SCYNEXIS INC
Form 10-Q
August 09, 2018

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 JUNE 30, 2018

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 incorporation or organization)	(I.R.S. Employer Identification No.)
1 Evertrust Plaza, 13th Floor	
Jersey City, New Jersey	07302-6548
(Address of principal executive offices)	(Zip Code)

(201)-884-5485

(Registrant's telephone number, including area code)

Former Address: 101 Hudson Street, Suite 3610, Jersey City, New Jersey 07302-6548

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2018, there were 47,013,722 shares of the registrant's Common Stock outstanding.

SCYNEXIS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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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)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$6,769	$ 11,469
Short-term investments	48,425	32,424
Prepaid expenses and other current assets	1,313	1,067
Total current assets	56,507	44,960
Other assets	573	576
Deferred offering costs	230	314
Restricted cash	328	—
Property and equipment	412	—
Total assets	$58,050	$ 45,850
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,590	$ 3,833
Accrued expenses	1,621	1,705
Deferred revenue, current portion	249	257
Loan payable, current portion	5,474	4,349
Warrant liability	3,220	—
Total current liabilities	13,154	10,144
Deferred revenue, non-current	—	121
Warrant liabilities	8,953	3,872
Loan payable, long term	9,390	10,303
Total liabilities	31,497	24,440
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 5,000,000 shares as of June 30, 2018 and December 31, 2017; 0 shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Common stock, $0.001 par value, 125,000,000 shares authorized as of June 30, 2018, and December 31, 2017; 46,844,072 and 28,971,651 shares issued and outstanding as of June 30, 2018, and December 31,	47	29

2017, respectively		
Additional paid-in capital	246,517	226,631
Accumulated deficit	(220,011)	(205,250)
Total stockholders’ equity	26,553	21,410
Total liabilities and stockholders’ equity	$58,050	$ 45,850

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$64	$64	$129	$129
Operating expenses:				
Research and development, net	5,599	4,448	10,925	8,467
Selling, general and administrative	2,123	2,361	4,094	4,420
Total operating expenses	7,722	6,809	15,019	12,887
Loss from operations	(7,658)	(6,745)	(14,890)	(12,758)
Other expense (income):				
Amortization of debt discount	99	100	212	200
Interest income	(271)	(82)	(437)	(150)
Interest expense	397	360	776	709
Warrant liabilities fair value adjustment	2,874	(2,924)	(680)	(4,447)
Total other expense (income)	3,099	(2,546)	(129)	(3,688)
Net loss	$(10,757)	$(4,199)	$(14,761)	$(9,070)
Net loss per share - basic and diluted	$(0.23)	$(0.16)	$(0.37)	$(0.35)
Weighted average common shares outstanding - basic and diluted	46,843,524	25,813,675	40,247,917	25,590,293

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)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(14,761)	$(9,070)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2	39
Stock-based compensation expense	893	833
(Accretion)/amortization of investment discount/premium	(122)	165
Amortization of debt discount	212	200
Change in fair value of warrant liabilities	(680)	(4,447)
Changes in deferred rent	(4)	(7)
Changes in operating assets and liabilities:		
Prepaid expenses, other assets, and deferred costs	(200)	(1,326)
Accounts payable and accrued expenses	(1,328)	(411)
Deferred revenue	(129)	(129)
Net cash used in operating activities	(16,117)	(14,153)
Cash flows from investing activities:		
Maturities of investments	30,156	25,497
Purchases of property and equipment	(410)	(2)
Purchase of investments	(46,082)	(44,622)
Net cash used in investing activities	(16,336)	(19,127)
Cash flows from financing activities:		
Proceeds from common stock issued	30,192	5,224
Payments of offering costs and underwriting discounts and commissions	(2,131)	(168)
Proceeds from employee stock purchase plan issuance	20	18
Net cash provided by financing activities	28,081	5,074
Net decrease in cash, cash equivalents, and restricted cash	(4,372)	(28,206)
Cash, cash equivalents, and restricted cash at beginning of period	11,469	35,656
Cash, cash equivalents, and restricted cash at end of period	$7,097	$7,450
Supplemental cash flow information:		
Cash paid for interest	$901	$709
Cash received for interest	$359	$307
Noncash financing and investing activities:		
Deferred offering costs reclassified to additional-paid-in capital	$84	$15

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

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SCYNEXIS, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

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 biotechnology company, headquartered in Jersey City, New Jersey, committed to positively impacting the lives of patients suffering from difficult-to-treat and often life-threatening infections by delivering innovative therapies. The Company is developing its lead product candidate, ibrexafungerp, formally known as SCY-078, as the first representative of a novel oral and intravenous triterpenoid antifungal family for the treatment of several fungal infections, including serious and life-threatening invasive fungal infections.

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 ibrexafungerp development and regulatory events; costs related to its development of ibrexafungerp; 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 $150.0 million 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 $40.0 million of the Company's common stock that may be issued and sold under a Controlled Equity Offering Sales Agreement[SM] (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 $40.0 million of the Company's common stock, through Cantor, as sales agent. 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 $150.0 million 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 $40.0 million 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. In addition, the Company has conducted two offerings of common stock and warrants under the Shelf Registration, including $52.5 million relating to the offer and sale of shares issuable pursuant to the warrants sold. As a result, as of June 30, 2018, the remaining amount of common stock and other allowable securities to be offered under the Sales Agreement and Shelf Registration (including any unsold portion of the $40.0 million included in the Sales Agreement but excluding the sale of shares pursuant to the outstanding warrants) was $23.9 million and $28.2 million, respectively. The Shelf Registration will expire on November 16, 2018. The Company intends to file a new shelf registration on Form S-3 with the SEC prior to the expiration of the Shelf Registration.

March 2018 Public Offering

On March 8, 2018, the Company completed a public offering (the "March 2018 Public Offering") of its common stock and warrants pursuant to the Company's effective Shelf Registration. The Company sold an aggregate of 17,751,500 shares of the Company’s common stock and warrants to purchase up to 21,301,800 shares of the Company’s common stock at a public offering price of $1.69 per share. Net proceeds from the March 2018 Public Offering were approximately $27.9 million, after deducting the underwriting discount and estimated offering expenses. See Note 8 for further details.

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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 six months ended June 30, 2018, 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 13, 2018.

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: determination of the fair value of stock-based compensation grants; the estimate of services and effort expended by third-party research and development service providers used to recognize research and development expense; and the estimates and assumptions utilized in measuring the warrant liability fair value each reporting period.

2. Summary of Significant Accounting Policies
Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash on deposit and cash equivalents held with one bank which exceed FDIC insured limits and certain short-term investments. Ongoing credit evaluations of the customer’s financial condition are performed and independent credit ratings for the associated counterparties are reviewed by the Company and collateral is not required. The Company's money market fund investment (recognized as cash and cash equivalents) is with what the Company believes to be a high quality issuer. The Company has not experienced any losses in such account.

Cash, Cash Equivalents, and Restricted Cash

The Company considers any highly liquid investments with a remaining maturity of three months or less when purchased to be cash and cash equivalents. The Company's cash and cash equivalents include cash on deposit and a money market fund. The Company reported cash, cash equivalents, and restricted cash of $7.1 million as of June 30, 2018. See Note 7 for further details on the nature of the restricted cash.

Short-Term Investments

The Company's held-to-maturity investments in U.S. government securities, commercial paper, and its overnight repurchase agreement are carried at amortized cost and any premiums or discounts are amortized or accreted through the maturity date of the investment. Any impairment that is not deemed to be temporary is recognized in the period identified.

Deferred Offering Costs

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 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.

Warrant Liabilities

On June 21, 2016, the Company sold an aggregate of 9,375,000 shares of common stock and warrants (the “June 2016 Public Offering”) to purchase up to 4,218,750 shares of the Company's common stock under the Shelf Registration at a public offering price of $2.40 per share of common stock sold. On March 8, 2018, the Company sold 17,751,500 shares of its common stock and warrants to purchase up to 21,301,800 shares of the Company’s common stock under the Shelf Registration at a public offering price of $1.69 per share of common stock sold. The Company accounted for these warrants as liabilities measured at 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 accompanying statements of operation. See Note 8 for further details.

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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 arrangements involving the sale or license of intellectual property and the provision of other services. When entering into any arrangement involving the sale or license of intellectual property rights and other services, the Company determines whether the arrangement is subject to accounting guidance in ASC 606, Revenue from Contracts with Customers (“Topic 606”), which became effective in the current period (the Company has elected to use the modified retrospective approach for contracts that are not completed contracts and there was no cumulative adjustment recognized in the current period) as well as ASC 808, Collaborative Arrangements ("Topic 808"). If the Company determines that an arrangement includes goods or services that are central to the Company’s business operations for consideration, the Company will then identify the performance obligations in the contract using the unit-of-account guidance in Topic 606. For a distinct unit-of-account that is within the scope of Topic 606, the Company applies all of the accounting requirements in Topic 606 to that unit-of-account, including the recognition, measurement, presentation and disclosure requirements. For a distinct unit-of-account that is not within the scope of Topic 606, the Company will recognize and measure the distinct unit-of-account based on other authoritative ASC Topics or on a reasonable, rational, and consistently applied policy election.

Analyzing the arrangement to identify performance obligations requires the use of judgment. In arrangements that include the sale or license of intellectual property and other promised services, the Company first identifies if the licenses are distinct from the other promises in the arrangement. If the license is not distinct, the license is combined with other services into a single performance obligation. Factors that are considered in evaluating whether a license is distinct from other promised services include, for example, whether the counterparty can benefit from the license without the promised service on its own or with other readily available resources and whether the promised service is expected to significantly modify or customize the intellectual property.

The Company classifies non-refundable upfront payments, milestone payments and royalties received for the sale or license of intellectual property as revenues within its statements of operations because the Company views such activities as being central to its business operations. For the sale of intellectual property that is distinct, fixed consideration and variable consideration are included in the transaction price and recognized in revenue immediately to the extent that it is probable that there would not be a significant reversal of cumulative revenue in the future. For the license of intellectual property that is distinct, fixed and variable consideration (to the extent there will not be a significant reversal in the future) are also recognized immediately in income, except for consideration received in the form of royalty or sales-based milestones, which is recorded when the customer’s subsequent sales or usages occur. If the sale or license of intellectual property is not distinct, revenue is deferred and recognized over the estimated period of the Company’s combined performance obligation. For contractual arrangements that meet the definition of a collaborative arrangement under Topic 808, consideration received for any units-of-account that are outside the scope of Topic 606 are recognized 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 (the “R-Pharm Agreement”), is a collaborative arrangement pursuant to Topic 808. The Company received a non-refundable upfront payment of $1.5 million from R-Pharm in August 2013 which is being recognized over the estimated relationship period of 70 months for the combined performance obligation that includes the license of intellectual property and the participation on a joint steering committee. The Company recognized revenue from this upfront payment of $0.1 million in both the three and six months ended June 30, 2018. The Company is entitled to receive other payments under the R-Pharm Agreement including development and sales-based milestones and royalties; however, the variable consideration was fully constrained as of June 30, 2018. 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 $0.2 million and $0.3 million as of June 30, 2018 and December 31, 2017, respectively, which are presented in prepaid expenses and other current assets in the accompanying balance sheets.

In July 2016, the Company entered into an Asset Purchase agreement with UK-based Cypralis Limited (or "Cypralis"), a life sciences company, for the sale of its cyclophilin inhibitor assets. Cypralis also acquired all patents, patent applications and know-how related to the acquired portfolio. In connection with the Asset Purchase agreement, the Company is eligible to receive milestone payments upon the successful progression of Cypralis clinical candidates into later stage clinical studies and royalties payable upon product commercialization. The Company retains the right to repurchase the portfolio assets from

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Cypralis if abandoned or deprioritized. For the three and six months ended June 30, 2018, there was no revenue recognized associated with this agreement given the variable consideration associated with the sale of intellectual property to Cypralis was fully constrained as of June 30, 2018. Additionally, in October 2014 the Company entered into a license agreement with Waterstone Pharmaceutical HK Limited (or "Waterstone") and granted Waterstone an exclusive, worldwide license to develop and commercialize certain non-strategic compounds. The Company is entitled to receive potential milestones and royalties from Waterstone and for the three and six months ended June 30, 2018, there was no revenue recognized by the Company associated with this agreement.

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 ibrexafungerp 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.

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.

Amortization of Debt Discount

The Company's term loan in the amount of $15.0 million (the “Term Loan”) with Solar Capital Ltd. (“Solar”) is recorded net of debt discount which comprised issuance costs, customary closing and final fees, and the fair value of the warrants issued in conjunction with the Term Loan (Note 8). The resulting debt discount is being amortized over the term of the Term Loan using the straight-line method, which approximates the effective interest method, and the amortization of debt discount is included in the accompanying statements of operations.

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

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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.

	June 30,	
	2018	2017
Warrants to purchase Series C-1 Preferred	14,033	14,033
Warrants to purchase common stock associated with Loan Agreement	122,435	122,435
Warrants to purchase common stock associated with June 2016 Public Offering	4,218,750	4,218,750
Warrants to purchase common stock associated with March 2018 Public Offering - Series 1	13,313,625	—
Warrants to purchase common stock associated with March 2018 Public Offering - Series 2	7,988,175	—
Stock options	4,076,415	2,802,174

Effect of Recent Accounting Pronouncements

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 (see

Note 7).

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3. Short-term Investments

The following table summarizes the held-to-maturity securities held at June 30, 2018 and December 31, 2017 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of December 31, 2017				
U.S. government securities	$ 11,462	$ 74	$ (79)	$ 11,457
Commercial paper	11,962	—	—	11,962
Overnight repurchase agreement	9,000	—	—	9,000
Total short-term investments	$ 32,424	$ 74	$ (79)	$ 32,419

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of June 30, 2018				
U.S. government securities	$ 24,909	$ 8	$ (5)	$ 24,912
Commercial paper	12,016	—	—	12,016
Overnight repurchase agreement	11,500	—	—	11,500
Total short-term investments	$ 48,425	$ 8	$ (5)	$ 48,428

All held-to-maturity short-term investments at June 30, 2018 and December 31, 2017 will mature in less than one year. The gross unrealized gains and losses for the Company's commercial paper and overnight repurchase agreement are not significant. The Company carries short-term investments at amortized cost. The fair value of the short-term investments is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Prepaid research and development services	$ 614	$ 384
Prepaid insurance	370	279
Other prepaid expenses	120	62
Other receivable due from R-Pharm	175	251
Other current assets	34	91
Total prepaid expenses and other current assets	$ 1,313	$ 1,067

5. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Accrued research and development expenses	$ 816	$ 609
Accrued employee bonus compensation	522	763
Employee withholdings	23	29
Other accrued expenses	260	304
Total accrued expenses	$ 1,621	$ 1,705

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6. Borrowings

On September 30, 2016, the Company entered into a Loan and Security Agreement (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 $15.0 million. The Term Loan bears interest at a floating rate equal to the LIBOR rate in effect plus 8.49% and the Company was required to make interest-only payments on the Term Loan beginning November 1, 2016 through March 1, 2018. Beginning April 1, 2018, the Company was required to make monthly payments of interest plus equal monthly principal payments from April 1, 2018 through September 30, 2020 (the “Maturity Date”). In March 2018, the Loan Agreement was amended and the Company is required to make monthly payments of interest plus equal monthly principal payments from October 1, 2018 through the Maturity Date of the Term Loan. The final fee payable at the Maturity Date was also increased by thirty thousand dollars. The Company will continue to pay interest-only payments through October 1, 2018. Except as described above, all other terms and provisions of the Loan Agreement remain in full force and effect. The ultimate term of the Term Loan was 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 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 was recorded at its relative fair value at issuance in the stockholders' equity section of the balance sheet (See Note 8).

Future principal debt payments on the currently outstanding Term Loan payable as of June 30, 2018 are as follows (in thousands):

2018	$1,875
2019	7,500
2020	5,625
Total principal payments	15,000
Final fee due at maturity	780

Total principal and final fee payment	15,780
Unamortized discount and debt issuance costs	(916)
Less current portion	(5,474)
Loan payable, long term	$9,390

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7. Commitments and Contingencies

Leases

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 twenty-five thousand dollars per month, which amount increases by 3% annually on each anniversary of the Commencement Date.

On March 1, 2018, the Company entered into a long-term lease agreement for approximately 19,275 square feet of office space in Jersey City, New Jersey. The lease term is eleven years from the commencement date which is the later of July 1, 2018 or the substantial completion of certain improvements to the leased space, with total lease payments of $7.3 million over the lease term. The Company has the option to renew for two consecutive five-year periods from the end of the first term. Under the lease, the Company must furnish a security deposit in the form of a standby letter of credit in the amount of $0.3 million, which will be reduced by fifty-five thousand dollars every two years for ten years after the commencement of the lease. The security deposit is classified as restricted cash in the accompanying balance sheets. The Company's lease is for a fully built-out space, which the landlord is currently renovating at its own cost of up to $1.3 million.

Rent expense was approximately $0.1 million for the three and six months ended June 30, 2018. Future minimum lease payments for all operating leases as of June 30, 2018 are as follows (in thousands):

2018	$353
2019	498
2020	508
2021	518
2022	529
Thereafter	4,919
Total	$7,325

License Arrangement with Potential Future Expenditures

As of June 30, 2018, 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 ibrexafungerp in the field of human health. Ibrexafungerp is the Company's lead product candidate. Pursuant to the terms of the license agreement, Merck is eligible to receive milestone payments from the Company that could total $19.0 million 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 ibrexafungerp. 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 ibrexafungerp 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 ibrexafungerp compound. In December 2016 and January 2018, the Company entered into second and third amendments, respectively, to the license agreement with Merck which clarified what would constitute the initiation of a Phase 3 clinical trial for the purpose of milestone payment. 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 $2.3 million 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.

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Legal Proceeding

On March 8, 2017, a purported stockholder class action lawsuit was filed in the United States District Court for the District of New Jersey against the Company and certain of its current and former officers, captioned Gibson v. Scynexis, Inc., et al. The action was filed on behalf of a putative class of all persons who purchased or otherwise acquired the Company's securities (1) pursuant or traceable to the Company's IPO, or (2) on the open market between May 2, 2014, and March 2, 2017. It asserts claims for violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks, among other things, compensatory damages and attorneys’ fees and costs on behalf of the putative class. The Company believes that the claims lack merit and intends to defend the litigation vigorously.

ASC Topic 450, Contingencies, requires a loss contingency to be accrued by a charge to operating results if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Legal costs in connection with a loss contingency are expensed as incurred. As of June 30, 2018, the Company has not recognized a liability associated with the class action lawsuit contingency.

8. Stockholder's Equity

Authorized, 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 June 30, 2018, and December 31, 2017; 46,844,072 and 28,971,651 shares were issued and outstanding at June 30, 2018, and December 31, 2017, respectively. The following table summarizes common stock share activity for the six months ended June 30, 2018 (dollars in thousands):

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2017	28,971,651	$ 29	$ 226,631	$ (205,250)	$ 21,410
Net loss	—	—	—	(14,761)	(14,761)
Stock-based compensation expense	—	—	893	—	893
Common stock issued through employee stock purchase plan	13,591	—	20	—	20
Common stock issued under Shelf Registration, net of expenses	17,852,193	18	18,980	—	18,998
Common stock issued for vested restricted stock units	6,637	—	(7)	—	(7)
Balance, June 30, 2018	46,844,072	$ 47	$ 246,517	$ (220,011)	$ 26,553

Shares Reserved for Future Issuance

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

	June 30, 2018	December 31, 2017
Outstanding stock options	4,076,415	3,075,994
Outstanding Series C-1 Preferred warrants	14,033	14,033
Warrants to purchase common stock associated with June 2016 Public Offering	4,218,750	4,218,750
Warrants to purchase common stock associated with March 2018 Public Offering - Series 1	13,313,625	—
Warrants to purchase common stock associated with March 2018 Public Offering - Series 2	7,988,175	—
Warrants to purchase common stock associated with Loan Agreement	122,435	122,435
For possible future issuance under 2014 Equity Incentive Plan (Note 9)	603,066	492,382
For possible future issuance under Employee Stock Purchase Plan (Note 9)	99,437	83,617
For possible future issuance under 2015 Inducement Plan (Note 9)	5,000	5,000
Total common shares reserved for future issuance	30,440,936	8,012,211

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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 June 30, 2018 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 $0.5 million, 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 June 30, 2018 and December 31, 2017, the fair value of the warrant derivative liability was zero.

Warrants Associated with June 2016 and March 2018 Public Offerings

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. 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.

On March 8, 2018, the Company completed the March 2018 Public Offering and sold 17,751,500 shares of its common stock and warrants to purchase up to 21,301,800 shares of the Company’s common stock. Each purchaser received a warrant to purchase 0.75 of a share of common stock (the “Series 1 warrants”) and 0.45 of a share of common stock (the “Series 2 warrants”) for each share purchased in the March 2018 Public Offering. The Series 1 warrants to purchase in the aggregate up to 13,313,625 shares of common stock have a 53-week term and an exercise price of $1.85 per share, and the Series 2 warrants to purchase in the aggregate up to 7,988,175 shares of common stock have a five-year term and an exercise price of $2.00 per share. There is not expected to be any market for the warrants and each warrant is exercisable immediately upon issuance, subject to certain limitations on beneficial ownership.

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 and six months ended June 30, 2018, the Company recorded an expense of $2.9 million and a gain of $0.7 million, respectively, due to the change in fair value of the warrant liabilities. As of June 30, 2018, the fair value of the warrant liabilities was $12.2 million.

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 was classified as equity and recorded at its relative fair value at issuance in the stockholders' equity section of the balance sheet.

9. Stock-based Compensation

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 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

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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. Options granted under the plan generally vest over three to four years and expire in 10 years from the date of grant.

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, on January 1, 2018 and 2017, the Company automatically added 1,158,866 and 984,376 shares to the total number shares of common stock available for future issuance under the 2014 Plan, respectively. As of June 30, 2018, there were 603,066 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 six months ended June 30, 2018, there were no grants of the Company's common stock under the 2015 Inducement Plan. As of June 30, 2018, there were 5,000 shares of common stock available for future issuance under the 2015 Plan.

The activity for the 2009 Stock Option Plan, 2014 Plan and 2015 Plan for the six months ended June 30, 2018, is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price