinued operations:				
Loss from discontinued operations	—	(826 )	—	(4,285 )
Net loss	\$(11,228 )	\$(8,355 )	\$(26,540 )	\$(24,235 )
Loss per share attributable to common stockholders - basic and diluted				
Continuing operations	\$(0.48 )	\$(0.54 )	\$(1.53 )	\$(1.72 )
Discontinued operations	—	(0.06 )	—	(0.37 )
Net loss per share - basic and diluted	\$(0.48 )	\$(0.60 )	\$(1.53 )	\$(2.09 )
Weighted average common shares outstanding:				
Basic and diluted	23,425,007	13,904,331	17,329,441	11,576,498

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

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## SCYNEXIS, INC.

## UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(26,540)	\$(24,235)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash component of impairment loss on classification of assets as held for sale (Note 13)	—	586
Loss on disposal of Services Business	—	73
Depreciation	11	447
Stock-based compensation expense	908	2,656
Write off of deferred offering costs	111	—
Change in fair value of warrant liability	4,469	—
Changes in deferred rent	—	(108 )
Changes in operating assets and liabilities:		
Accounts receivable and unbilled services	—	(523 )
Prepaid expenses, other assets, and deferred costs	(939 )	(855 )
Accounts payable and accrued expenses	5	(431 )
Accrued severance and retention cost obligations	(2,631 )	2,809
Deferred revenue	(193 )	1,018
Net cash used in operating activities	(24,799 )	(18,563 )
Cash flows from investing activities:		
Maturities of short-term investments	6,932	—
Purchases of property and equipment	(24 )	(547 )
Proceeds from sale of Services Business (Note 13)	500	2,549
Purchase of investments	(35,506 )	—
Net cash (used in) provided by investing activities	(28,098 )	2,002
Cash flows from financing activities:		
Proceeds from common stock issued	23,077	41,400
Payments of deferred offering costs and underwriting discounts and commissions	(1,788 )	(3,422 )
Proceeds from Loan Agreement	15,000	—
Payments of Loan Agreement issuance costs	(589 )	—
Proceeds from employee stock purchase plan issuance	21	106
Net cash provided by financing activities	35,721	38,084
Net decrease in cash and cash equivalents	(17,176 )	21,523
Cash and cash equivalents, beginning of period	46,985	32,243
Cash and cash equivalents, end of period	\$29,809	\$53,766
Supplemental cash flow information:		
Cash received for interest	67	—
Noncash financing and investing activities:		
Loan Agreement issuance costs included in accounts payable	\$426	\$—
Deferred offering costs included in accounts payable and accrued expenses	\$—	\$52
Equipment purchases in accounts payable and accrued expenses	\$—	\$12
Deferred offering costs reclassified to additional-paid-in capital	\$65	\$3,388

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



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SCYNEXIS, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per share data)

1. Description of Business and Basis of Preparation

Organization

SCYNEXIS, Inc. ("SCYNEXIS" or the "Company") is a Delaware corporation formed on November 4, 1999. SCYNEXIS is a pharmaceutical company, headquartered in Jersey City, New Jersey, committed to the development and commercialization of novel anti-infectives to address significant unmet therapeutic needs. The Company is developing the Company's lead product candidate, SCY-078, as a novel oral and intravenous drug for the treatment of serious and life-threatening invasive fungal infections in humans.

The Company has incurred losses and negative cash flows from operations since its initial public offering ("IPO") in May 2014 and expects to continue to incur losses. The Company's liquidity over the next 12 months could be materially affected by, among other things: its ability to raise capital through equity offerings, debt financings, other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements; key SCY-078 development and regulatory events; costs related to its development of SCY-078; and other factors.

Shelf Registration Filing

On October 30, 2015, the Company filed a shelf registration statement on Form S-3 with the SEC which was declared effective on November 16, 2015. The registration statement contained two prospectuses:

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

a prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$40,000 of the Company's common stock that may be issued and sold under a sales agreement with Cowen and Company, LLC ("Cowen"). On April 10, 2016, the Company terminated the sales agreement with Cowen and on April 11, 2016, entered into a Controlled Equity Offering Sales Agreement<sup>SM</sup> (the "Sales Agreement") with Cantor Fitzgerald & Co. ("Cantor"). Pursuant to the Sales Agreement, the Company may sell from time to time, at its option, up to an aggregate of \$40,000 of the Company's common stock, through Cantor, as sales agent (the "ATM Offering"). Pursuant to the Sales Agreement, sales of the common stock, if any, will be made under the Company's previously filed and currently effective registration statement on Form S-3 (File No. 333-207705).

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

June 2016 Public Offering

On June 21, 2016, the Company completed a public offering (the "June 2016 Public Offering") of its common stock and warrants pursuant to the Company's effective Shelf Registration. The Company sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of the Company's common stock at a public offering price of \$2.40 per share. The warrant exercise price is \$3.00 per share. Net proceeds from the June 2016 Public Offering were approximately \$20,754, after deducting underwriting discounts and commissions and offering expenses of approximately \$1,746. See Note 8 for further details.





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### Loan Agreement

On September 30, 2016, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Solar Capital Ltd. ("Solar"), in its capacity as administrative and collateral agent and as lender. Pursuant to the Loan Agreement, Solar is providing the Company with a 48-month secured term loan in the amount of \$15,000 (the "Term Loan") and all principal and accrued interest on the Term Loan is due on September 30, 2020 (the "Maturity Date"). See Note 6 for further details.

### Unaudited Interim Financial Information

The accompanying unaudited financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States, or US GAAP, as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC") for interim financial information. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, and cash flows. The results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of the results for the full year or the results for any future periods. These interim financial statements should be read in conjunction with the financial statements and notes set forth in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 7, 2016.

### Discontinued Operations

As described in Note 13, the Company met the relevant criteria for reporting the Company's contract research and development services business (the "Services Business") in discontinued operations in the second quarter of 2015. The accompanying unaudited interim financial statements present the Services Business as discontinued operations for the three and nine months ended September 30, 2016, and 2015, pursuant to FASB Topic 205-20, Presentation of Financial Statements--Discontinued Operations.

### Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include: the estimate of services and effort expended by third-party research and development service providers used to recognize research and development expense, estimates utilized in recognizing stock-based compensation for options granted to employees and nonemployees, and the estimates and assumptions utilized in measuring the warrant liability fair value each reporting period.

## 2. Summary of Significant Accounting Policies

### Cash and Cash Equivalents

The Company considers any highly liquid investments with a remaining maturity of three months or less when purchased to be cash and cash equivalents.

### Investments

The Company's investments comprise held-to-maturity debt securities and are carried at amortized cost. An impairment charge is recorded and a new cost basis in the investment is established when a decline in fair value, if any, is deemed to be other-than-temporary.

### Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash on deposit with a bank, which exceeds the FDIC insurance limits, as well as accounts receivable. Ongoing credit evaluations of the bank and customers' financial condition and independent ratings are reviewed by the Company.

### Other Assets

Other assets consist primarily of the refundable long-term deposit on the leased building facility and the restricted cash posted as collateral for the Company's corporate credit card program.

### Deferred Offering Costs

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Deferred offering costs are expenses directly related to the Form S-3 filed with the SEC on October 30, 2015 and declared effective on November 16, 2015. These costs consist of legal, accounting, printing, and filing fees that the Company has capitalized, including fees incurred by the independent registered public accounting firm directly related to the Shelf Registration. Deferred costs associated with the Shelf Registration are reclassified to additional paid in capital on a pro-rata

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basis when the Company completes offerings under the Shelf Registration, with any remaining deferred offering costs to be charged to the results of operations at the end of the three-year life of the Shelf Registration. During the three months ended March 31, 2016, the Company expensed \$111 of deferred offering costs associated with the Shelf Registration as a result of the termination of the "at the market" ("ATM") offering program entered into with Cowen on November 11, 2015.

**Warrant Liability**

On June 21, 2016, the Company sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of the Company's common stock at a public offering price of \$2.40 per share of common stock sold. The Company accounted for these warrants as a liability instrument measured at its fair value. The fair values of these warrants have been determined using the Black-Scholes valuation model ("Black-Scholes"). The warrants are subject to remeasurement at each balance sheet date, using Black-Scholes, with any changes in the fair value of the outstanding warrants recognized in the the accompanying statements of operation. See Note 8 for further details.

**Comprehensive Loss**

The Company has no items of comprehensive income or loss other than net loss.

**Revenue Recognition and Deferred Revenue**

The Company has entered into collaboration arrangements in exchange for non-refundable upfront payments and consideration as services are performed. These arrangements include multiple elements, such as the sale of licenses and the provision of services. Under these arrangements, the Company also is entitled to receive development milestone payments and royalties in the form of a designated percentage of product sales. The Company classifies non-refundable upfront payments, milestone payments and royalties received under collaboration and licensing agreements as revenues within its statements of operations because the Company views such activities as being central to its business operations.

Revenue is recognized when all of the following conditions are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) fees are fixed or determinable, and (iv) collection of fees is reasonably assured.

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

Non-refundable upfront license fees are recorded as deferred revenue and recognized into revenue on a straight-line basis over the estimated period of the Company's substantive performance obligations. If the Company does not have substantive performance obligations, the Company recognizes non-refundable upfront fees into revenue through the date the deliverable is satisfied. Analyzing the arrangement to identify deliverables requires the use of judgment and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. In arrangements that include license rights and other non-contingent deliverables, such as participation in a steering committee, these deliverables do not have standalone value because the non-contingent deliverables are dependent on the license rights. That is, the non-contingent deliverables would not have value without the license rights, and only the Company can perform the related services. Upfront license rights and non-contingent deliverables, such as participation in a steering committee, do not have standalone value as they are not sold separately and they cannot be resold. In addition, when non-contingent deliverables are sold with upfront license rights, the license rights do not represent the culmination of a separate earnings process. As such, the Company accounts for the license and the

non-contingent deliverables as a single combined unit of accounting. In such instances, the license revenue in the form of non-refundable upfront payments is deferred and recognized over the applicable relationship period, which historically has been the estimated period of the Company's substantive performance obligations or the period the rights granted are in effect. The Company recognizes contingent event-based payments under license agreements when the payments are received. The Company has not received any royalty payments to date.

The Company will recognize a milestone payment when earned if it is substantive and the Company has no ongoing performance obligations related to the milestone. A milestone payment is considered substantive if it: 1) is commensurate with either the Company's performance to achieve the milestone or the enhanced value of the delivered item as a result of a specific

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outcome from the Company's performance to achieve the milestone; 2) relates solely to past performance; and 3) is reasonable relative to all of the deliverables and payment terms, including other potential milestone consideration, within the arrangement.

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

The Company's deferred revenue includes non-refundable upfront payments received under certain licensing and collaboration arrangements that contain substantive performance obligations that the Company is providing over respective defined service or estimated relationship periods. Such non-refundable upfront payments are recognized over these defined service or estimated relationship periods. The Company received a non-refundable upfront payment of \$1,500 from R-Pharm in August 2013 which is being recognized over a period of 70 months. The Company recognized revenue in continuing operations from this upfront payment of \$64 and \$193 for the three and nine months ended September 30, 2016, respectively.

**Collaboration Arrangements**

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

The Company's August 2013 development, license, and supply agreement with R-Pharm, CJSC ("R-Pharm"), combined with the supplemental arrangement in November 2014, is a collaborative arrangement pursuant to Topic 808 and the Company's previously described accounting policy. The reimbursements due from R-Pharm for specified research and development costs incurred by the Company are classified as a reduction to research and development expense in the accompanying statements of operations. The reimbursements due to the Company are recorded as a reduction of expense when (i) the reimbursable expenses have been incurred by the Company, (ii) persuasive evidence of a cost reimbursement arrangement exists, (iii) reimbursable costs are fixed or determinable, and (iv) the collection of the reimbursement payment is reasonably assured. The Company recorded receivables for unpaid reimbursement amounts due from R-Pharm of \$1,017 and \$430 as of September 30, 2016 and December 31, 2015, respectively, which are presented in prepaid expenses and other current assets in the accompanying balance sheets.

**Research and Development**

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

The Company is required to estimate its expenses resulting from its obligations under contracts with clinical research organizations, clinical site agreements, vendors, and consultants in connection with conducting SCY-078 clinical trials and preclinical development. The financial terms of these contracts are subject to negotiations which vary from contract to contract, and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company's objective is to reflect the appropriate development and trial expenses in its financial statements by matching those expenses with the period in which the services and efforts are expended. For clinical trials, the Company accounts for these expenses according to the progress of the trial as measured by actual hours expended by CRO personnel, investigator performance or completion of specific tasks, patient progression, or timing of various aspects of the trial. For preclinical development services performed by outside service providers, the Company determines accrual estimates through financial models, taking into account development progress data received from outside service providers and discussions with applicable Company and service provider personnel.

Reimbursements of certain research and development costs by parties under collaborative arrangements have been recorded as a reduction of research and development expense presented within the statement of operations. Such reimbursements were recognized under the collaboration arrangement with R-Pharm during the three and nine months ended September 30, 2016. Information about the Company's research and development expenses and reimbursements due under collaboration arrangements for the three and nine months ended September 30, 2016 and 2015, is presented as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development expense, gross	\$5,091	\$3,553	\$16,881	\$11,352
Less: Reimbursement of research and development expense	201	95	588	827
Research and development expense, net of reimbursements	\$4,890	\$3,458	\$16,293	\$10,525

**Patent Expenses**

Costs related to filing and pursuing patent applications, as well as costs related to maintaining the Company's existing patent portfolio, are recorded as expense as incurred since recoverability of such expenditures is uncertain.

**Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability. The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. The three tiers are defined as follows:

Level 1 — Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 — Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and

Level 3 — Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

**Income Taxes**

The Company provides for deferred income taxes under the asset and liability method, whereby deferred income taxes result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that the Company believes is more likely than not to be realized.

The Company recognizes uncertain tax positions when the positions will be more likely than not sustained based solely upon the technical merits of the positions.

Certain modifications made to an outstanding incentive stock option award at any time after the initial grant dates which are considered to be "material modifications", as defined within the Internal Revenue Code, may result in the affected award being recharacterized as a non-statutory stock option. The effects of any recharacterization modification for purposes of income tax accounting are recognized on a prospective basis.

**Stock-Based Compensation**

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees, officers, and directors based on the estimated fair values of the awards as of grant date. The Company values equity instruments and stock options granted to employees and non-employee directors using the Black-Scholes valuation model. The value of the award is recorded as expense over the requisite service periods and the Company recognizes forfeitures as they occur in the period.

**Basic and Diluted Net Loss per Share of Common Stock**

The Company calculates net loss per common share in accordance with ASC 260, Earnings Per Share ("Topic 260"). Basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period.

The following potentially dilutive shares of common stock have not been included in the computation of diluted net loss per share for all periods as the result would be anti-dilutive.





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	September 30,	
	2016	2015
Warrants to purchase Series C-1 Preferred	14,033	14,033
Warrants to purchase common stock associated with June 2016 Public Offering	4,218,750	—
Warrants to purchase common stock associated with Loan Agreement	122,435	—
Stock options	1,815,583	1,207,697

## Effect of Recent Accounting Pronouncements

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

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

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases, or ASU 2016-02. The new guidance requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. For public companies, ASU 2016-02 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact that the implementation of ASU 2016-02 will have on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation, or ASU 2016-09. The new guidance is an update to ASC 718 and simplifies several aspects of the accounting for share-based transactions. For public companies, ASU 2016-09 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted for an entity in any interim or annual period and the Company is evaluating the impact of the implementation that ASU 2016-09 will have on the Company's financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers, or ASU 2016-10. The new guidance is an update to ASC 606 and provides clarity on: identifying performance obligations and licensing implementation. For public companies, ASU 2016-10 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the impact that the implementation of ASU 2016-10 will have on the Company's financial statements.



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## 3. Investments

The following table summarizes the held-to-maturity securities held at September 30, 2016:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of September 30, 2016				
U.S. government securities	\$ 28,574	\$ 7	\$ 48	\$28,533
Total	\$ 28,574	\$ 7	\$ 48	\$28,533

As of September 30, 2016, the Company has \$6,030 of held-to-maturity investments with contractual maturities greater than one year and \$22,544 of held-to-maturity investments with contractual maturities less than one year.

## 4. Prepaid Expenses and Other Current Assets

	September 30, 2016	December 31, 2015
Prepaid SCY-078 development services	\$ 262	\$ 108
Prepaid insurance	400	285
Other prepaid expenses	89	91
Other receivable due from R-Pharm	1,017	430
Escrow receivable due from Accuratus (Note 13)	—	500
Other current assets	70	38
Total prepaid expenses and other current assets	\$ 1,838	\$ 1,452

## 5. Accrued Expenses

	September 30, 2016	December 31, 2015
Accrued research and development expenses	\$ 516	\$ 1,903
Accrued employee bonus compensation	569	776
Employee withholdings	7	42
Other accrued expenses	214	428
Total accrued expenses	\$ 1,306	\$ 3,149

## 6. Borrowings

On September 30, 2016, the Company entered into the Loan Agreement with Solar, in its capacity as administrative and collateral agent and as lender. Pursuant to the Loan Agreement, Solar is providing the Company with a 48-month secured term loan in the amount of \$15,000 (the "Term Loan"). The Term Loan bears interest at a floating rate equal to the LIBOR rate in effect plus 8.49% and the Company is required to make interest-only payments on the Term Loan beginning November 1, 2016 and continuing through March 1, 2018. Beginning April 1, 2018 (the "Amortization Date"), the Company is required to make monthly payments of interest plus equal monthly principal payments from the Amortization Date through the maturity date of the Term Loan. If the Company receives certain positive clinical data prior to March 31, 2018, and receives unrestricted net cash proceeds of not less than \$20,000 after September 8, 2016, from certain financing, licensing, or other non-dilutive agreements, the Amortization Date is extended for an additional six months (extending the interest-only time period by six months). However, the ultimate term of the Term Loan is not extended and the equal monthly payments of principal will be calculated based on the remaining term of the Term Loan. The obligations under the Loan Agreement are secured by a lien on substantially all assets of the Company other than its intellectual property, which is subject to a negative pledge.

The Loan Agreement contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Loan Agreement contains customary negative covenants limiting the ability of the Company, among other things, to incur debt, grant liens, make investments, make acquisitions, make certain restricted payments and sell assets, subject to certain exceptions, and maintain certain minimum liquidity requirements. Upon the

occurrence and during the continuance of

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an event of default, the lenders may declare all outstanding principal and accrued but unpaid interest under the Loan Agreement immediately due and payable and may exercise the other rights and remedies provided for under the Loan Agreement and related loan documents. The events of default under the Loan Agreement include payment defaults, cross defaults with certain other agreements, breaches of covenants or representations and warranties, the occurrence of a material adverse effect and certain bankruptcy events. The Company has the right to prepay the Term Loan in whole at any time and the Loan Agreement contains customary prepayment and closing fees.

Pursuant to the Loan Agreement, on September 30, 2016 (the "Closing Date"), the Company issued to Solar a warrant (the "Solar Warrant") to purchase an aggregate of up to 122,435 shares of the Company's common stock at an exercise price of \$3.6754 per share. The Solar Warrant will expire five years from the date of the grant. The Solar Warrant is classified as equity and recorded at its relative fair value in the shareholder's equity section of the balance sheet (See Note 8).

Future principal debt payments on the currently outstanding Term Loan are payable as follows:

	September 30, 2016
2016	\$—
2017	—
2018	4,500
2019	6,000
2020	4,500
Total principal payments	15,000
Final fee due at maturity	750
Total principal and final fee payment	15,750
Unamortized discount and debt issuance costs	(1,583 )
Less current portion	—
Loan payable, long term	\$ 14,167

## 7. Commitments and Contingencies

## Leases

The Company leases its headquarters facilities under a long-term non-cancelable operating lease. On July 13, 2015, the Company entered into a sublease (the "Sublease") that became effective July 22, 2015, to sublet certain premises consisting of 10,141 square feet of space (the "Subleased Premises") located at 101 Hudson Street, Jersey City, New Jersey from Optimer Pharmaceuticals, Inc. The term of the Sublease commenced on August 1, 2015 (the "Commencement Date") and is scheduled to expire on July 30, 2018. No base rent was due under the Sublease until one month after the Commencement Date. Under the Sublease, the Company is obligated to pay monthly base rent of approximately \$25 per month, which amount increases by 3% annually on each anniversary of the Commencement Date. In addition, the Company was required to fund a security deposit with the sublandlord in the amount of \$74. Rent expense was approximately \$74 and \$221 for the three and nine months ended September 30, 2016, respectively. Future minimum lease payments for all operating leases as of September 30, 2016 are as follows:

September 30, 2016 to December 31, 2016	\$76
2017	307
2018	182
2019	—
2020	—
Thereafter	—
Total	\$565

License Arrangement with Potential Future Expenditures

As of September 30, 2016, the Company had a license arrangement with Merck Sharp & Dohme Corp., or Merck, that involves potential future expenditures. Under the license arrangement, the Company exclusively licensed from Merck its rights to SCY-078 in the field of human health. SCY-078 is the Company's lead product candidate. Pursuant to the terms of the license

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agreement, Merck is eligible to receive milestone payments from the Company that could total \$19,000 upon occurrence of specific events, including initiation of a phase 3 clinical study, new drug application, and marketing approvals in each of the U.S., major European markets and Japan. In addition, Merck is eligible to receive tiered royalties from the Company based on a percentage of worldwide net sales of SCY-078. The aggregate royalty percentages are mid- to high-single digits.

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

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

Clinical Development Arrangements

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

Commitment Services Agreement

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

Compensatory Arrangements with Former Employees and Officers

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

8. Stockholder's EquityAuthorized, Issued, and Outstanding Common Stock

The Company's common stock has a par value of \$0.001 per share and consists of 125,000,000 authorized shares as of September 30, 2016, and December 31, 2015; 23,430,868 and 13,905,599 shares were issued and outstanding at September 30, 2016, and December 31, 2015, respectively. The following table summarizes common stock share activity for the nine months ended September 30, 2016:

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2015	13,905,599	\$ 14	\$ 192,069	\$(150,134 )	\$ 41,949
Net loss	—	—	—	(26,540 )	(26,540 )
Stock-based compensation expense	—	—	908	—	908
Debt discount for Solar Warrant	—	—	244	—	244
Common stock issued through employee stock purchase plan	7,356	—	21	—	21
Common stock issued under Shelf Registration, net of expenses	9,517,913	9	16,585	—	16,594
Balance, September 30, 2016	23,430,868	\$ 23	\$ 209,827	\$(176,674 )	\$ 33,176

Shares Reserved for Future Issuance

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





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	September 30, 2016	December 31, 2015
Outstanding stock options	1,815,583	1,379,727
Outstanding Series C-1 Preferred warrants	14,033	14,033
Outstanding June 2016 Public Offering warrants	4,218,750	—
Outstanding Solar Warrant	122,435	—
For possible future issuance under 2014 Equity Incentive Plan (Note 10)	672,782	552,415
For possible future issuance under Employee Stock Purchase Plan (Note 10)	72,338	50,283
For possible future issuance under 2015 Inducement Plan (Note 10)	165,000	165,000
Total common shares reserved for future issuance	7,080,921	2,161,458

**Warrants Associated with Convertible Preferred Stock Issuances**

In July 2006, the Company issued warrants to purchase 196,923 shares of Series C-1 Preferred Stock, which converted into the right to purchase 14,033 shares of common stock in connection with the Company's IPO; however, the Company refers to these warrants as its Series C-1 Preferred warrants. The Series C-1 Preferred warrants were issued in conjunction with a loan financing agreement with an original exercise price of \$3.25 per share of Series C-1 Preferred, which converted into an exercise price of \$45.61 per share of common stock in connection with the Company's IPO. These warrants remain outstanding as of September 30, 2016 and will expire on May 7, 2019, which is the five year anniversary of the Company's IPO. The fair value at the date of grant for these instruments was \$459, which was recorded as a debt discount. The debt discount related to these warrants was fully amortized as of December 31, 2010. The Company determined that the warrants should be recorded as a derivative liability and stated at fair value at each reporting period. As of September 30, 2016 and December 31, 2015, the fair value of the warrant derivative liability was zero.

**Warrants Associated with June 2016 Public Offering**

On June 21, 2016, the Company completed the June 2016 Public Offering of its common stock and warrants pursuant to the Company's effective Shelf Registration (see Note 1). Each purchaser received a warrant to purchase 0.45 of a share for each share purchased in the June 2016 Public Offering. There is not expected to be any trading market for the warrants. Each warrant was exercisable immediately upon issuance, will expire five years from the date of issuance, and has an exercise price of \$3.00 per share.

The warrants contain a provision where the warrant holder has the option to receive cash, equal to the Black-Scholes fair value of the remaining unexercised portion of the warrant, as cash settlement in the event that there is a fundamental transaction (contractually defined to include various merger, acquisition or stock transfer activities). Due to this provision, ASC 480, Distinguishing Liabilities from Equity requires that these warrants be classified as liabilities. The fair values of these warrants have been determined using the Black-Scholes valuation model, and the changes in the fair value are recorded in the accompanying statements of operations. During the three months ended September 30, 2016, the Company recorded a loss of \$4,570 due to the change in fair value of the warrant liability. As of September 30, 2016, the fair value of the warrant liability was \$9,164.

**Warrant Associated with Loan Agreement**

Pursuant to the Loan Agreement, on the Closing Date the Company issued to Solar the Solar Warrant to purchase an aggregate of up to 122,435 shares of the Company's common stock at an exercise price of \$3.6754 per share. The Solar Warrant will expire five years from the date of the grant. The Solar Warrant is classified as equity and recorded at its relative fair value in the shareholder's equity section of the balance sheet.

**9. Income Taxes**

The Company applies intraperiod tax allocation guidance pursuant to Topic 740 to allocate income tax (expense) benefit between pre-tax income (loss) from continuing operations and discontinued operations. For periods in which the Company reports pre-tax income from discontinued operations for financial reporting purposes and pre-tax loss from continuing operations, the Company presents income from discontinued operations net of income tax expense attributable to its discontinued operations using the estimated annual effective tax rate of the Services Business. The Company also recognizes a corresponding income tax benefit on its loss from continuing operations for the same

affected period. After applying the intraperiod tax allocation policy described above, the Company did not record a federal or state income tax expense or benefit for the three and nine months ended September 30, 2016.

10. Stock-based Compensation

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2009 Stock Option Plan

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

2014 Equity Incentive Plan

In February 2014, the Company’s board of directors adopted the 2014 Equity Incentive Plan, or the 2014 Plan, which was subsequently ratified by its stockholders and became effective on May 2, 2014 (the “Effective Date”). The 2014 Plan, as amended on June 18, 2014 and February 25, 2015, is the successor to and continuation of the 2009 Stock Option Plan. As of the Effective Date, no additional awards will be granted under the 2009 Stock Option Plan, but all stock awards granted under the 2009 Stock Option Plan prior to the Effective Date will remain subject to the terms of the 2009 Stock Option Plan. All awards granted on and after the Effective Date will be subject to the terms of the 2014 Plan. The 2014 Plan provides for the grant of the following awards: (i) incentive stock options, (ii) nonstatutory stock options, (iii) stock appreciation rights, (iv) restricted stock awards, (v) restricted stock unit awards, and (vi) other stock awards. Employees, directors, and consultants are eligible to receive awards.

Under the 2014 Plan, after giving effect to the increases to the share reserve approved by the Company’s stockholders in September 2014, and June 2015, but excluding the automatic increases discussed below, the aggregate number of shares of common stock that could be issued from and after the Effective Date (the “share reserve”) could not exceed the sum of (i) 1,122,731 new shares, (ii) the shares that represented the 2009 Stock Option Plan’s available reserve on the Effective Date, and (iii) any returning shares from the 2009 Stock Option Plan. Under the 2014 Plan, the share reserve will automatically increase on January 1st of each year, for a period of not more than 10 years, commencing on January 1, 2015, and ending on January 1, 2024, in an amount equal to 4.0% of the total number of shares of capital stock outstanding on December 31st of the preceding calendar year. The board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than would otherwise occur.

Pursuant to the terms of the 2014 Plan, (a) on January 1, 2015, the Company automatically added 340,484 shares to the total number of shares of common stock available for future issuance under the 2014 Plan, and (b) on January 1, 2016, the Company automatically added 556,223 shares to the total number of shares of common stock available for future issuance under the 2014 Plan.

Stock Option Grants

During the three and nine months ended September 30, 2016, the Company granted options to purchase 47,026 and 487,946 shares of common stock, respectively. As of September 30, 2016, there were 672,782 shares of common stock available for future issuance under the 2014 Plan.

2015 Inducement Plan

On March 26, 2015, the Company’s board of directors adopted the 2015 Inducement Plan, or the 2015 Plan. The 2015 Plan has a share reserve covering 450,000 shares of common stock. During the quarter ended September 30, 2016, there were no grants of the Company’s common stock under the 2015 Inducement Plan. As of September 30, 2016, there were 165,000 shares of common stock available for future issuance under the 2015 Plan.

2014 Employee Stock Purchase Plan

In February 2014, the Company’s board of directors adopted the 2014 Employee Stock Purchase Plan (“ESPP”), which was subsequently ratified by the Company’s stockholders and became effective on May 2, 2014. The purpose of the ESPP is to provide means by which eligible employees of the Company and of certain designated related corporations may be given an opportunity to purchase shares of the Company’s common stock, and to seek and retain services of new and existing employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. Common stock that may be issued under the ESPP will not exceed 47,794 shares, plus the number of shares of common stock that are automatically added on January 1st of each year for a period of ten years, commencing on January 1, 2015 and ending on January 1, 2024, in an amount equal to the lesser of (i) 0.8% of the

total number of shares of outstanding common stock on December 31 of the preceding calendar year, and (ii) 29,411 shares of common stock. Similar to the 2014 Plan, the board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than would otherwise occur. The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code.

In the quarterly period ended March 31, 2016, the number of shares of common stock available for issuance under the ESPP was automatically increased by 29,411 shares pursuant to the terms of the ESPP and the Company issued 1,229 shares of

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common stock under the ESPP. During the quarterly period ended March 31, 2015, the number of shares of common stock available for issuance under the ESPP was automatically increased by 29,411 shares pursuant to the terms of the ESPP and the Company issued 15,107 shares of common stock under the ESPP. As of September 30, 2016, there were 72,338 shares of common stock available for future issuance under the ESPP; and the Company issued 6,127 shares under the ESPP during the three months ended September 30, 2016.

**Compensation Cost**

The compensation cost that has been charged against income for stock awards under the 2009 Stock Option Plan, the 2014 Plan, the 2015 Plan, and the ESPP was \$293 and \$908 for the three and nine months ended September 30, 2016, respectively, and \$1,541 and \$2,656 for the three and nine months ended September 30, 2015, respectively. The total income tax benefit recognized in the statements of operations for share-based compensation arrangements was \$0 for the three and nine months ended September 30, 2016 and 2015. Cash received from options exercised was \$0 for the three and nine months ended September 30, 2016, and 2015.

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Research and development	\$67	\$128	\$223	\$242
Selling, general and administrative	226	1,306	685	2,206
Discontinued operations (Note 13)	—	107	—	208
Total	\$293	\$1,541	\$908	\$2,656

**11. Fair Value Measurements**

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

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

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period, pursuant to the policy described in Note 2. This determination requires significant judgments to be made. The following table summarizes the conclusions reached as of September 30, 2016 and December 31, 2015 for financial instruments measured at fair value on a recurring basis:

	Fair Value Hierarchy Classification			
	Quoted Prices in Active Markets for Identical Assets (Level 1)			
Balance	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
December 31, 2015				
Cash on deposit	\$46,935	\$46,935	—	—
Money market funds	50	50	—	—

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Total assets	\$46,985	\$46,985	—	—
September 30, 2016				
Cash on deposit	\$29,809	\$29,809	—	—
Total assets	\$29,809	\$29,809	—	—
Warrant liability	\$9,164	—	—	\$ 9,164
Total liabilities	\$9,164	—	—	\$ 9,164

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Level 3 financial liabilities consist of the warrant liability for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. The Company uses the Black-Scholes option valuation model to value the Level 3 warrant liability at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility.

12. Accrued Severance and Retention Costs

Compensatory Plan with Services Business Employees

In connection with the Company's sale of its Services Business in July 2015 to Accuratus, which is more fully described in Note 13, the Company designed a compensatory plan to promote the retention of services of its non-executive employees supporting that business (the "Services Business Plan") as well to provide severance payments for non-executive employees that were not offered a comparable position by Accuratus (the "June 2015 Terminated Employees"). The Services Business Plan met the definition of an exit and disposal activity pursuant to FASB ASC 420--Exit and Disposal Cost Obligations and the related retention and severance expense was recognized in 2015. As of September 30, 2016, the remaining severance and retention obligation for the June 2015 Terminated Employees was \$8.

Compensatory Arrangement with Employees of the Company's Continuing Operations

In connection with the Company's relocation of its continuing operations to Jersey City, New Jersey, the Company designed a compensatory plan to promote the retention of services of non-executive employees supporting its continuing operations (the "Retention Plan"). The Company has concluded that the Retention Plan meets the definition of an exit and disposal activity pursuant to FASB ASC 420--Exit and Disposal Cost Obligations as of June 30, 2015, and all related expenses incurred were recognized in 2015.

The Retention Plan provided that non-executive employees were eligible to receive cash bonuses, severance payments and related benefit premiums provided that such employees remained employed through December 31, 2015 and were not terminated for cause. During the year ended December 31, 2015, the Company recognized total expense of \$1,012, which was included in research and development and selling, general, and administrative expenses. As of September 30, 2016, the obligation for cash bonuses, severance payments and related benefit premiums under the Retention Plan has been fully paid.

Compensatory Arrangement with Former Executive Officer

Yves J. Ribeill, Ph.D., resigned as President effective July 21, 2015. Dr. Ribeill resigned as a member of the board of directors effective March 16, 2016. The Company and Dr. Ribeill entered into an agreement, effective July 21, 2015, (the "Separation Agreement"), providing for certain payments and benefits to Dr. Ribeill over 12 months commencing with the first payroll period following the resignation date as President. The cash severance payments and related benefit premiums and payroll taxes totaled approximately \$1,046 as of July 21, 2015, which was recognized as expense in the quarterly period ended September 30, 2015. As of September 30, 2016, the obligation for cash severance payments and related benefit premiums and payroll taxes under the Separation Agreement has been fully paid.

13. Sale of the Services Business, Discontinued Operations

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

Sale of the Services Business

On July 21, 2015, the Company completed the sale of the Services Business to Accuratus pursuant to the Purchase Agreement, with an effective date of July 17, 2015 for an aggregate purchase price of \$3,875, subject to a working



capital adjustment of \$824, which reduced the proceeds at closing. In addition, a portion of the consideration payable at closing equal to \$500 was withheld and was subject to an escrow for a period of 12 months from the date of closing to satisfy indemnification obligations of the Company in connection with breaches of any representation and warranties and other customary obligations under the terms of the Purchase Agreement. The escrow funds were received in full on July 19, 2016 in accordance with the Purchase Agreement. The net cash consideration received by the Company upon closing in July 2015 was \$2,549, after adjusting for the items described above and a nominal escrow fee.

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## Continuing Involvement with Accuratus

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

For the three and nine months ended September 30, 2016, the Company recognized \$593 and \$2,792, respectively, of expense for services provided by Accuratus under the Services Agreement, which is included in research and development expense in the accompanying unaudited interim statements of operations.

## Discontinued Operations

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

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Major line items constituting loss of discontinued operations:		
Revenue	\$ 560	\$ 7,408
Cost of revenue	(466 )	(7,296 )
Research and development	(7 )	(860 )
Severance and exit costs	(1,061 )	(2,114 )
Impairment charge from classification of assets held for sale	—	(1,350 )
Gain (loss) on disposal, net of associated transaction costs of \$764 for the three and nine month periods ended September 30, 2015	148	(73 )
Loss from discontinued operations	\$ (826 )	\$ (4,285 )

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

	Nine Months Ended September 30, 2015
Depreciation expense	\$ 391
Purchases of property and equipment	(547 )
Stock-based compensation	208
Changes in deferred rent	(133 )
Equipment purchases in accounts payable and accrued expenses	—

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

Operating results for the three and nine months ended September 30, 2016, are not necessarily indicative of results that may occur in future interim periods or future fiscal years. Some of the statements under in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. These forward-looking statements are based on management's beliefs and assumptions and on information currently available to our management and involve significant elements of subjective judgment and analysis. Words such as "expects," "will," "anticipate," "target," "goal," "intend," "plan," "believe," "seek," "estimate," "potential," "should," "could," variations of such similar expressions are intended to identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed under the heading "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this Quarterly Report on Form 10-Q.

## Overview

SCYNEXIS is a pharmaceutical company committed to the development and commercialization of novel anti-infectives to address significant unmet therapeutic needs. We are developing our lead product candidate, SCY-078, as a novel oral and intravenous (IV) drug for the treatment of several fungal infections, including serious and life-threatening invasive fungal infections in humans. SCY-078 is a novel triterpenoid and structurally distinct glucan synthase inhibitor that has been shown to be effective in vitro and in vivo in animal studies against a broad range of *Candida* and *Aspergillus* species, including drug-resistant strains, as well as in Phase 2 clinical studies in patients with different *Candida* spp. infections. *Candida* and *Aspergillus* species are two of the most common invasive fungal pathogens and are responsible for approximately 85% of all invasive fungal infections in the United States and Europe. Our current lead indications under development are invasive candidiasis and refractory invasive fungal infections.

On October 5<sup>th</sup>, 2016, we announced final results of our two recently completed Phase 2 studies. In the first study, treatment with oral SCY-078 in patients with vulvovaginal candidiasis (VVC), resulted in higher clinical cure rates at test-of-cure and fewer recurrences of VVC at the four-month follow-up when compared to the standard of care (oral fluconazole). In the second study, which evaluated oral SCY-078 as a step-down therapy in patients with invasive candidiasis, oral SCY-078 achieved the target exposure for efficacy and was well-tolerated.

On October 24<sup>th</sup>, 2016, we announced the results from two additional Drug-Drug Interaction (DDI) studies, further demonstrating the low potential for DDI and favorable safety profile of SCY-078.

## Phase 2 Study of Oral SCY-078 in Patients with Invasive Candidiasis

This Phase 2 multinational, randomized, open-label study evaluated the pharmacokinetics (PK), safety, and tolerability of SCY-078 as an oral step-down treatment in patients initially treated with intravenous (IV) echinocandin therapy for invasive *Candida* infections. Twenty-seven patients were enrolled and 22 were randomized to receive either SCY-078 500mg QD (once daily) with a 1,000mg loading dose (seven patients), SCY-078 750mg QD with a 1,250mg loading dose (seven patients) or standard of care (seven patients receiving fluconazole 400mg QD with an 800mg loading dose and one patient receiving IV micafungin for the entire duration of antifungal therapy because he could not receive oral fluconazole due to a *Candida glabrata* with decreased fluconazole-susceptibility) for up to 28 days. Efficacy was assessed based on achievement of favorable global response defined as the resolution of signs and symptoms attributable to the *Candida* infection and mycological eradication without the use of any other antifungal agent. Patients were followed for six weeks after the end of treatment. As previously reported, we believe the study met its primary objective by confirming the once daily oral dose of SCY-078 750mg as a dose that is both overall safe and tolerated and achieves the target exposure at steady state in patients with invasive candidiasis. During the study period, there were no reports of mycological failures in the SCY-078 750mg group (n=7) versus two infection-related failures (one fungemia and one abdominal sepsis) in the fluconazole group (n=7). No relapses were observed in these

two groups during the six-week follow-up period.

Phase 2 Proof-of-Concept Study of Oral SCY-078 in Patients with VVC

This Phase 2 multicenter, randomized, active controlled, evaluator-blinded study evaluated the safety and efficacy of two dose regimens of oral SCY-078 in adult female patients with moderate to severe VVC as a proof-of-concept study to support the development of SCY-078 in invasive candidiasis and other Candida infections. Although a mucocutaneous and an invasive Candida infection are different clinical conditions, both are caused by the same Candida species and we believe that

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the evidence of antifungal activity in a mucocutaneous *Candida* infection (like VVC) is indicative of the potential antifungal activity of SCY-078 in other clinical conditions caused by the same pathogen. A total of 96 patients (the Intent-to-Treat (ITT) population) with an acute moderate to severe, symptomatic episode of VVC were randomized in a 1:1:1 ratio to receive either three daily doses or five daily doses of oral SCY-078 750mg QD with a 1,250mg loading dose or oral fluconazole, at the labeled approved dose regimen of 150mg single dose. Fluconazole was included as a reference treatment and performed as reported in its label, validating the results from our study. Clinical cure rate, defined as a resolution of signs and symptoms of infection without further antifungal treatment, is now the recommended primary endpoint per the latest FDA guidelines for VVC. As previously reported, we believe the study met its objectives by showing higher clinical cure rate for patients receiving oral SCY-078 compared to oral fluconazole at the test-of-cure visit (Day 24). Subjects in the Per-Protocol (PP) population (defined as subjects with culture confirmed *Candida* infection at baseline (n=70 subjects)) population were followed for four months and the follow-up data showed a high clinical cure rate at the four-month visit (end of observation period) of 88% in patients who received SCY-078 compared to 65% in patients who received fluconazole (p=0.04). Moreover, during the four-month observation period, patients who received oral SCY-078 had a lower recurrence rate (4%) versus fluconazole (15%).

As previously reported, SCY-078 was overall safe and tolerated in both studies. There were no discontinuations due to adverse events (AEs) and no treatment-related serious AEs. Consistent with previous findings, the most common AEs were mild to moderate gastrointestinal (GI) events such as diarrhea, nausea, vomiting, abdominal pain or discomfort. In patients with invasive candidiasis, the number of GI events was comparable in both the SCY-078 and fluconazole treatment arms.

We consider the results from these two recently completed Phase 2 studies (VVC and invasive candidiasis) to be an important milestone in the development of SCY-078, providing clear evidence that orally administered SCY-078 achieved clinically meaningful antifungal effect in two different forms of *Candida* infection in humans. The oral dose needed to achieve the target exposure in invasive candidiasis was identified and this dose showed to be safe and tolerated, supporting subsequent stages of development of orally administered SCY-078 for invasive candidiasis. In addition, we believe that the positive results from the Phase 2 proof-of-concept study in VVC patients are supportive of future development of orally administered SCY-078 for VVC as well. We are also conducting Phase 1 clinical trials to investigate the safety and pharmacokinetics of an intravenous formulation of SCY-078 in order to identify dosing and administration with optimal tolerability and we are expecting to report results in November 2016. We expect to meet with the FDA during the first quarter of 2017 to discuss the results from our recent studies and our development path forward in invasive candidiasis. We are planning to initiate a study for the treatment of invasive fungal infections that are refractory to or intolerant of standard antifungal agents in the fourth quarter of 2016, and to initiate a subsequent Phase 2 study in patients with invasive candidiasis in the first quarter of 2017. We expect top-line data from these studies at year-end of 2017.

In addition to SCY-078 and related antifungal compounds, we have discovered a number of proprietary compounds, including those within our cyclophilin inhibitor platform. We are currently focusing our resources on the development of SCY-078 and in the future, we may develop other assets within our proprietary portfolio of antifungal or cyclophilin inhibitor compounds either in-house or through collaborations with strategic development partners. Additionally, we may assess external opportunities to expand our clinical pipeline.

We have operated as a public entity since we completed our initial public offering in May 2014, which we refer to as our IPO. We also completed a follow-on public offering of our common stock in April 2015 and a public offering of our common stock and warrants in June 2016. As of September 30, 2016, we had received an aggregate of \$113.4 million in net proceeds from the issuance of our common stock in these three offerings. Our principal source of liquidity is cash and cash equivalents and investments, which totaled \$58.4 million as of September 30, 2016. On September 30, 2016, we received net proceeds of \$14.4 million as a result of the closing of our debt arrangement with Solar Capital Ltd, or Solar.

We have incurred net losses since our inception, including the year ended December 31, 2015, and the nine months ended September 30, 2016. As of September 30, 2016, our accumulated deficit was \$176.7 million. We anticipate that

we will continue to incur losses for at least the next several years. We expect that our research and development expenses will continue to increase as we continue to execute our research and drug development strategy. We also expect that we will continue to incur selling, general and administrative expenses to support our public reporting company operations. As a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements. We may offer shares of our common stock pursuant to our Form S-3 shelf registration statement filed with the SEC on October 30, 2015 and declared effective on November 16, 2015, including the related at-the-market facility entered into on April 11, 2016 with Cantor Fitzgerald & Co., or Cantor.

We are an emerging growth company. Under the Jumpstart Our Business Startups Act of 2012, or JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time that those standards apply to private

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companies. We have irrevocably elected not to adopt this exemption from new or revised accounting standards, and therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

### Recent Developments

#### SCY-078 Development

On October 24<sup>th</sup>, 2016, we announced the completion of two additional Drug-Drug Interaction (DDI) studies, further demonstrating the favorable safety profile of SCY-078. An important milestone in drug development is to understand the potential impact of how two or more drugs interact with each other. Patients with invasive fungal infections are typically immuno-compromised and are commonly treated for long periods of time with multiple concomitant drugs for their underlying conditions. The potential for DDIs in these patients results in labeling restrictions, as is the case for the azole class of antifungals, which is associated with a high degree of DDIs with many commonly prescribed drugs.

To date, SCY-078 has been evaluated in multiple in vitro studies and Phase 1 clinical trials to assess the potential for SCY-078 to cause DDIs and to interfere with CYP liver enzymes that are responsible for the metabolism of most drugs.

Based on in vitro studies conducted with a broad range of CYP enzymes, SCY-078 showed minimal interference with most enzymes, either as a direct inhibitor or inducer, including CYP3A enzymes, the most common pathway for the metabolism of many drugs. CYP2C8 was shown to be the CYP enzyme with a higher risk of being inhibited by SCY-078;

DDI rosiglitazone clinical study to evaluate CYP2C8 inhibition: rosiglitazone, an antidiabetic medication, is very sensitive to inhibition of CYP2C8 and was used as an indicator of the maximum potential for clinical interaction with oral SCY-078. This study showed that SCY-078 had no effect on rosiglitazone blood levels when co-administered (i.e., no meaningful interaction was observed), indicating a low risk of clinical interactions with drugs metabolized via CYP enzymes;

DDI tacrolimus clinical study: tacrolimus is an anti-rejection drug commonly used for bone marrow and solid organ transplants patients. Several antifungals, specifically the azoles, induce an increase of tacrolimus blood levels (typically from two- to four-fold), resulting in toxicity concerns which frequently limits the use of the antifungals, and can require major tacrolimus dose adjustments. In this study, oral SCY-078 had no effect on the maximum tacrolimus blood levels (no change in C<sub>max</sub>) with only a minor effect on tacrolimus' AUC. These results suggest a low risk of clinical interactions and support the ability of co-administration of both drugs.

On October 5<sup>th</sup>, 2016, we announced final results of our two recently completed Phase 2 studies. In the first study, treatment with oral SCY-078 in patients with vulvovaginal candidiasis (VVC), resulted in higher clinical cure rates at test-of-cure and fewer recurrences of VVC at the four-month follow-up when compared to the standard of care (oral fluconazole). In the second study, which evaluated oral SCY-078 as a step-down therapy in patients with invasive candidiasis, oral SCY-078 achieved the target exposure for efficacy and was well-tolerated. We consider the results from these two Phase 2 studies (VVC and invasive candidiasis) to be an important milestone in the development of SCY-078, providing clear evidence that orally administered SCY-078 achieved clinically meaningful antifungal effect in two different forms of Candida infection in humans. The oral dose needed to achieve the target exposure in invasive candidiasis was identified and this dose showed to be safe and tolerated, supporting subsequent stages of development of orally administered SCY-078 for invasive candidiasis. We believe that that the positive results from the Phase 2 proof-of-concept study in VVC patients are also supportive of future development of orally administered SCY-078 for VVC as well.

We have continued to expand our safety database with more than 300 subjects and patients now exposed to SCY-078.

#### Corporate Developments

On September 30<sup>th</sup>, 2016, we closed a \$15 million term loan with Solar, fully funded at close. This transaction complements our June 2016 Public Offering. See Note 6 for further details.

#### Collaborations and Licensing Agreements

We are party to a number of licensing and collaboration agreements with partners in human health, including:

- (1) Merck, a pharmaceutical company, under which we exclusively licensed the rights to SCY-078 in the field of human health, and agreed to pay Merck milestones upon the occurrence of specified events as well as tiered royalties based on worldwide sales of SCY-078 when and if it is approved (in 2014, Merck assigned the patents to us related to SCY-078 that it had exclusively licensed to us and, as contemplated by the agreement, we will continue to pay milestones and royalties);
- (2) R-Pharm, CJSC, or "R-Pharm," a leading supplier of hospital drugs in Russia, granting it exclusive rights in the field of human health to develop

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and commercialize SCY-078 in Russia and several smaller non-core markets, under which we are entitled to receive potential milestones and royalties and reimbursement for certain development costs incurred by us; (3) Waterstone, an international pharmaceutical business, granting Waterstone exclusive worldwide rights to development and commercialization of SCY-635 for the treatment of viral diseases in humans, under which we are entitled to receive potential milestones and royalties; and (4) Cypralis Limited, or "Cypralis," a life sciences company, transferring to it certain cyclophilin inhibitor assets of ours, under which we are eligible to receive milestone payments upon the successful progression of certain Cypralis clinical candidates into later stage clinical studies and royalties payable upon product commercialization.

**Components of Operating Results****Revenue**

Revenue consists of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm. The R-Pharm arrangement and our revenue recognition policy is described within Note 2 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q.

**Research and Development Expense**

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

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

The table below summarizes the total costs incurred for each of our key research and development projects during the periods presented (dollars in thousands)

	Three Months		Nine Months	
	Ended		Ended September	
	September 30,	30,	30,	2015
	2016	2015	2016	2015
SCY-078	\$4,890	\$3,434	\$16,293	\$10,360
Cyclophilin Inhibitor Platform	—	24	—	165
Total research and development, net	\$4,890	\$3,458	\$16,293	\$10,525

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

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

**Selling, General and Administrative Expense**

Selling, general and administrative expense consists primarily of salaries and personnel-related costs, including employee benefits and any stock-based compensation. This includes personnel in executive, finance, sales, human

resources and administrative support functions. Other expenses include facility-related costs not otherwise allocated to cost of revenue or

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research and development expense, professional fees for accounting, auditing, tax and legal services, consulting costs for general and administrative purposes, information systems maintenance and marketing efforts.

**Other Expense (Income)**

Our other expense (income) recognized in the three months ended September 30, 2016 and 2015, respectively, consists of interest income and the change in the fair value of the warrant liability.

**Income Tax (Expense) Benefit**

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

**Discontinued Operations**

Discontinued operations comprises revenues, costs, gains and losses directly attributable to our Services Business, which we divested through a sale transaction that closed in July 2015. See Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q.

**Results of Operations for the Three Months Ended September 30, 2016 and 2015**

The following table summarizes our results of operations for the three months ended September 30, 2016 and 2015, together with the changes in those items in dollars and percentage (dollars in thousands):

	Three Months Ended September 30,		Period-to-Period		
	2016	2015	Change		%
Revenue	\$64	\$64	\$—	—	%
Operating expenses:					
Research and development, net	4,890	3,458	1,432	41.4	%
Selling, general and administrative	1,880	4,143	(2,263)	(54.6)	%
Total operating expenses	6,770	7,601	(831)	(10.9)	%
Loss from operations	(6,706)	(7,537)	831	(11.0)	%
Other (income) expense:					
Warrant liability fair value adjustment	4,570	—	4,570	—	
Interest income	(48)	(8)	(40)	500.0	%
Total other expense (income)	4,522	(8)	4,530	(56,625.0)	%
Loss from continuing operations	(11,228)	(7,529)	(3,699)	49.1	%
Discontinued operations:					
Loss from discontinued operations	—	(826)	826	(100.0)	%
Net loss	\$(11,228)	\$(8,355)	\$(2,873)	34.4	%

Revenue. For the three months ended September 30, 2016, revenue remained consistent when compared to the three months ended September 30, 2015. Revenue in both periods consisted of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm.

Research and Development. For the three months ended September 30, 2016, research and development expenses increased to \$4.9 million from \$3.5 million for the three months ended September 30, 2015. The increase of \$1.4 million, or 41.4%, for the three months ended September 30, 2016 was primarily driven by an increase of \$1.4 million in preclinical development and an increase of \$1.1 million in clinical development, offset in part by a decrease of \$0.3 million in chemistry, manufacturing, and controls (CMC), a decrease of \$0.7 million in compensation, severance, and consulting expense, and a decrease of \$0.1 million in other research and development costs. The increases in preclinical development and clinical development were driven by the expansion of SCY-078 activities as highlighted within the "Recent Developments" section.

Selling, General & Administrative. For the three months ended September 30, 2016, selling, general and administrative expenses decreased to \$1.9 million from \$4.1 million for the three months ended September 30, 2015. The

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decrease of \$2.3 million, or (54.6)%, was primarily due to \$2.3 million in severance and stock based compensation related expense recognized in the three months ended September 30, 2015 associated with the departure of a former executive officer and disposal of our Services Business in July 2015 (see Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q).

Total Other Expense (Income). For the three months ended September 30, 2016, total other expense increased to \$4.5 million from a gain of \$8,000 for the three months ended September 30, 2015. The increase was primarily the result of the change in fair value of the warrant liability of \$4.6 million for the three months ended September 30, 2016.

Discontinued Operations. For the three months ended September 30, 2015, we incurred a loss from discontinued operations of \$0.8 million. See Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q for the components of the loss from discontinued operations for the three months ended September 30, 2015.

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

The following table summarizes our results of operations for the nine months ended September 30, 2016 and 2015, together with the changes in those items in dollars and percentage (dollars in thousands):

	Nine Months Ended September 30,				
	2016	2015	Period-to-Period Change		
Revenue	\$ 193	\$ 193	\$—	—	%
Operating expenses:					
Research and development, net	16,293	10,525	5,768	54.8	%
Selling, general and administrative	6,086	9,628	(3,542)	(36.8)	%
Total operating expenses	22,379	20,153	2,226	11.0	%
Loss from operations	(22,186)	(19,960)	(2,226)	11.2	%
Other (income) expense:					
Warrant liability fair value adjustment	4,469	—	4,469	—	
Interest income	(115)	(10)	(105)	1,050.0	%
Total other expense (income)	4,354	(10)	4,364	(43,640.0)	%
Loss from continuing operations	(26,540)	(19,950)	(6,590)	33.0	%
Discontinued operations:					
Loss from discontinued operations	—	(4,285)	4,285	(100.0)	%
Net loss	\$(26,540)	\$(24,235)	\$(2,305)	9.5	%

Revenue. For the nine months ended September 30, 2016, revenue remained consistent when compared to the nine months ended September 30, 2015. Revenue in both periods consisted of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm.

Research and Development. For the nine months ended September 30, 2016, research and development expenses increased to \$16.3 million from \$10.5 million for the nine months ended September 30, 2015. The increase of \$5.8 million, or 54.8%, was primarily the result of a \$2.7 million increase in clinical development expenses primarily related to the initiation and completion of the Phase 2 VVC clinical trial and the clinical and preclinical development of intravenous SCY-078, a \$1.4 million increase in CMC expense, and a \$1.3 million increase in preclinical development expense. The increases in preclinical development and clinical development were driven by the expansion of SCY-078 activities as highlighted within the "Recent Developments" section.

Selling, General & Administrative. For the nine months ended September 30, 2016, selling, general and administrative expenses decreased to \$6.1 million from \$9.6 million for the nine months ended September 30, 2015. The decrease of \$3.5 million, or (36.8%), was primarily driven by \$2.3 million in severance and stock based compensation related expense recognized in the nine months ended September 30, 2015 associated with the departure of a former executive officer and disposal of our Services Business in July 2015 (see Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q).



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Total Other Expense (Income). For the nine months ended September 30, 2016, total other expense increased to \$4.4 million from a gain of \$10,000 for the nine months ended September 30, 2015. The increase was primarily the result of the change in fair value of the warrant liability of \$4.5 million for the nine months ended September 30, 2016.

Discontinued Operations. For the nine months ended September 30, 2015, we incurred a loss from discontinued operations of \$4.3 million. See Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q for the components of the loss from discontinued operations for the nine months ended September 30, 2015.

## Liquidity and Capital Resources

## Sources of Liquidity

Through September 30, 2016, we have funded our operations through revenue from development services and from net proceeds from debt and equity issuances. As of September 30, 2016, we had cash and cash equivalents and investments of approximately \$58.4 million, compared to \$47.0 million as of December 31, 2015. The increase in our cash and cash equivalents and investments was primarily due to the net proceeds from our June 2016 public offering of common stock and warrants in addition to the closing of our Loan Agreement with Solar, offset in large part by continued development costs associated with our lead product candidate, SCY-078. We have incurred net losses since our inception, including the nine months ended September 30, 2016. As of September 30, 2016, our accumulated deficit was \$176.7 million.

We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development expenses will continue to increase and we will continue to incur selling, general and administrative expenses to support our operations. As a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements. We may offer shares of our common stock pursuant to our Form S-3 shelf registration statement filed with the SEC on October 30, 2015 and declared effective on November 16, 2015, including the related at-market-facility entered into on April 11, 2016 with Cantor.

## Cash Flows

The following table sets forth the significant sources and uses of cash for the nine months ended September 30, 2016 and 2015 (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Cash and cash equivalents, January 1	\$46,985	\$32,243
Net cash used in operating activities	(24,799 )	(18,563 )
Net cash (used in) provided by investing activities	(28,098 )	2,002
Net cash provided by financing activities	35,721	38,084
Net decrease in cash and cash equivalents	(17,176 )	21,523
Cash and cash equivalents, September 30	\$29,809	\$53,766

## Operating Activities

The \$6.2 million increase in net cash used in operating activities for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to increases in costs associated with SCY-078 development efforts and public reporting company operations. We expect that our research and development expenses will continue to increase as we pursue our SCY-078 development efforts described in the "Recent Developments" section above and we expect we will continue to incur selling, general and administrative expenses to support our operations.

Net cash used in operating activities of \$24.8 million for the nine months ended September 30, 2016, primarily consisted of the \$26.5 million net loss adjusted for non-cash charges that included the write off of deferred offering costs of \$0.1 million, the loss on change in fair value of the warrant liability of \$4.5 million and stock-based

compensation expense of \$0.9 million, plus a net unfavorable change in operating assets and liabilities of \$3.8 million. The net unfavorable change in operating assets and liabilities included a decrease in accrued but unpaid severance and retention costs of \$2.6 million plus an increase in prepaid expenses and other assets of \$0.9 million. The decrease in accrued but unpaid severance and retention costs was primarily due to payments made for the remaining obligations described in Note 12 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q. The increase in prepaid expenses and other assets is primarily due to (i) a \$0.2 million increase in prepaid SCY-078 development services, (ii) a \$0.6 million increase in the receivable balance



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due from R-Pharm for reimbursable research and development expenditures and (iii) a \$0.1 million increase in prepaid insurance. Subsequent to September 30, 2016, \$0.8 million of the receivable balance due from R-Pharm was collected. Net cash used in operating activities of \$18.6 million for the nine months ended September 30, 2015, primarily consisted of the \$24.2 million net loss adjusted for non-cash charges, offset by a non-cash component of an impairment charge on classification of assets as held for sale and on disposal of \$0.6 million, depreciation of \$0.4 million, and stock-based compensation expense of \$2.7 million, and a net favorable change in operating assets and liabilities of \$2.0 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2016 consisted primarily of purchases of investments of \$35.5 million offset by the maturities of investments of \$6.9 million and \$0.5 million in proceeds from the release of the escrow receivable further described in Note 13 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q.

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

Financing Activities

Net cash provided by financing activities of \$35.7 million for the nine months ended September 30, 2016, consisted of gross proceeds from common stock and warrants issued under the Shelf Registration of \$23.1 million, partially offset by related underwriting discounts and commissions and offering expenses totaling \$1.8 million and net proceeds of \$14.4 million from our Loan Agreement.

Net cash provided by financing activities of \$38.1 million for the nine months ended September 30, 2015, consisted of gross proceeds of \$41.4 million from our April 2015 public offering of common stock, partially offset by related underwriting discounts and commissions and offering expenses totaling \$3.4 million.

Future Funding Requirements

To date, we have not generated any revenue from product sales. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize SCY-078. In addition, we expect our expenses to increase in connection with our ongoing development activities, particularly as we continue the research, development and clinical trials of, and seek regulatory approval for, our product candidates. We anticipate that we will need substantial additional funding in connection with our continuing future operations.

Based upon our existing operating plan, we believe that our existing cash and cash equivalents and investments will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months. We are currently evaluating our operating plan and assessing the potential cash utilization impact of SCY-078 development strategy updates. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development of product candidates. Our future capital requirements will depend on many factors, including:

- the progress, costs, and the clinical development of SCY-078;
- the outcome, costs and timing of seeking and obtaining FDA and any other regulatory approvals;
- the ability of product candidates to progress through clinical development successfully;
- our need to expand our research and development activities;
- the costs associated with securing, establishing and maintaining commercialization and manufacturing capabilities;
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our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;

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our need and ability to hire additional management and scientific and medical personnel; and the economic and other terms, timing and success of our existing licensing arrangements and any collaboration, licensing or other arrangements into which we may enter in the future.

Until such time, if ever, as we can generate substantial revenue from product sales, we expect to finance our cash needs through a combination of net proceeds from equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities as we did in April 2015 and June 2016, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, similar to the Loan Agreement with Solar that closed on September 30, 2016, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through sales of assets, other third-party funding, strategic alliances and licensing or collaboration arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

**Contractual Obligations, Commitments and Contingencies**

There have been no material changes in our contractual obligations, commitments or contingencies since December 31, 2015 except the Loan Agreement entered into with Solar further discussed in Note 6 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q.

**Off-Balance Sheet Arrangements**

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

**Critical Accounting Policies and Significant Judgments and Estimates**

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

Our critical accounting policies, significant judgments, and estimates are described within Note 2 to our unaudited interim financial statements in Item 1 of this Quarterly Report on Form 10-Q.

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

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term duration and low risk profile of our current investment portfolio, which comprise cash, cash equivalents and investments, an immediate 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

We do not believe that our cash, cash equivalents and investments have significant risk of default or illiquidity. While we believe our cash, cash equivalents and investments do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our results of operations during the three and nine months ended September 30, 2016 or

2015.

Item 4. Controls and Procedures

Management's Evaluation of our Disclosure Controls and Procedures

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

As of September 30, 2016, our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer have concluded based upon the evaluation described above that, as of September 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended September 30, 2016, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2015 except as noted below.

**Risks Relating to Our Financial Condition and Capital Requirements**

Our operating activities may be restricted as a result of covenants related to the indebtedness under our loan agreement and we may be required to repay the outstanding indebtedness in an event of default, which could have a materially adverse effect on our business

On September 30, 2016, we entered into a loan and security agreement with Solar, pursuant to which Solar provided \$15 million. Until we have repaid such indebtedness, the loan and security agreement subjects us to various customary covenants, including requirements as to financial reporting and insurance, and restrictions on our ability to dispose of our business or property, to change our line of business, to liquidate or dissolve, to merge or consolidate with any other entity or to acquire all or substantially all the capital stock or property of another entity, to incur additional indebtedness, to incur liens on our property, to pay any dividends or other distributions on capital stock other than dividends payable solely in capital stock, to redeem capital stock, to enter into licensing agreements, to engage in transactions with affiliates, or to encumber our intellectual property. Our business may be adversely affected by these restrictions on our ability to operate our business. Additionally, we may be required to repay the outstanding indebtedness under the loan if an event of default occurs under the loan and security agreement. Under the loan and security agreement, an event of default will occur if, among other things: we fail to make payments under the loan and security agreement; we breach any of our covenants under the loan and security agreement, subject to specified cure periods with respect to certain breaches; the Lender determines that a material adverse change has occurred; we or our assets become subject to certain legal proceedings, such as bankruptcy proceedings; we are unable to pay our debts as they become due; or we default on contracts with third parties which would permit the holder of indebtedness to accelerate the maturity of such indebtedness or that could have a material adverse change on us. We may not have enough available cash or be able to raise additional funds through equity or debt financings to repay such indebtedness at the time any such event of default occurs. In this case, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant to others rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves. Solar Capital Ltd. could also exercise its rights as

collateral agent to take possession of and to dispose of the collateral securing the term loans, which collateral includes substantially all of our property (excluding intellectual property, which is subject to a negative pledge). Our business, financial condition and results of operations could be materially adversely affected as a result of any of these events.

Item 6. Exhibits

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

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SIGNATURES

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

SCYNEXIS, INC.

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

Date: November 7, 2016

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

Date: November 7, 2016

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INDEX TO EXHIBITS

Exhibit Number	Description of Document
2.1	Asset Purchase Agreement, dated July 17, 2015, between the Company and Accuratus Lab Services, Inc. (Filed with the SEC as Exhibit 10.1 to our current report on Form 8-K, filed with the SEC on July 23, 2015, SEC File No. 001-36365, and incorporated by reference here).
3.1	Amended and Restated Certificate of Incorporation (Filed with the SEC as Exhibit 3.1 to our current report on Form 8-K, filed with the SEC on May 12, 2014, SEC File No. 001-36365, and incorporated by reference here).
3.2	Amended and Restated By-Laws (Filed with the SEC as Exhibit 3.4 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Fifth Amended and Restated Investor Rights Agreement, dated December 11, 2013 (Filed with the SEC as Exhibit 10.21 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192), and incorporated by reference here).
4.3	Warrant issued to Solar Capital Ltd. dated September 30, 2016 (Filed with the SEC as Exhibit 10.2 to our Current Report on Form 8-K, filed with the SEC on October 5, 2016).
10.1	Non-Employee Director Compensation Arrangements.
10.2	Loan and Security Agreement, dated September 30, 2016, between SCYNEXIS, Inc. and Solar Capital Ltd. (Filed with the SEC as Exhibit 10.1 to our Current Report on Form 8-K, filed with the SEC on October 5, 2016).
12.1	Statement Re Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13-a-14(a) or Rule 15(d)-14(a) of the Exchange Act
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 13a-14(b) or 15d-14(b) of the Exchange Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document



101.LAB XBRL Taxonomy Labels Linkbase Document

101.PRE XBRL Taxonomy Presentation Linkbase Document

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