Mirati Therapeutics, Inc.
Form 10-Q
August 03, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

or

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

Commission File Number: 001-35921

MIRATI THERAPEUTICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	46-2693615
(State of Incorporation)	(I.R.S. Employer Identification No.)
9393 Towne Centre Drive, Suite 200 San Diego, California	92121
(Address of Principal Executive Offices)	(Zip Code)

(858) 332-3410
(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 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 S No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S 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 Securities Exchange Act of 1934.

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

Emerging growth company x

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 financing 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 x

Table of Contents

Total shares of common stock outstanding as of the close of business on July 31, 2017:

Class	Number of Shares Outstanding
Common Stock, $0.001 par value	24,969,783

Table of Contents

MIRATI THERAPEUTICS, INC.
FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
MIRATI THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,955	$ 22,383
Short-term investments	67,883	34,351
Other current assets	4,439	2,821
Total current assets	92,277	59,555
Property and equipment, net	618	629
Other long-term assets	2,089	3,260
Total assets	$ 94,984	$ 63,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 11,737	$ 15,002
Total current liabilities	11,737	15,002
Other liabilities	280	133
Total liabilities	12,017	15,135
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; none issued and outstanding at both June 30, 2017 and December 31, 2016	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 24,969,783 and 19,937,095 issued and outstanding at June 30, 2017 and December 31, 2016, respectively	25	20
Additional paid-in capital	499,824	428,507
Accumulated other comprehensive income	9,501	9,533
Accumulated deficit	(426,383)	(389,751)
Total stockholders' equity	82,967	48,309
Total liabilities and stockholders' equity	$ 94,984	$ 63,444

See accompanying notes

Table of Contents

MIRATI THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, in thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expenses				
Research and development	$14,962	$18,441	$29,359	$36,429
General and administrative	3,654	3,786	7,348	7,916
Total operating expenses	18,616	22,227	36,707	44,345
Loss from operations	(18,616)	(22,227)	(36,707)	(44,345)
Other income, net	277	166	522	370
Net loss	$(18,339)	$(22,061)	$(36,185)	$(43,975)
Unrealized gain (loss) on available-for-sale investments	(104)	33	(32)	60
Comprehensive loss	$(18,443)	$(22,028)	$(36,217)	$(43,915)
Basic and diluted net loss per share	$(0.74)	$(1.11)	$(1.47)	$(2.24)
Weighted average number of shares used in computing net loss per share, basic and diluted	24,950,012	19,912,938	24,668,540	19,646,889

See accompanying notes

Table of Contents

MIRATI THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Net loss	$(36,185)	$(43,975)
Non-cash adjustments reconciling net loss to operating cash flows:		
Depreciation of property and equipment	91	101
Amortization of discount or premium on investments	(178)	25
Share-based compensation expense	3,989	5,326
Changes in operating assets and liabilities:		
Other current assets	(2,054)	1,349
Other long-term assets	1,605	(395)
Accounts payable, accrued liabilities and other long-term liabilities	(3,117)	3,973
Cash flows used in operating activities	(35,849)	(33,596)
Investing activities:		
Purchases of short-term investments	(86,424)	(49,680)
Sales and maturities of short-term investments	53,038	55,778
Purchases of property and equipment	(80)	(45)
Cash flows provided by, (used in) investing activities	(33,466)	6,053
Financing activities:		
Proceeds from issuance of common stock, net of issuance costs	66,816	—
Proceeds from exercise of common stock options and warrants	—	2,355
Proceeds from stock issuances under employee stock purchase plan	71	237
Cash flows provided by financing activities	66,887	2,592
Decrease in cash and cash equivalents	(2,428)	(24,951)
Cash and cash equivalents, beginning of period	22,383	49,493
Cash and cash equivalents, end of period	$19,955	$24,542

See accompanying notes

Table of Contents

MIRATI THERAPEUTICS, INC.
Notes to Condensed Consolidated Financial Statements
June 30, 2017
(Unaudited)

1. Description of Business

Mirati Therapeutics, Inc. ("Mirati" or the "Company") is a clinical-stage biopharmaceutical company focused on developing a pipeline of targeted oncology products. The Company focuses its development programs on drug product candidates intended to treat specific genetically defined and selected subsets of cancer patients with unmet needs.

The Company's common stock has been listed on the NASDAQ Capital Market since July 15, 2013 under the ticker symbol "MRTX." The Company has a wholly owned subsidiary in Canada, MethylGene, Inc.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted.

In the opinion of management, the information reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for the full year. The condensed consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates. Estimates and assumptions are reviewed quarterly. Any revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and highly liquid securities with original maturities at the date of acquisition of ninety days or less. Investments with an original maturity of more than ninety days are considered short-term investments and have been classified by management as available-for-sale. These investments are classified as current

assets, even though the stated maturity date may be one year or more beyond the current balance sheet date, which reflects management's intention to use the proceeds from sales of these securities to fund its operations, as necessary. Such investments are carried at fair value, and the unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

Table of Contents

Concentration of Credit Risk

The Company invests its excess cash in accordance with its investment policy. The Company's investments are comprised primarily of commercial paper and debt instruments of financial institutions, corporations, U.S. government-sponsored agencies and the U.S. Treasury. The Company mitigates credit risk by maintaining a diversified portfolio and limiting the amount of investment exposure as to institution, maturity and investment type. Financial instruments that potentially subject the Company to significant credit risk consist principally of cash equivalents and short-term investments.

Segment Reporting

Operating segments are components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker for purposes of making decisions regarding resource allocation and assessing performance. To date, the Company has viewed its operations and managed its business as one segment operating primarily in the United States.

Net loss per share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration for common share equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares and common share equivalents outstanding for the period. Common share equivalents outstanding, determined using the treasury stock method, are comprised of shares that may be issued under the Company’s stock option and warrant agreements.

The following table presents the weighted average number of common share equivalents not included in the calculation of diluted net loss per share due to the anti-dilutive effect of the securities:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Common stock options	—	255,551	—	330,450
Common stock warrants	7,256,368	352,441	6,855,779	611,223
Total	7,256,368	607,992	6,855,779	941,673

3. Recently Adopted and Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the specified effective date.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued Accounting Standard Update ("ASU") 2016-09, Compensation-Stock Compensation (Topic 718). The new guidance changes the accounting and simplifies various aspects of the accounting for share-based payments to employees. The guidance allows for a policy election to account for forfeitures as they occur or based on an estimated number of awards that are expected to vest. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, with early adoption permitted. Effective January 1, 2017, the Company adopted the provisions of ASU 2016-09. The impact of this adoption was limited to the accounting for forfeitures of certain stock based awards, which is adopted on a modified retrospective basis. Upon adoption, the Company will no longer estimate forfeitures and will instead account for forfeitures as they occur. This policy election was made to allow simplification of the accounting for share based awards. The cumulative effect of adoption was an increase to both

additional paid-in capital and accumulated deficit of $0.4 million.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Under the new guidance, management is required to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter; early adoption is permitted. We adopted this guidance as of December 31, 2016 and the adoption did not require any additional disclosures in our consolidated financial statements for the year ended December 31, 2016 or for the period ended June 30, 2017.

Table of Contents

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB approved a proposal to defer the effective date of the guidance until annual and interim reporting periods beginning after December 15, 2017. Although we currently do not have any revenue contracts, we early adopted this standard effective January 1, 2017 using the full retrospective method of adoption so that, in the event we enter into any revenue contracts, the contracts will be accounted for under the new guidance from inception of the contract.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Clarifying the Definition of a Business, which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those periods. Early adoption is permitted for acquisition or deconsolidation transactions occurring before the issuance date or effective date and only when the transactions have not been reported in issued financial statements. The Company early adopted this standard effective April 1, 2017 in connection with an immaterial collaboration agreement it entered into during the quarter. The adoption of this standard did not have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees are required to recognize most lease assets and lease liabilities on their balance sheets and record expenses on their income statements in a manner similar to current accounting. The new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The primary impact of this new accounting guidance will be related to our facilities lease and the Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and related financial statement disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance enhances the reporting model for financial instruments and includes amendments to address aspects of recognition, measurement, presentation and disclosure. The update to the standard is effective for public companies for interim and annual periods beginning after December 15, 2017. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures.

4. Investments

The following tables summarize our short-term investments (dollars in thousands):

	As of June 30, 2017			
Maturity	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities				
1 year or less	$31,306	$ —	$ (16)	$ 31,290
2 years or less	36,597	2	(6)	36,593

Commercial paper				
	$67,903	$ 2	$ (22)	$ 67,883

	As of December 31, 2016			
Maturity	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Corporate debt securities				
1 year or less	$20,622	$ —	$ (3)	$ 20,619
Commercial paper				
1 year or less	13,717	15	—	13,732
	$34,339	$ 15	$ (3)	$ 34,351

Unrealized gains and losses on available-for-sale securities are included as a component of comprehensive loss. At June 30, 2017, the Company did not have any securities in material unrealized loss positions. The Company reviews its investments to

Table of Contents

identify and evaluate investments that have an indication of possible other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The Company does not intend to sell any investments prior to recovery of their amortized cost basis for any investments in an unrealized loss position.

5. Fair value measurements

The Company has certain financial assets and liabilities recorded at fair value which have been classified as Level 1 or 2 within the fair value hierarchy as described in the accounting standards for fair value measurements.

The authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1- Quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2- Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

- Level 3- Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The following tables summarize the assets and liabilities measured at fair value on a recurring basis (in thousands):

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Cash	$2,486	$2,486	$—	$ —
Money market funds	17,469	17,469	—	—
Total cash and cash equivalents	19,955	19,955	—	—
Short-term investments:				
Corporate debt securities	31,290	—	31,290	—
Commercial paper	36,593	—	36,593	—
Total short-term investments	67,883	—	67,883	—
Total	$87,838	$19,955	$67,883	$ —

Table of Contents

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Cash	$2,728	$2,728	$—	$ —
Money market funds	19,655	19,655	—	—
Total cash and cash equivalents	22,383	22,383	—	—
Short-term investments:				
Corporate debt securities	20,619	—	20,619	—
Commercial paper	13,732	—	13,732	—
Total short-term investments	34,351	—	34,351	—
Total	$56,734	$22,383	$34,351	$ —

The Company’s investments in Level 1 assets are valued based on publicly available quoted market prices for identical securities as of June 30, 2017 and December 31, 2016. The Company determines the fair value of Level 2 related securities with the aid of valuations provided by third parties using proprietary valuation models and analytical tools. These valuation models and analytical tools use market pricing or prices for similar instruments that are both objective and publicly available, including matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and/or offers. There were no transfers between fair value measurement levels during the three and six months ended June 30, 2017 or the year ended December 31, 2016.

6. Other current assets and other long-term assets

Other current assets consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Prepaid expenses	$3,347	$ 1,879
Deposits and other receivables	853	759
Interest receivable	239	183
	$4,439	$ 2,821

The other long-term assets balance consisted of $2.1 million and $3.3 million in deposits paid in conjunction with the Company's research and development activities as of June 30, 2017 and December 31, 2016, respectively.

7. Property and equipment, net

Property and equipment consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Computer equipment	$329	$ 329
Office and other equipment	301	301
Laboratory equipment	643	563
Leasehold improvements	63	63

Gross property and equipment	1,336	1,256
Less: Accumulated depreciation	(718)	(627)
Property and equipment, net	$618	$ 629

Table of Contents

The Company incurred immaterial depreciation expense for both the three months ended June 30, 2017 and 2016 and $0.1 million for both the six months ended June 30, 2017 and 2016.

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Accounts payable	$3,973	$ 6,296
Accrued clinical, development and other expenses	5,602	5,743
Accrued compensation and benefits	2,143	2,923
Other current liabilities	19	40
	$11,737	$ 15,002

9. Warrants

As of June 30, 2017 the following warrants for common stock were issued and outstanding:

Issue date	Expiration date	Exercise price	Number of warrants outstanding
January 11, 2017	None	$ 0.001	7,258,263
November 21, 2012	November 21, 2017	$ 7.86	695,383

Refer to footnote 11 for further detail of the warrants issued in January 2017.

During the three and six months ended June 30, 2017, no warrants were exercised. During the three months ended June 30, 2016, no warrants were exercised. During the six months ended June 30, 2016, warrants for 419,244 shares of the Company's common stock were exercised via cashless exercises and 313,756 shares were exercised for cash generating proceeds of $2.1 million. The Company issued a total of 603,545 shares of common stock for the same period.

10. Commitments and Contingencies

On June 24, 2014, the Company entered into a lease agreement for 18,000 square feet of completed office and laboratory space located in San Diego, California. The office space under the lease is the Company's corporate headquarters. The lease commenced in phases, 2,300 square feet of space which commenced on July 1, 2014 at an initial monthly rent of $5,900 per month and 15,600 square feet of space which commenced on March 27, 2015 at an initial monthly rent of $18,200 per month. The leased property is subject to a 3% annual rent increase following availability. In addition to such base monthly rent, the Company is obligated to pay certain customary amounts for its share of operating expenses and facility amenities. The original lease provides for expiration on January 31, 2018. On March 23, 2017, the Company entered into a First Amendment to Lease Agreement (the “Amendment”) to amend the original lease agreement. The Amendment extends the term of the original lease for one year through January 31, 2019. All other terms and covenants from the original lease agreement remain unchanged.

Future minimum payments required under the lease are summarized as follows (in thousands):

Year Ending December 31:

2017	$127
2018	314
2019	26
Total minimum lease payments	$467

Table of Contents

11. Stockholders' Equity

Sale of Common Stock

In January 2017, the Company sold 5,002,702 million shares of its common stock at a public offering price of $5.60 per share and sold warrants to purchase up to 7,258,263 shares of its common stock at a public offering price of $5.599 per warrant share. The public offering price for the warrants was equal to the public offering price of the common stock, less the $0.001 per share exercise price of each warrant. After deducting underwriter discounts and offering expenses, the Company received net proceeds from the transaction of $66.8 million. These warrants were recorded as a component of stockholders' equity within additional paid-in capital. Per their terms, the outstanding warrants to purchase shares of common stock may not be exercised if the holder's ownership of the Company's common stock would exceed 19.99 percent following such exercise. Pursuant to the terms of the financing, the Company has an effective resale registration statement on file with the SEC covering shares of common stock sold and shares of common stock issuable upon the exercise of the warrants.

Share-based Compensation

Total share-based compensation expense by statement of operations is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development expense	$938	$1,478	$1,919	$2,936
General and administrative expense	1,285	810	2,070	2,390
	$2,223	$2,288	$3,989	$5,326

During the three and six months ended June 30, 2017, no shares were issued pursuant to stock option exercises. During the three months ended June 30, 2016, 1,836 shares were issued pursuant to stock option exercises, generating immaterial net proceeds. During the six months ended June 30, 2016, 22,132 shares were issued pursuant to stock option exercises, generating net proceeds of $0.2 million.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this Quarterly Report on Form 1O-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2016 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed by us with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-Q may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements, which represent our intent, belief, or current expectations, involve risks and uncertainties. We use words such as "may," "will," "expect," "anticipate," "estimate," "intend," "plan," "predict," "potential," "believe," "should" and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Such statements may include, but are not limited to, statements concerning projections about our accounting and finances, plans and objectives for the future, future operating and economic performance and other statements regarding future performance. Although we believe the expectations reflected in these forward-looking statements are reasonable, such statements are inherently subject to risk and we can give no assurances that our expectations will prove to be correct. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. As a result of many factors, including without limitation those set forth under "Risk Factors" under Item 1A of Part II below, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

References in the following discussion to "we," "our," "us," "Mirati" or "the Company" refer to Mirati Therapeutics, Inc. and its subsidiaries.

Overview

Company Overview

Mirati Therapeutics is a clinical-stage oncology company developing targeted drug products to address the genetic, epigenetic and immunological promoters of cancer. Our precision oncology clinical programs utilize next-generation genomic testing to identify and select cancer patients who are most likely to benefit from targeted drug treatment. In immuno-oncology, we are advancing clinical programs where the ability of our drug products to improve the immune environment of tumor cells may enhance and expand the efficacy of existing immunotherapy medicines when given in combination. Our pre-clinical programs include potentially first-in-class and best-in-class drug products specifically designed to address mutations and tumors where few treatment options exist. We approach each of our discovery and development programs with a singular focus: to translate our deep understanding of the molecular drivers of cancer into better drugs and better outcomes for patients.

Mirati's clinical pipeline consists of three product candidates: glesatinib, sitravatinib and mocetinostat. Glesatinib is a potent inhibitor of MET and Axl receptor tyrosine kinase families ("RTKs") and is currently being evaluated in a Phase 2 clinical trial for the treatment of patients with non-small cell lung cancer ("NSCLC") characterized by specific MET mutations. Sitravatinib is a multi-targeted RTK inhibitor that is being tested as a single agent in a Phase 1b clinical trial for the treatment of patients with NSCLC and other tumor types defined by alterations in RET, CBL and CHR4q12. Both glesatinib and sitravatinib are intended to treat specific mutations that drive the growth of cancer or are implicated in cancer drug resistance or pathogenic processes such as tumor angiogenesis.

Sitravatinib is also a potent inhibitor of both VEGF and TAM (Tyro, Axl, and Mer) RTKs, which we believe may enhance anti-tumor immunity when combined with checkpoint inhibitors. Pre-clinical studies have demonstrated that

Sitravatinib can change the tumor microenvironment from a tolerogenic to an immunogenic state, improving the body’s anti-tumor immune response by reducing T-cell and macrophage suppressor effects. We are evaluating the potential of sitravatinib to enhance and expand the clinical efficacy of immune checkpoint inhibitors in a Phase 2 clinical trial in combination with nivolumab, Bristol Myers Squibb’s anti-PD-1 inhibitor, in patients with NSCLC and metastatic renal cell carcinoma.

Our third candidate is mocetinostat, an orally-bioavailable, Class 1 selective histone deacetylase ("HDAC") inhibitor. Mocetinostat acts through epigenetic mechanisms and has demonstrated preclinically the ability to block the effects of immune suppressive cells that counter the immune system’s ability to fight tumors and reduce the effectiveness of treatment with checkpoint inhibitors. Mocetinostat is being evaluated in a Phase 2 clinical trial in combination with durvalumab, MedImmune Limited’s ("MedImmune") anti-PD-L1 inhibitor, for the treatment of patients with NSCLC.

Table of Contents

Two candidates are in pre-clinical development. The first is a highly-potent and potentially best-in-class LSD1 inhibitor with potential for rapid clinical proof-of-concept in small cell lung cancer or acute myeloid leukemia. An investigational new drug ("IND") submission is planned for this compound in late 2017. Additionally, a mutant-selective KRAS inhibitor program is advancing to candidate selection phase and prototype inhibitors have demonstrated marked tumor regression in KRAS mutant tumor models, with an IND candidate selection anticipated by the end of 2017. We plan to identify additional drug development opportunities by leveraging our deep scientific understanding of molecular drug targets and mechanisms of resistance and potentially in-licensing or internally discovering promising, early-stage novel drug product candidates.

We were incorporated under the laws of the State of Delaware on April 29, 2013 as Mirati Therapeutics, Inc. and our corporate headquarters is located in San Diego, California.

Program Updates
Single Agent Programs

Our single agent clinical programs are focused on select populations of patients with a variety of solid tumors but with a primary focus on patients with NSCLC, which accounts for 80 to 85% of all lung cancer diagnoses. There remains a significant unmet need and commercial opportunity for novel targeted agents that improve patient outcomes.

Glesatinib

We are enrolling patients in our registration-enabling Phase 2 NSCLC clinical trial (the AMETHYST Trial), which is evaluating single agent glesatinib for the treatment of NSCLC patients with MET driver alterations in two cohorts: patients with MET gene amplifications and patients with MET Exon 14 deletions. We reported preliminary clinical data for both cohorts in January 2017. We expect to provide an update on efficacy data from the AMETHYST trial in the second half of 2017 that we expect will be sufficient to enable an assessment of the profile of glesatinib and inform our development plans going forward.

Sitravatinib

We are enrolling patients in our multi-center Phase 1b expansion clinical trial (the CITRINE Trial), which is evaluating single agent sitravatinib for the treatment of NSCLC patients with RET, CHR4q12 and CBL genetic alterations. We reported early data from this clinical trial in January 2017; we expect to provide a further update on efficacy data in the second half of 2017.

Immuno-oncology Combination Programs

Sitravatinib plus nivolumab

We are enrolling patients in a Phase 2 NSCLC clinical trial evaluating sitravatinib, dosed once per day at 120 milligrams, in combination with full dose nivolumab, a PD-1 checkpoint inhibitor approved for the treatment of patients with NSCLC. The clinical trial is enrolling patients who have relapsed after treatment with a checkpoint inhibitor, as well as checkpoint inhibitor-naïve patients.

Mocetinostat plus durvalumab

We are collaborating with MedImmune/Astra Zeneca on a Phase 2 NSCLC clinical trial combining mocetinostat and durvalumab, MedImmune's PD-L1 inhibitor for the treatment of patients with NSCLC. In this clinical trial,

mocetinostat is dosed three times per week at 70 milligrams in combination with full dose durvalumab. The clinical trial is enrolling patients who have relapsed after treatment with a checkpoint inhibitor, as well as checkpoint inhibitor-naïve patients.

We expect to provide an update on both immuno-oncology combination clinical trials in the second half of 2017.

Liquidity Overview

In January 2017, we completed a public offering of our common stock and pre-funded common stock warrants that generated net proceeds of $66.8 million. At June 30, 2017, we had $87.8 million of cash, cash equivalents and short-term investments compared to $56.7 million at December 31, 2016. We have not generated any revenue from product sales. To date, we have funded our operations primarily through the sale of our common stock and through up-front payments, research funding

Table of Contents

and milestone payments under previous collaborative arrangements. To fund future operations, we will likely need to raise additional capital as discussed more fully below under the heading "Liquidity and Capital Resources."

We have incurred losses in each year since our inception. Our net losses were $18.3 million and $22.1 million for the three months ended June 30, 2017 and 2016 and $36.2 million and $44.0 million for the six months ended June 30, 2017 and 2016. As of June 30, 2017, we had an accumulated deficit of $426.4 million. Substantially all of our operating losses resulted from expenses incurred in connection with our product development programs, our research activities and general and administrative costs associated with our operations.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures. On an ongoing basis, our actual results may differ significantly from our estimates.

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2017 and 2016

The following table summarizes the significant items within our results of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three months ended June 30,		Increase	Six Months Ended June 30,		Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
Research and development expenses	$14,962	$18,441	$ (3,479)	$29,359	$36,429	$ (7,070)
General and administrative expenses	3,654	3,786	(132)	7,348	7,916	(568)
Other income, net	277	166	111	522	370	152

Research and development expenses

Research and development expenses consist primarily of:

- salaries and related expenses for personnel, including expenses related to stock options or other share-based compensation granted to personnel in development functions;
- fees paid to external service providers such as Clinical Research Organizations ("CROs") and contract manufacturing organizations related to clinical trials;
- contractual obligations for clinical development, clinical sites, manufacturing and scale-up, and formulation of clinical drug supplies; and
- cost of allocated facilities and depreciation of equipment.

We record research and development expenses as incurred. We account for nonrefundable advance payments for goods and services that will be used in future research and development activities as expense when the services have been performed or when the goods have been received. At this time, due to the risks inherent in the clinical development process and the early stage of our product development programs, we are unable to estimate with any certainty the costs we will incur in the continued development of glesatinib, sitravatinib and mocetinostat. The process of conducting clinical trials necessary to obtain regulatory approval and manufacturing scale-up to support expanded

development and potential future commercialization is costly and time consuming. Any failure by us or delay in completing clinical trials, manufacturing scale up or in obtaining regulatory approvals could lead to increased research and development expense and, in turn, have a material adverse effect on our results of operations. We expect that our research and development expenses may increase if we are successful in advancing glesatinib, sitravatinib, mocetinostat or any of our preclinical programs into advanced stages of clinical development.

Table of Contents

Our research and development efforts during the three and six months ended June 30, 2017 and 2016 were focused primarily on our oncology programs, including our two lead kinase programs, glesatinib and sitravatinib, and our HDAC inhibitor program, mocetinostat. The following table summarizes our research and development expenses, in thousands:

	Three months ended June 30,		Increase	Six Months Ended September 30,		Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
Third-party research and development expenses:						
Glesatinib	$4,838	$7,089	$ (2,251)	$9,788	$16,380	$ (6,592)
Sitravatinib	2,980	1,552	1,428	5,175	2,763	2,412
Mocetinostat	1,106	1,216	(110)	2,178	2,177	1
Preclinical and early discovery	2,036	4,379	(2,343)	4,191	6,168	(1,977)
Total third-party research and development expenses	10,960	14,236	(3,276)	21,332	27,488	(6,156)
Salaries and other employee related expense	2,438	2,139	299	4,948	4,467	481
Share-based compensation expense	938	1,478	(540)	1,919	2,936	(1,017)
Other research & development costs	626	588	38	1,160	1,538	(378)
Research and development expense	$14,962	$18,441	$ (3,479)	$29,359	$36,429	$ (7,070)

Research and development expenses for the three months ended June 30, 2017 were $15.0 million compared to $18.4 million during the three months ended June 30, 2016. The decrease of $3.5 million for the three months ended June 30, 2017 primarily relates to decreases in third-party development expense of $3.3 million. The decrease in third-party research and development expense is primarily driven by decreases in expenses associated with glesatinib of $2.3 million and preclinical and early discovery expenses of $2.3 million. The decrease in glesatinib expense is due primarily to a reduction in manufacturing expenses. The decrease in preclinical and early discovery expense is due to the absence of expense associated with a one-time license fee incurred in the second quarter of 2016 related to an early stage discovery project. These decreases in expenses are partially offset by an increase in expenses associated with sitravatinib of $1.4 million due primarily to costs associated with our ongoing Phase 1b clinical trial.

Research and development expenses for the six months ended June 30, 2017 were $29.4 million compared to $36.4 million during the six months ended June 30, 2016. The decrease of $7.1 million for the six months ended June 30, 2017 primarily relates to a decrease in third-party development expense of $6.2 million and share-based compensation expense of $1.0 million. The decrease in third-party research and development expense is primarily driven by decreases in expenses associated with glesatinib of $6.6 million and preclinical and early discovery expenses of $2.0 million. The decrease in glesatinib expense is due primarily to a reduction in manufacturing expenses. The decrease in preclinical and early discovery expense is due to the absence of expense associated with a one-time license fee incurred during 2016 related to an early stage discovery project. These decreases in expenses are partially offset by an increase in expenses associated with sitravatinib of $2.4 million, due primarily to costs associated with our ongoing Phase 1b clinical trial. The decrease in share-based compensation expense is due to lower exercise prices for options granted during the last half of 2016 and first half of 2017, which resulted in a corresponding decrease in the fair value of stock options awarded and the resulting share-based compensation expense associated with those options. Based upon our current development plans we expect our research and development expenses to continue to increase as we advance the clinical development of our current and future drug candidates.

General and administrative expenses

General and administrative expenses consist primarily of salaries and related benefits, including share-based compensation, related to our executive, finance, business development, legal and support functions. Other general and administrative expenses include professional fees for auditing and tax services, rent and utilities and insurance.

General and administrative expenses for the three months ended June 30, 2017 were largely unchanged compared to the same period of 2016 and were $3.7 million and $3.8 million, respectively.

General and administrative expenses for the six months ended June 30, 2017 compared to the same period in 2016 were $7.3 million and $7.9 million, respectively. The decrease of $0.6 million is primarily due to a decrease in share-based compensation expense, which is due to lower exercise prices for options granted during the last half of 2016 and the first half of 2017, which resulted in a corresponding decrease in the fair value of stock options awarded and the resulting share-based compensation expense associated with those options.

Table of Contents

Liquidity and Capital Resources

In January 2017, we completed a public offering of our common stock and pre-funded common stock warrants that generated net proceeds of $66.8 million. At June 30, 2017, we had $87.8 million of cash, cash equivalents and short-term investments compared to $56.7 million at December 31, 2016. Based on our current and anticipated level of operations, we believe that our cash, cash equivalents and short-term investments will be sufficient to meet our anticipated obligations for at least one year from the date of this quarterly report on Form 10-Q is filed with the SEC. To date, we have funded our operations primarily through the sale of our common stock and through up-front payments, research funding and milestone payments under previous collaborative arrangements. Since inception, we have primarily devoted our resources to our research and development programs, including discovery research, preclinical and clinical development activities. To fund future operations, we will likely need to raise additional capital. The amount and timing of future funding requirements will depend on many factors, including the timing and results of our ongoing development efforts, the potential expansion of our current development programs, potential new development programs and related general and administrative support. We anticipate that we will seek to fund our operations through public or private equity or debt financings or other sources, such as potential collaboration agreements. We cannot make assurances that anticipated additional financing will be available to us on favorable terms, or at all. Although we have previously been successful in obtaining financing through our equity securities offerings, there can be no assurance that we will be able to do so in the future.

Cash Flows for the Six Months Ended June 30, 2017 and 2016

The following table provides a summary of the net cash flow activity for each of the periods set forth below (in thousands):

	Six months ended June 30,	
	2017	2016
Net cash used in operating activities	$(35,849)	$(33,596)
Net cash provided by, (used in) investing activities	(33,466)	6,053
Net cash provided by financing activities	66,887	2,592
Decrease in cash	(2,428)	(24,951)

Net cash used in operating activities

Net cash used for operating activities for the six months ended June 30, 2017 was $35.8 million, compared to $33.6 million for the six months ended June 30, 2016, an increase of $2.3 million. Cash used in operating activities during 2017 primarily related to our net loss of $36.2 million, adjusted for non-cash items such as share-based compensation expense of $4.0 million and net cash inflows from a change in our operating assets and liabilities of $3.6 million.

Net cash provided by, (used in) investing activities

For the six months ended June 30, 2017 investing activities used cash of $33.5 million due to purchases of short term investments, offset by maturities of short-term investments. Investing activities for the six months ended June 30, 2016 provided cash of $6.1 million as a result of maturities of short-term investments, offset by purchases in short-term investments and property and equipment.

Net cash provided by financing activities

Net cash provided by financing activities for the six months ended June 30, 2017 was $66.9 million and consisted of net proceeds of $66.8 million from the issuance of common stock from our January 2017 public offering of common stock and pre-funded warrants, and proceeds from stock issuances under the employee stock purchase plan of $0.1 million. Net cash provided by financing activities for the six months ended June 30, 2016 was $2.6 million and consisted of proceeds from the exercise of warrants and stock options and stock issuances under the employee stock option plan.

Table of Contents

Off-Balance Sheet Arrangements

During the three and six months ended June 30, 2017, we did not have any off-balance sheet arrangements (as defined by applicable SEC regulations) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

Occasionally, new accounting standards are issued or proposed by the Financial Accounting Standards Board, or other standard-setting bodies that we adopt by the effective date specified within the standard. Unless otherwise discussed, standards that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Some of our short-term investments have market risk in that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments. We invest our excess cash primarily in commercial paper and debt instruments of financial institutions, corporations, U.S. government-sponsored agencies and the U.S. Treasury. We mitigate credit risk by maintaining a well-diversified portfolio and limiting the amount of investment exposure as to institution, maturity and investment type. We invest our excess cash in accordance with our investment policy.

Because of the short-term maturities of our cash equivalents and short-term investments, we do not believe that an increase in market rates would have any significant impact on the realized value of our investments. If a 1% change in interest rates were to have occurred on June 30, 2017, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

Effects of Inflation

We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management has concluded that as of June 30, 2017, the Company’s disclosure controls and procedures were effective at the reasonable assurance level and we believe the condensed consolidated financial statements included in this Form 10-Q for the six months ended June 30, 2017 present, in all material respects, our financial position, results of operations, comprehensive loss and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) and Rule 15d-15(d) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our principal executive officer and principal financial officer concluded that there were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. Risk Factors.

You should consider carefully the following information about the risks described below, together with the other information contained in this Quarterly Report and in our other public filings in evaluating our business. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. Additional risks and uncertainties that we are unaware of may also become important factors that affect us. If any of the following risks actually occurs, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline.

Risks Relating to Our Financial Position and Capital Requirements

* We will require additional financing and may be unable to raise sufficient capital, which could lead us to delay, reduce or abandon development programs or commercialization.

Our operations have consumed substantial amounts of cash since inception. Our research and development expenses were $15.0 million and $18.4 million for the three months ended June 30, 2017 and 2016, respectively, and $29.4 million and $36.4 million for the six months ended June 30, 2017 and 2016, respectively. In January 2017, we completed a public offering of our common stock and pre-funded common stock warrants that generated net proceeds of $66.8 million. We will require substantial additional capital to pursue additional clinical development for our lead clinical programs, including conducting late-stage clinical trials, manufacturing clinical supplies and potentially developing other assets in our pipeline, and, if we are successful, to commercialize any of our current product candidates. If the U.S. Food and Drug Administration ("FDA") or any foreign regulatory agency, such as the European Medicines Agency ("EMA") requires that we perform studies or trials in addition to those that we currently anticipate with respect to the development of our product candidates, or repeat studies or trials, our expenses would further increase beyond what we currently expect. We may not be able to adequately finance our development programs, which could limit our ability to move our programs forward in a timely and satisfactory manner or require us to abandon the programs, any of which would harm our business, financial condition and results of operations. Because successful development of our product candidates is uncertain, we are unable to estimate the actual funds we will require to complete research and development and commercialize our product candidates.

If we are unable to obtain funding from equity offerings or debt financings on a timely basis, we may be required to (1) seek collaborators for one or more of our product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available; (2) relinquish or license on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves; or (3) significantly curtail one or more of our research or development programs or cease operations altogether.
We are a clinical-stage company with no approved products and no historical product revenue. Consequently, we expect that our financial and operating results will vary significantly from period to period.

We are a clinical-stage company that has incurred losses since its inception and expect to continue to incur substantial losses in the foreseeable future. Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of uncertainty.

Our actual financial condition and operating results have varied significantly in the past and are expected to continue to fluctuate significantly from quarter-to-quarter or year-to-year due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include:

- the success of our clinical trials through all phases of clinical development;

- delays in the commencement, enrollment and timing of clinical trials;

Table of Contents

- our ability to secure and maintain collaborations, licensing or other arrangements for the future development and/or commercialization of our product candidates, as well as the terms of those arrangements;
- our ability to obtain, as well as the timeliness of obtaining, additional funding to develop our product candidates;
- the results of clinical trials or marketing applications for product candidates that may compete with our product candidates;
- competition from existing products or new products that may receive marketing approval;
- potential side effects of our product candidates that could delay or prevent approval or cause an approved drug to be taken off the market;
- any delays in regulatory review and approval of our clinical development plans or product candidates;
- our ability to identify and develop additional product candidates;