CHIMERIX INC
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

o **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: 001-35867

CHIMERIX, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0903395**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2505 Meridian Parkway, Suite 340	
Durham, North Carolina	**27713**
(Address of Principal Executive Offices)	(Zip Code)

(919) 806-1074

(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 x 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 x No o

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

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

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

As of November 1, 2013, the number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 26,420,393.

CHIMERIX, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

INDEX

	Page
Part I — Financial Information	3
Item 1. Financial Statements	3
Balance Sheets as of September 30, 2013 and December 31, 2012 (unaudited)	3
Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2013 and 2012 (unaudited)	4
Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (unaudited)	5
Notes to Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
Part II — Other Information	34
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	74
Item 3. Defaults Upon Senior Securities	76
Item 4. Mine Safety Disclosures	76
Item 5. Other Information	76
Item 6. Exhibits	76
Signatures	79

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHIMERIX, INC.

BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 115,891	$ 19,906
Short-term investments, available-for-sale	1,004	9,849
Accounts receivable	190	783
Prepaid and other current assets	2,683	983
Deferred financing costs, current portion	20	33
Total current assets	119,788	31,554
Property and equipment, net of accumulated depreciation	335	407
Deposits	20	22
Deferred financing costs, less current portion	15	48
Total assets	$ 120,158	$ 32,031
Liabilities, redeemable convertible preferred stock and stockholders’ equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,770	$ 1,964
Accrued liabilities	1,601	906
Loan payable, current portion	5,597	4,753
Total current liabilities	8,968	7,623
Other long-term liabilities	345	337
Loan payable, less current portion	5,715	9,867
Redeemable convertible preferred stock warrant liability	—	7,512
Total liabilities	15,028	25,339
Redeemable convertible preferred stock	—	107,723

Stockholders’ equity (deficit):						
Common stock, $0.001 par value, 200,000,000 and 89,700,000 shares authorized at September 30, 2013 and December 31, 2012, respectively; 25,974,809 and 1,533,996 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively		26			3	
Additional paid-in capital		259,661			—	
Accumulated other comprehensive loss					(2	)
Accumulated deficit		(154,557	)		(101,032	)
Total stockholders’ equity (deficit)		105,130			(101,031	)
Total liabilities, redeemable convertible preferred stock and stockholders’ equity (deficit)	$	120,158		$	32,031	

See accompanying notes to financial statements.

3

CHIMERIX, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Revenues:				
Contract revenue	$ 912	$ 3,411	$ 3,491	$ 12,694
Collaboration and licensing revenue	—	17,445	—	17,445
Total revenues	912	20,856	3,491	30,139
Operating expenses:				
Research and development	5,319	7,748	18,379	23,823
General and administrative	2,029	1,836	5,753	4,956
(Loss) income from operations	(6,436)	11,272	(20,641)	1,360
Other expense:				
Interest expense, net	(270)	(130)	(1,041)	(367)
Fair value adjustments to warrant liability	—	—	(6,590)	(1,073)
Net (loss) income	(6,706)	11,142	(28,272)	(80)
Other comprehensive gain (loss):				
Unrealized gain (loss) on securities available-for-sale	1	(3)	3	4
Comprehensive (loss) income	$ (6,705)	$ 11,139	$ (28,269)	$ (76)
Per share information:				
Net (loss) income per common share, basic	$ (0.26)	$ 6.70	$ (3.69)	$ (1.82)
Weighted-average shares outstanding, basic	25,866,109	1,529,442	16,911,592	1,524,489
Net (loss) income per common share, diluted	$ (0.26)	$ 0.11	$ (3.69)	$ (1.82)
Weighted-average shares outstanding, diluted	25,866,109	52,933,956	16,911,592	1,524,489

See accompanying notes to financial statements.

4

CHIMERIX, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities:		
Net loss	$ (28,272)	$ (80)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	197	210
Non-cash interest expense	46	175
Amortization/accretion of premium/discount on investments	416	29
Share-based compensation costs	2,853	1,133
Fair value measurement of redeemable convertible preferred stock warrant liability	6,590	1,073
Changes in operating assets and liabilities:		
Accounts receivable	593	3,155
Prepaid expenses and other current assets and deposits	(1,698)	171
Accounts payable and accrued liabilities	501	(3,093)
Net cash (used) provided in operating activities	(18,774)	2,773
Investing Activities:		
Purchase of property and equipment	(125)	(120)
Purchase of short-term investments	(1,852)	—
Sales of short-term investments	750	—
Maturities of short-term investments	9,758	5,893
Net cash provided by investing activities	8,531	5,773
Financing Activities:		
Proceeds from exercise of stock options	582	8
Proceeds from exercise of warrant	1,537	—
Proceeds from loan payable	—	15,000
Proceeds from initial public offering, net of offering costs	107,634	—
Debt discount	—	(75)
Repayment of loan payable	(3,525)	(2,600)
Deferred financing costs	—	(24)
Net cash provided by financing activities	106,228	12,309
Increase in cash and cash equivalents	95,985	20,855
Cash and cash equivalents, beginning of period	19,906	13,607
Cash and cash equivalents, end of period	$ 115,891	$ 34,462
Supplemental cash flow information:		
Interest payments	$ 862	$ 170

See accompanying notes to financial statements.

5

CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

1. The Business and Summary of Significant Accounting Policies

Description of Business

Chimerix, Inc. (the Company) is a biopharmaceutical company committed to the discovery, development and commercialization of novel, oral antiviral therapeutics that are designed to transform patient care in areas of high unmet medical need. The Company's proprietary lipid technology has given rise to two clinical-stage compounds, brincidofovir (CMX001) and CMX157, which have demonstrated the potential for enhanced antiviral activity and safety in convenient, orally administered dosing regimens. The Company believes that brincidofovir has the potential to be the first broad-spectrum antiviral for the prevention and treatment of clinically significant infections and diseases caused by double-stranded DNA (dsDNA) viruses. Brincidofovir has shown broad-spectrum activity against dsDNA viruses, including herpesviruses, adenoviruses and polyomaviruses. Chimerix initiated the Phase 3 SUPPRESS trial in the third quarter of 2013 for the prevention of cytomegalovirus infection in hematopoietic cell transplant recipients. The Company recently completed a Phase 2 trial of brincidofovir as a preemptive therapy for adenovirus infection. Additionally, the Company is developing brincidofovir as a medical countermeasure against smallpox under a contract from the Biomedical Advanced Research and Development Authority (BARDA). The Company's second clinical-stage compound, CMX157, is a Phase 1 product candidate for the treatment of HIV and was licensed to Merck, Sharp & Dohme Corp. (Merck) in 2012.

On March 25, 2013, the Company's board of directors approved and implemented a 3.55-for-1 reverse stock split of the Company's outstanding common stock. The reverse stock split resulted in an adjustment to the preferred stock conversion price to reflect a proportional decrease in the number of shares of common stock to be issued upon conversion. The accompanying financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented.

On April 10, 2013, the Company completed the initial public offering (IPO) of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold an aggregate of 7,320,000 shares of common stock under the registration statement at a public offering price of $14.00 per share. Net proceeds were approximately $93.3 million, after deducting underwriting discounts and commissions of $7.1 million and offering expenses of $2.1 million. Upon the completion of the IPO, all outstanding shares of the Company's redeemable convertible preferred stock and dividends accrued on Series F redeemable convertible preferred stock were converted into 15,556,091 shares of common stock and all outstanding warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase 1,613,395 shares of common stock. On April 16, 2013, the underwriters exercised the full over-allotment option pursuant to which the Company sold an additional 1,098,000 shares at $14.00 per share. Net proceeds from the over-allotment shares were approximately $14.3 million after deducting underwriting discounts and commissions of $1.1 million.

On October 23, 2013, the Company completed an underwritten secondary public offering of 2,476,995 shares of common stock held by certain of the Company’s existing stockholders. The Company did not issue any shares of common stock and received no proceeds in connection with such offering. The principal purposes of the offering were to facilitate an orderly distribution of shares and to increase the Company’s public float.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the Company's financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on knowledge of current events and actions the Company may undertake in the future, actual results may ultimately differ from these estimates and assumptions.

The accompanying interim financial statements are unaudited. The unaudited interim financial statements have been prepared in accordance with GAAP on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the Company's financial position, results of operations and cash flows for the dates and periods presented herein. These financial statements should be read in conjunction with the financial statements and notes set forth in the Company's final prospectus dated April 10, 2013 filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the Securities and Exchange Commission on April 11, 2013. Interim operating results are not necessarily indicative of operating results for the full year.

Reclassifications

In certain instances, amounts previously reported in the Company's 2012 financial statements have been reclassified to conform to the Company's 2013 financial statement presentation. Such reclassifications had no effect on net loss or stockholders' equity (deficit) as previously reported.

Cash and Cash Equivalents

The Company considers any highly liquid instrument with an original maturity of three months or less at acquisition to be a cash equivalent. Cash equivalents consist of money market accounts.

Investments

Investments consist primarily of corporate bonds and commercial paper. The Company invests in high-credit quality investments in accordance with its investment policy which minimizes the probability of loss.

Available-for-sale securities are carried at fair value as determined by quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders deficit. Realized gains and losses are determined using the specific identification method and transactions are recorded on a settlement date basis in interest income or expense, net. Investments with original maturities beyond three months at the date of purchase and which mature on, or less than twelve months from, the balance sheet date are classified as long-term. The Company periodically reviews available-for-sale securities for other-than-temporary declines in fair value below the cost basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any such declines in value judged to be other-than-temporary on available-for-sale securities are reported in interest income or expense, net. There were no such declines in value for the nine months ended September 30, 2013 and the year ended December 31, 2012.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. The Company is exposed to credit risk, subject to federal deposit insurance, in the event of default by the financial institutions holding its cash and cash equivalents to the extent of amounts recorded on the balance sheets. Accounts receivable represent amounts due from an agency of the federal government.

Accounts Receivable

Accounts receivable at September 30, 2013 and December 31, 2012 consisted of amounts billed and unbilled under the Company’s contract with BARDA. Receivables under the BARDA contract are recorded as qualifying research activities as conducted and invoices from the Company’s vendors are received. The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance based on its history of collections and write-offs and the current status of all receivables. The Company does not accrue interest on trade receivables. If accounts become uncollectible, they will be written off through a charge to the allowance for doubtful accounts. The Company has not recorded a charge to allowance for doubtful accounts as management believes all receivables are fully collectible.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments, including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values due to the short-term nature of such instruments. The carrying amount of borrowings under loans payable approximates its fair value based on the determination that the stated rate on such loans payable is consistent with current interest rates for similar borrowing arrangements available to the Company.

For assets and liabilities recorded at fair value, it is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, fair value measurements cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the calculated current or future fair values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. These levels are:

- *Level 1* — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

- *Level 2* — Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and models for which all significant inputs are observable, either directly or indirectly.

- *Level 3* — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates hierarchy disclosures and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects that changes in classification between levels will be rare.

The warrants issued for Series F redeemable convertible preferred stock included in the Company's 2012 financial statements are categorized as Level 3 as there are significant unobservable inputs. The valuation of the warrants at December 31, 2012 reflected a two stage process. Using a contingent claims model in combination with the Company's Series F financing, which occurred in February 2011, the fair value of total equity and all components of the Company's capital structure, including the warrants, was determined as of the time of the financing event. Using this value as a starting point, a series of equity values and associated probabilities were calculated using simulation methodologies that incorporate both Monte Carlo and risk neutral frameworks. Based on assessments of expected returns and volatilities consistent with market practice, a distribution of equity values was produced which covered the range of values that an informed market participant might expect. These outcomes were organized into ranges and a probability calculated based on the percent of the total falling into each range. This process created a range of equity values. Using a contingent claims framework, each equity value was allocated to the various components of the capital structure including the warrants. Each warrant value was weighted by its respective probability to determine the final fair value of the warrants as of December 31, 2012. The key unobservable inputs used in the determination of the fair value were (i) volatility – 79%, (ii) range of implied fair value of the Series F redeemable convertible preferred stock – $2.19 to $2.85, (iii) time to liquidity – 8 months to 5 years, and (iv) range of probabilities of liquidity event outcomes – 2% to 31%. The warrants were valued again at April 10, 2013, just prior to the Company's IPO, using a Black-Scholes valuation model. The key unobservable inputs used in determination of the fair value at that time were (i) volatility – 79%, (ii) fair value of the Series F redeemable convertible preferred stock – $3.94, (iii) expected life – 2.5 years, (iv) risk-free interest rate – 0.24%, and (v) dividend yield – 0%. As the warrants for Series F redeemable convertible preferred stock converted to warrants for common stock upon the IPO, no future valuations are necessary.

There was no material re-measurement to fair value of financial assets and liabilities that are not measured at fair value on a recurring basis.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements at September 30, 2013		
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$113,816	$ 113,816	$ —	$ —
Short-term investments	1,004	—	1,004	—

		Fair Value Measurements at December 31, 2012		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$17,687	$ 16,381	$ 1,306	$ —
Short-term investments	9,849	—	9,849	—
Redeemable convertible preferred stock warrant liability	7,512	—	—	7,512

Below is a table that presents a reconciliation of the beginning and ending balances of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements (Level 3)
	(in thousands)

Redeemable Convertible Preferred Stock Warrant Liability	
Balance at January 1, 2012	$ 6,491
Issuance	174
Fair value increase recorded in other expense	847
Fair value at December 31, 2012	7,512
Fair value increase recorded in other expense	6,590
Reclassification of warrant liability to additional paid-in capital	(14,102)
Fair value at September 30, 2013	$ —

9

Prepaid and Other Current Assets

Prepaid and other current assets consist of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Prepaid development expenses	$ 2,241	$ 486
Deferred public offering costs	—	273
Other prepaid and other current assets	442	224
	$ 2,683	$ 983

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which generally range from three to five years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the related lease. Maintenance and repairs are charged against expense as incurred.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Deferred Public Offering Costs

Deferred public offering costs totaling $0.3 million at December 31, 2012 are included in prepaid and other current assets. These costs represent legal and accounting costs related to the Company’s efforts to raise capital through an IPO. At the completion of the Company’s IPO in April 2013, these costs were reclassified to additional paid-in capital as a reduction of the IPO proceeds.