2015 Annual Report

2015 Annual Report to Stockholders

June 27, 2016

Dear Spring Bank Shareholder,

It is my pleasure and honor to send this letter to you as a shareholder of a newly-public company, Spring Bank Pharmaceuticals (NASDAQ:SBPH), in connection with our first annual meeting of stockholders. I am pleased that we were able to complete the recent initial public offering of Spring Bank common stock despite a difficult and challenging market environment for IPOs. We believe that the IPO and the related warrant exercises provided our company with sufficient capital to fund our Phase 2a clinical trial of SB 9200 in patients with chronic hepatitis B virus (HBV). The completion of the IPO also significantly expanded our shareholder base and, I believe, increased the scale of potential opportunities available to us to raise capital in the future on a more efficient basis.

Our main focus as a company now will be the implementation of a world class global Phase 2a clinical trial for our lead development product, SB 9200, in patients suffering from chronic HBV and the completion of the study within our stated time frame. We have developed an internal operational capability to execute this trial and we are collaborating with Gilead Sciences and a major external clinical research organization to execute a clinical trial protocol designed to demonstrate proof of principle in the treatment of chronic HBV either as monotherapy or when sequentially-dosed with Gilead's Viread (tenofovir). The SB 9200 Phase 2a clinical trial is off and running as we began dosing the first patients over the past few weeks. We look forward to the disclosure of data from this study late this year and in 2017.

We also plan to seek to engage in strategic collaborations with biopharmaceutical companies that participate or have an interest in the fields of chronic HBV and other viral diseases. We believe that SB 9200, as the only orally-administered immunomodulator in clinical development for chronic HBV at this time, has the capability to become a backbone therapy in the multi-drug treatment of chronic HBV in the future. Our plan is to examine and validate this therapeutic concept by collaborating with other companies with compounds of differing mechanisms-of-action to achieve a functional cure for chronic HBV patients. We accomplished the first step in this strategic effort by engaging in a clinical trial collaboration with Gilead and their oral antiviral, Viread, as part of our ongoing Phase 2a study.

We plan to work diligently to deploy our resources in an efficient and effective manner. We are focused on attracting world-class talent to Spring Bank so we can take advantage of the best opportunities available to us. This effort is evidenced by our success in attracting Nezam Afdhal, M.D., our Chief Medical Officer, a globally-renowned expert in liver diseases, to Spring Bank on a full-time basis late in 2015. We will continue to seek to hire top talent as necessary to build our organization and achieve our strategic goals.

Finally, as a new public company, we have launched an effort to publicly present the Spring Bank Pharmaceuticals story. We are working hard to present our company and development platform at the appropriate healthcare investor conferences and have engaged in discussions with sell-side research groups in an effort to broaden the analyst coverage of our company.

I thank you for your past and ongoing support of Spring Bank Pharmaceuticals as we seek to build a dynamic, effective organization to develop effective treatments for patients suffering from diseases with high unmet clinical needs. As we work to accomplish this goal, we will always focus on ways to enhance value for our shareholders.

Sincerely,

Martin Driscoll

President & Chief Executive Officer

Spring Bank Pharmaceuticals, Inc.

mdriscoll@springbankpharm.com

FINANCIAL INFORMATION

The financial information in this 2015 annual report, including the financial statements and the notes thereto, and the sections entitled Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Conditions and Results of Operations, were excerpted from our final prospectus for our initial public offering filed pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, on May 6, 2016 and may be obtained for free by visiting EDGAR on the Securities and Exchange Commission website at www.sec.gov.

SPRING BANK PHARMACEUTICALS, INC.

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Data)

	December 31, 2014	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,570	$ 4,347
Escrow receivable	11,562	—
Marketable securities	—	5,335
Prepaid expenses and other current assets	547	313
Total current assets	13,679	9,995
Marketable securities	—	3,189
Property and equipment, net	126	427
Other assets	—	966
Total	$ 13,805	$ 14,577
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 348	$ 2,183
Accrued expenses and other current liabilities	1,257	1,369
Total liabilities	1,605	3,552
Commitments (Note 9)		
Stockholders' equity:		
Convertible preferred stock, $0.0001 par value – authorized, 5,000,000 shares; 1,000,000 shares issued and outstanding at December 31, 2014 and 2015	—	—
Common stock, $0.0001 par value – authorized, 50,000,000 shares; 4,952,487 and 5,796,091 shares issued and outstanding at December 31, 2014 and 2015, respectively	—	1
Additional paid-in capital	34,805	45,211
Accumulated deficit	(22,605)	(34,169)
Other comprehensive income (loss)	—	(18)
Total stockholders' equity	12,200	11,025
Total	$ 13,805	$ 14,577

See notes to consolidated financial statements.

SPRING BANK PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In Thousands)

	Year Ended December 31,	
	2014	2015
Grant revenue	$ 738	$ 946
Operating expenses:		
Research and development	6,132	7,539
General and administrative	2,412	5,003
Total operating expenses	8,544	12,542
Loss from operations	(7,806)	(11,596)
Other income (expense):		
Interest income	1	38
Interest expense	(1,907)	(6)
Net loss	(9,712)	(11,564)
Unrealized loss on marketable securities	—	(18)
Comprehensive loss	$ (9,712)	$ (11,582)
Net loss per common share – basic and diluted	$ (3.11)	$ (2.03)
Weighted-average number of shares outstanding – basic and diluted	3,118,344	5,682,799
Pro forma net loss per common share – basic and diluted (unaudited)		$ (1.95)
Pro forma weighted-average number of shares outstanding – basic and diluted (unaudited)		5,932,799

See notes to consolidated financial statements.

SPRING BANK PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,	
	2014	2015
Cash flows from operating activities:		
Net loss	$ (9,712)	$(11,564)
Adjustments for:		
Depreciation	42	88
Non-cash stock-based compensation	264	1,125
Non-cash interest expense	1,372	—
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	109	(732)
Accounts payable	(21)	1,835
Accrued expenses and other	569	1,037
Net cash used in operating activities	(7,377)	(8,211)
Cash flows from investing activities:		
Purchase of marketable securities	—	(8,542)
Purchases of property and equipment	(55)	(389)
Net cash used in investing activities	(55)	(8,931)
Cash flows from financing activities:		
Proceeds from issuance of convertible notes and warrants	2,975	—
Payment of financing costs related to convertible notes	(506)	—
Proceeds from issuance of common stock	—	21,648
Payment of financing costs related to issuance of common stock	(18)	(1,754)
Proceeds from exercise of warrants	250	25
Cash provided by financing activities	2,701	19,919
Net increase (decrease) in cash and cash equivalents	(4,731)	2,777
Cash and cash equivalents, beginning of year	6,301	1,570
Cash and cash equivalents, end of year	$ 1,570	$ 4,347
Supplemental disclosures of noncash investing and financing activities:		
Issuance of common stock upon conversion of convertible notes and accrued interest	$ 7,444	$ —
Escrow receivable from issuance of common stock	$11,562	$ —
Issuance of common stock warrants to brokers in connection with sale of common stock	$ 382	$ 334
Issuance of common stock warrants to brokers in connection with convertible note financings	$ 77	$ —

See notes to consolidated financial statements.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Spring Bank Pharmaceuticals, Inc. (the "Company") is a clinical-stage biopharmaceutical company engaged in the discovery and development of a novel class of therapeutics using a proprietary small molecule nucleic acid hybrid, or SMNH, chemistry platform. Since inception in 2002, the Company built the technology platform and product pipeline using a capital-efficient, semi-virtual business model, supported by grants and direct funding from the United States National Institutes of Health ("NIH") as well as through private financings. In September 2015, the Company formed a wholly owned subsidiary, Sperovie Biosciences, Inc.

The Company's success is dependent upon its ability to successfully complete clinical development and obtain regulatory approval of its product candidates, successfully commercialize approved products, generate revenue, and, ultimately, attain profitable operations.

Basis of Presentation and Liquidity

The accompanying consolidated financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP") and include all adjustments necessary for the fair presentation of the Company's financial position for the periods presented.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses from operations and negative operating cash flows since inception, and expects to incur additional operating losses. The Company believes that its cash resources of approximately $4,347,000 at December 31, 2015, together with $8,524,000 of marketable securities at December 31, 2015, will be sufficient to allow the Company to fund its current operating plan and continue as a going concern through at least December 31, 2016.

Unaudited Pro Forma Presentation

In July 2015, the Company's board of directors authorized the Company to submit a draft registration statement to the Securities and Exchange Commission (the "SEC") permitting the Company to sell shares of its common stock to the public. The unaudited pro forma balance as of December 31, 2015 on the consolidated statement of stockholders' equity, reflects the automatic conversion of all of the shares of Series A Convertible Preferred Stock (the "Preferred Stock") (Note 7) into 250,000 shares of common stock as if it occurred on December 31, 2015.

Unaudited pro forma net loss per share is computed using the weighted-average number of shares of common stock outstanding after giving effect to the conversion of all Preferred Stock for the year ended December 31, 2015 into shares of the Company's common stock as if such conversion had occurred at the beginning of the applicable period.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sperovie Biosciences, Inc. The entity did not have any assets, liabilities or operations as of December 31, 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities (including clinical trial accruals), the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases estimates and assumptions on historical experience when available and on various factors that it believes to be reasonable under the circumstances. Significant estimates relied upon in preparing the accompanying financial statements related to the fair value of common stock and other equity instruments, accounting for stock-based compensation, income taxes, useful lives of long-lived assets, and accounting for certain accruals. The Company evaluates its estimates and assumptions on an ongoing basis. The Company's actual results may differ from these estimates.

Cash and Cash Equivalents

Cash equivalents are stated at fair value and include short-term, highly liquid investments with remaining maturities of 90 days or less at the date of purchase.

Included in cash and cash equivalents as of December 31, 2014 and 2015, are money market fund investments of $650,000 and $2,422,000, respectively, and commercial paper of $0 and $450,000, respectively, which are reported at fair value (Note 4).

Concentration of Credit Risk

Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. Substantially all of the Company's cash is held at financial institutions that management believes to be of high-credit quality. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Company had one source of revenue, grants from the NIH, during all periods presented, representing 100% of total revenue for each period.

Investments in Marketable Securities

The Company invests excess cash balances in short-term and long-term marketable securities. The Company classifies investments in marketable securities as either held-to-maturity or available-for-sale based on facts and circumstances present at the time of purchase. At each balance sheet date presented, all investments in securities are classified as available-for-sale. The Company reports available-for-sale investments at fair value at each balance sheet date and includes any unrealized holding gains and losses (the adjustment to fair value) in accumulated other comprehensive income (loss), a component of stockholders' equity. Realized gains and losses are determined using the specific identification method and are included in other income. If any adjustment to fair value reflects a decline in the value of the investment, the Company considers all available evidence to evaluate the extent to which the decline is "other than temporary," including the intention to sell and, if so, marks the investment to market through a charge to the Company's consolidated statements of operations and comprehensive loss.

Property and Equipment, Net

Property and equipment are recorded at cost. Costs associated with maintenance and repairs are expensed as incurred. Depreciation and amortization are provided using the straight-line method over the estimated useful lives:

Asset Category	Useful Life
Equipment	5-7 years
Furniture and fixtures	5 years
Leasehold improvements	10 years or the remaining term of respective lease, if shorter

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If the undiscounted cash flows are insufficient to recover the carrying value, an impairment loss is recorded for the difference between the carrying value and fair value of the asset. To date, no such impairment has occurred.

Deferred Financing and Public Offering Costs

Financing costs incurred in connection with the issuance and sale of the Company's convertible notes and warrants (see Note 6) were capitalized and amortized to interest expense over the term of the convertible notes issued using the effective interest method. Amortization of deferred financing costs were $704,000 and $0 in the years ended December 31, 2014 and 2015, respectively. As of December 31, 2014 and 2015, there were no such costs remaining on the consolidated balance sheets.

Deferred public offering costs, which primarily consist of direct and incremental legal and accounting fees relating to the public offering, are capitalized. The deferred public offering costs will be offset against public offering proceeds upon the consummation of the offering. In the event the offering is terminated, or significantly delayed, deferred costs will be expensed. No amounts were deferred as of December 31, 2014. As of December 31, 2015, $966,000 of deferred public offering costs were recorded in other assets in the accompanying consolidated balance sheet.

Deferred Rent

The Company's operating lease includes rent escalation payment terms and other incentives received from landlords. Deferred rent represents the difference between actual operating lease payments due and straight-line rent expense over the term of the lease, which is recorded in accrued expenses and other current liabilities. Deferred rent was $7,000 and $6,000 as of December 31, 2014 and 2015, respectively.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery has occurred or services have

been rendered and collection of the related receivable is reasonably assured. Generally, these criteria are met and revenue from grants from the NIH, which subsidizes certain of our research projects, is recognized as efforts are expended and as eligible project costs are incurred.

Research and Development Costs

Research and development expenses consist primarily of costs incurred for the Company's research activities, including discovery efforts, and the development of product candidates, which include:

- expenses incurred under agreements with third parties, including contract research organizations, or CROs, that conduct research, preclinical activities and clinical trials on the Company's behalf as well as contract manufacturing organizations, or CMOs, that manufacture drug products for use in the Company's preclinical and clinical trials;
- salaries, benefits and other related costs, including stock-based compensation expense, for personnel in the Company's research and development functions;
- costs of outside consultants, including their fees, stock-based compensation and related travel expenses;
- the cost of laboratory supplies and acquiring, developing and manufacturing preclinical study and clinical trial materials;
- costs related to compliance with regulatory requirements; and
- facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

The Company expenses research and development costs as incurred. The Company recognizes external development costs based on an evaluation of the progress to completion of specific tasks using information provided to the Company by its vendors and its clinical investigative sites. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and are reflected in the Company's consolidated financial statements as prepaid or accrued research and development expenses.

Warrants

The Company reviews the terms of all warrants issued and classifies the warrants as a component of permanent equity if they are freestanding financial instruments that are legally detachable and separately exercisable, contingently exercisable, do not embody an obligation for the Company to repurchase its own shares, and permit the holders to receive a fixed number of shares of common stock upon exercise. In addition, the warrants must require physical settlement and may not provide any guarantee of value or return. Warrants that meet these criteria are initially recorded at their grant date fair value and are not subsequently remeasured.

Stock-Based Compensation

The Company accounts for all stock-based payment awards granted to employees and nonemployees using a fair value method. The Company's stock-based payments include stock options and grants of common stock, including common stock subject to vesting. The measurement date for employee awards is the date of grant, and stock-based compensation costs are recognized as expense over the

employees' requisite service period, which is the vesting period, on a straight-line basis. The measurement date for nonemployee awards is the date the services are completed, resulting in periodic adjustments to stock-based compensation during the vesting period for changes in the fair value of the awards. Stock-based compensation costs for nonemployees are recognized as expense over the vesting period on a straight-line basis. Stock-based compensation is classified in the accompanying consolidated statements of operations and comprehensive loss based on the department to which the related services are provided.

Financial Instruments

The Company's financial instruments consisted of cash equivalents, marketable securities, and accounts payable. The carrying amounts of cash and cash equivalents and accounts payable approximate their fair value due to the short-term nature of those financial instruments. The fair value of the marketable securities are remeasured each reporting period as described in Note 4.

Fair Value Measurements

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a hierarchy of inputs used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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

Level 3 – Valuations that require inputs that reflect the Company's own assumptions that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company's assets and liabilities measured at fair value on a recurring basis include cash equivalents and marketable securities.

Net Loss Per Share Attributable to Common Stockholders

Basic net loss attributable to common stockholders per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock outstanding

for the period. Diluted net loss attributable to common stockholders per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period, determined using the treasury-stock method and the as if-converted method, for convertible securities, if inclusion of these instruments is dilutive.

Income Taxes

Deferred tax assets and liabilities are determined based upon the differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities and for loss and credit carryforwards using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company assesses its income tax positions and records tax benefits based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit is recognized in the consolidated financial statements. The Company classifies interest and penalties associated with such uncertain tax positions as a component of interest expense. As of December 31, 2014 and 2015, the Company has not identified any material uncertain tax positions.

Guarantees and Indemnifications

As permitted under Delaware law, the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification is for the officer's or director's lifetime.

The Company leases laboratory and office space in Hopkinton, Massachusetts and Milford, Massachusetts, under non-cancelable operating leases. The Company has standard indemnification arrangements under these leases that requires it to indemnify the landlord against any liability for injury, loss, accident, or damage from any claims, actions, proceedings, or costs resulting from certain acts, breaches, violations, or nonperformance under the Company's lease.

Through December 31, 2015, the Company had not experienced any losses related to these indemnification obligations and no material claims were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently, concluded that the fair value of these obligations is negligible, and no related reserves were established.

Segment Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, the Company's Chief Executive Officer, in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment and does not track expenses on a program-by-program basis.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASC 606"), which amends the guidance for revenue recognition to replace numerous industry-specific requirements. ASC 606 implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. ASC 606 also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in ASC 606 are effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. In July 2015, the FASB approved the deferral of adoption by one year. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company is currently in the process of evaluating the effect the adoption of ASC 606 may have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 requires management to assess an entity's ability to continue as a going concern and to provide related disclosures in certain circumstances. The requirements of ASU 2014-15 will be effective for the annual financial statement period beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of evaluating the impact of adopting the provisions of ASU 2015-15.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which simplifies the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016 (and interim periods within those fiscal years) with early adoption permitted. ASU 2015-17 may be either applied prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company has elected to early adopt ASU 2015-17 prospectively in the fourth quarter of 2015. There was no impact as a result of the adoption of ASU 2015-17.

2. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table summarizes the computation of basic and diluted net loss per share attributable to common stockholders of the Company (in thousands, except share and per share data):

	Year Ended December 31, 2014	2015
Net loss	$ (9,712)	$ (11,564)
Weighted-average number of common shares-basic and diluted	3,118,344	5,682,799
Net loss per common share-basic and diluted	$ (3.11)	$ (2.03)

Because the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share.

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method or if-converted method, have been excluded from the computation of diluted weighted-average shares outstanding, because such securities had an antidilutive impact due to the losses reported:

	Year Ended December 31, 2014	2015
Preferred stock	1,000,000	1,000,000
Common stock warrants	1,117,663	1,181,776
Stock options	—	610,481

3. PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2014 and 2015, consisted of the following (in thousands):

	December 31, 2014	2015
Equipment	$ 152	$ 448
Furniture and fixtures	24	55
Leasehold improvements	71	133
Total property and equipment	247	636
Less accumulated depreciation and amortization	(121)	(209)
Property and equipment, net	$ 126	$ 427

Depreciation and amortization expense for the years ended December 31, 2014 and 2015, was $42,000 and $88,000, respectively.

4. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are performed in a manner to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company classified its money market funds within Level 1 because their fair values are based on their quoted market prices. The Company classified its commercial paper and fixed income securities within Level 2 because their fair values are determined using alternative pricing sources or models that utilized market observable inputs.

A summary of the assets and liabilities that are measured at fair value as of December 31, 2014 and 2015 is as follows (in thousands):

	Carrying Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Money market funds[1]	$ 650	$ 650	$ —	$ —
December 31, 2015				
Money market funds[1]	$ 2,422	$2,422	$ —	$ —
Commercial paper[1]	450	—	450	—
Fixed income securities	8,524	—	8,524	—
Total December 31, 2015	$11,396	$2,422	$8,974	$ —

(1) Money market funds and commercial paper are included within cash and cash equivalents in the accompanying consolidated balance sheets recognized at fair value.

5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses as of December 31, 2014 and 2015, consisted of the following (in thousands):

	December 31, 2014	2015
Broker commissions	$ 925	$ —
Clinical	159	259
Compensation and benefits	42	684
Accounting and legal	110	416
Other	21	10
Total accrued expenses	$1,257	$1,369

6. CONVERTIBLE NOTES

2012 Convertible Financing

Between March 2012 and February 2013, the Company entered into Note and Warrant Purchase Agreements (the “2012 Convertible Financing”). Pursuant to these agreements, the Company issued and sold notes in the aggregate principal amount of $10,763,000 (the “2012 Notes”) and warrants to investors at multiple closings between March 2012 and April 2013. The 2012 Notes converted into 1,345,312 shares of common stock in 2013.

In conjunction with the sale and issuance of the 2012 Notes, the Company issued warrants to the investors that are currently exercisable for an aggregate of 672,642 shares of common stock with an exercise price of $8.00 per share. The warrants have a term of five years and will expire between 2017 and 2018, or earlier upon an IPO or corporate transaction.

The Company engaged various brokers to assist the Company with the 2012 Convertible Financing. These brokers earned commissions payable in warrants to purchase 144,761 shares of common stock exercisable at $8.00 per share for a period of five years and will expire in 2018 or earlier upon an IPO or a corporate transaction. See Note 7 for additional information regarding the warrants.

2013 Convertible Financing

Between October 2013 and July 2014, the Company entered into Note and Warrant Purchase Agreements (the "2013 Convertible Financing"). Pursuant to these agreements, the Company issued and sold notes in the aggregate principal amount of $6,883,000 (the "2013 Notes") and warrants to investors at multiple closings between October 2013 and July 2014. The Company issued $2,975,000 of the 2013 Notes during the year ended December 31, 2014. The 2013 Notes accrued interest at a rate of 8% per annum.

Unpaid principal and accrued interest were due and payable on demand, on or after December 31, 2014, upon a written notice from each holder of the 2013 Notes. All outstanding principal and accrued interest was convertible as follows:

Mandatory Conversions

Unpaid principal and accrued interest were automatically convertible into: (a) the shares of capital stock sold by the Company at the next equity financing following the issuance date of the 2013 Notes with gross proceeds of at least $15,000,000, at a conversion price that equals the lesser of the issuance price per share in the equity financing or $9.00, or (b) common stock upon an IPO, at a conversion price that equals the lesser of the IPO per share price or $9.00. On December 29, 2014, the size of the minimum next equity financing was reduced to $5,000,000. In connection with this change, the Company assessed the resulting change in fair value of the conversion feature to be greater than 10% of the carrying value of the 2013 Notes, which resulted in extinguishment accounting. The Company recorded the $92,000 increase in fair value as an additional discount to the 2013 Notes with a corresponding increase in additional paid-in capital.

Optional Conversions

At the investor's option, unpaid principal and accrued interest on the 2013 Notes was convertible into common stock: (a) at any time prior to December 31, 2014 and mandatory conversion dates at a conversion price of $9.00 per share, or (b) at any time within 10 days after December 31, 2014 at a conversion price of $8.00 per share.

The Company assessed the embedded features of the 2013 Notes noting that no conversion or redemption features were required to be separated and accounted for as derivatives.

In conjunction with the issuance and sale of the 2013 Notes, the investors received warrants to purchase a total of 191,178 shares of common stock at $9.00 per share, of which warrants to purchase 82,636 shares of common stock were issued during the year ended December 31, 2014. The warrants have a term of five years and will expire between 2018 and 2019, or earlier upon an IPO or corporate transaction.

The Company allocated the proceeds between the 2013 Notes and warrants based on their relative fair values as the warrants were deemed to be equity classified. The Company initially recorded the fair value allocated to the common stock warrants upon each issuance totaling $257,000 during 2014 as a discount to the original principal borrowings of the 2013 Notes.

The Company engaged various brokers to assist the Company with the 2013 Convertible Financing. These brokers earned commissions payable in cash and warrants exercisable for 61,515 shares of common stock at $9.00 per share for a period of five years or upon an IPO or corporate transaction, of which warrants to purchase 22,888 shares of common stock were issued in 2014. The Company recorded issuance costs related to the broker commissions of $270,000 during the year ended December 31, 2014, which were recorded as deferred financing costs, consisting of $192,000 of cash commissions and $77,000 related to the fair value of the warrants to purchase 22,888 shares of common stock issued to brokers in 2014.

The Company amortized the discounts on the 2013 Notes and the related deferred financing costs to interest expense using the effective interest method over the contractual term of the 2013 Notes and recorded interest expense of $1,371,000 for the year ended December 31, 2014. See Note 7 for additional information regarding the warrants.

The principal and accrued interest of the 2013 Notes converted into 827,163 shares of common stock pursuant to their stated terms on December 31, 2014.

7. STOCKHOLDERS' EQUITY

Common Stock

During the year ended December 31, 2014, the Company issued common stock to consultants and advisors as compensation for services and recognized expense equal to the fair value of the shares issued.

On December 31, 2014, the Company sold 963,510 shares of common stock for $12.00 per share, of which the proceeds were held in escrow and released to the Company in January 2015. This balance was recorded as escrow receivable as of December 31, 2014. During February 2015, the Company raised an additional $10,100,000 from the sale of 840,479 shares of common stock to existing and new investors. Collectively, these financing activities are referred to as the "2014 Financing."

The Company engaged one broker to assist the Company with the 2014 Financing. The broker earned commissions payable in cash and warrants exercisable for common stock at $12.00 per share for a period of five years, subject to earlier termination upon an IPO or corporate transaction. The Company recorded issuance costs related to cash broker commissions of $925,000 in connection with the December 2014 closing, and $829,000 in connection with the February 2015 closing, which the Company recorded as a reduction in proceeds. In addition, the Company issued warrants to purchase 77,081 and 67,238 shares of common stock in connection with the December 2014 and February 2015 closings of the 2014 Financing, which were equity classified and valued at $382,000 and $334,000, respectively.

Preferred Stock

The rights, preferences and privileges of the Preferred Stock are as follows:

Voting

The holder of Preferred Stock is entitled to vote on all matters and is entitled to a number of votes equal to the number of shares of common stock into which each share of Preferred Stock is then convertible.

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Company, the holder of the Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of common stock by reason of their ownership thereof, an amount equal to $1.00 per share, the original issue price, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such share.

Any remaining assets legally available for distribution after satisfaction of the liquidation preferences of the Preferred Stock shall be distributed to the holders of common stock on a pro rata basis based upon the number of shares of common stock held by the common stockholders.

Conversion

Preferred Stock is convertible into common stock, at any time, at the option of the holder. Upon conversion, the holders of Preferred Stock will receive one share of common stock for every four shares of preferred stock. Each share of Preferred Stock will automatically convert into common stock upon the closing of a public offering under the Company's registration statement on Form S-1 with the U.S. Securities and Exchange Commission.

Warrants

The Company issued warrants to investors and brokers at multiple closings between March 2012 and February 2015, all of which were equity classified during 2014 and 2015. A summary of warrant activities during the years ended December 31, 2014 and 2015, is as follows:

	Warrants
Outstanding at December 31, 2013	964,572
Grants	182,605
Exercises	(29,514)
Expirations/cancellations	—
Outstanding at December 31, 2014	1,117,663
Grants	67,238
Exercises	(3,125)
Expirations/cancellations	—
Outstanding at December 31, 2015	1,181,776

2014 Stock Incentive Plan

In April 2014, the Company's Board of Directors approved the 2014 Stock Incentive Plan ("the 2014 Plan"). The Company's 2014 Plan provides for the issuance of common stock, stock options and other stock-based awards to employees, officers, directors, consultants, and advisors. As of December 31, 2014 and 2015, the Board had authorized 125,000 and 750,000 shares of common stock to be issued under the 2014 Plan, respectively. Awards under the 2014 Plan may include options (incentive and non-statutory), stock appreciation rights, restricted stock, restricted stock units or dividend equivalent right, or a combination of them. Under the 2014 Plan, the Board, or a committee authorized by the Board, determines the number of shares of common stock to be granted pursuant to the awards, as well as the exercise price and terms of such awards.

The exercise price of incentive stock options cannot be less than the fair value of the common stock on the date of grant. Stock options awarded under the 2014 Plan expire 10 years after the grant date, unless the Board sets a shorter term. During 2014, 25,000 shares of common stock were issued to a consultant for services under the 2014 Plan and recognized stock-based compensation expense equal to the fair value of the shares issued. During the year ended December 31, 2015, stock options to purchase 535,797 shares were issued to employees, stock options to purchase 35,000 shares were issued to directors and stock options to purchase 40,434 shares were issued to consultants under the 2014 Plan. As of December 31, 2014 and 2015, 100,000 and 114,519 shares remain available for future grants under the 2014 Plan, respectively.

The following table summarizes the option activity for the year ended December 31, 2015, under the 2014 Plan:

	Options	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2014	—	$ —
Granted	611,231	11.99
Exercised	—	—
Cancelled	(750)	9.28
Outstanding at December 31, 2015	610,481	$11.99
Exercisable at December 31, 2015	92,308	$ 9.70

No stock options were granted prior to 2015 pursuant to the 2014 Plan. All stock options granted have a ten-year term. The fair value of each stock option granted is estimated on the grant date using a Black-Scholes stock option pricing model based on the following assumptions: an expected term of six years; expected stock price volatility of 87%; a risk free rate of 1.4%; and a dividend yield of 0%. The weighted-average fair value of stock options granted during the year ended December 31, 2015 was $8.87. As of December 31, 2015, all options granted are expected to vest and the weighted-average remaining contractual life of all options is 9.6 years.

The board of directors determined the estimated fair value of the Company's common stock on the date of grant based on a number of objective and subjective factors, including third party valuations. As the Company's stock is not traded publicly, the computation of expected volatility is based on the historical volatilities of peer companies. The peer companies include organizations that are in the same industry, with similar size and stage of growth. The Company estimates that the expected life of the options granted using the simplified method allowable under Staff Accounting Bulletin No. 107, *Share Based Payments*. The interest rate for grants pursuant to the 2014 Plan is based on the U.S. Treasury bill rates for U.S. treasury bills with terms commensurate with the expected term of the option grants on the grant date of the option.

The Company recorded a total of $1,125,000 during the year ended December 31, 2015, as stock-based compensation expense relating to outstanding stock options granted pursuant to the 2014 Plan. Of this amount, $802,000 and $323,000 was recorded in general and administrative expense and research and development expense, respectively. The Company accelerated the vesting of options to purchase 22,083 shares of common stock, which resulted in a charge to stock-based compensation expense of $100,000 during the year ended December 31, 2015. The fair value of stock options vested during the year ended December 31, 2015 was $683,000. At December 31, 2015, there was

$4,229,000 of unrecognized stock-based compensation expense relating to stock options granted pursuant to the 2014 Plan, which will be recognized over the weighted-average remaining vesting period of 3.6 years. Total unrecognized stock-based compensation expense may be adjusted for future changes in the estimated forfeiture rate.

Reserved Shares

As of December 31, 2014 and 2015, the Company has reserved the following shares of common stock for potential conversion of the Preferred Stock, convertible notes, exercise of warrants and outstanding options and shares available for grant under the 2014 Plan:

	December 31, 2014	December 31, 2015
Preferred stock	250,000	250,000
2012 Convertible financing warrants	801,778	798,653
2013 Convertible financing warrants	238,804	238,804
2014 Financing warrants	77,081	144,319
2014 Stock incentive plan	100,000	725,000
Total	1,467,663	2,156,776

8. INCOME TAXES

A reconciliation of the statutory U.S. Federal Tax Rate to the Company's effective tax rate is as follows:

	Year Ended December 31, 2014	2015
U.S. statutory federal income tax rate	34.0%	34.0%
State income taxes, net of federal income tax benefit	4.8%	5.0%
Interest expense – deferred financing costs	(2.6)%	—
Permanent items	—	(1.4)%
R&D credit	1.2%	0.4%
Change in valuation allowance	(37.3)%	(38.0)%
Other	(0.1)%	—
Effective income tax rate	0.0%	0.0%

The significant components of the Company's deferred tax assets as of December 31, 2014 and 2015 are as follows (in thousands):

	December 31, 2014	2015
Net operating loss carryforwards	$ 6,838	$ 10,842
Research and development credits	307	359
Accrued expenses	43	119
Property and equipment	10	12
Stock based compensation	—	259
Other – net	3	9
Deferred tax assets	7,201	11,600
Valuation allowance	(7,201)	(11,600)
Net deferred tax asset and liability	$ —	$ —

Because of the Company's recurring losses since inception, management has concluded that it is more likely than not that the benefits of losses to date which result in deferred tax assets will not be realized and, accordingly, the Company provided a full valuation allowance against the net deferred tax assets. The valuation allowance increased by approximately $3,486,000 and $4,399,000 in 2014 and 2015, respectively, due to the increase in the deferred tax assets (primarily due to the net operating loss carryforwards). At December 31, 2015, the Company had federal and state net operating loss carryforwards of approximately $27,636,000 and $27,384,000, respectively available to reduce future taxable income, if any. The federal and state net operating loss carryforwards expire beginning in 2029 and ending in 2035. At December 31, 2015, the Company had available federal and state income tax credits of approximately $333,000 and $39,000, respectively, which are available to reduce future income taxes, if any, through 2035.

Realization of the future tax benefits is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Under the provisions of the Internal Revenue Code, the net operating loss and tax credit carry-forwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. Net operating loss and tax credit carry-forwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitations is determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. The Company has completed several financings since its inception, which may have resulted in a change in control as defined by Sections 382 and 383 of the Internal Revenue Code, or could result in a change in control in the future.

The Company has generated research and development tax credits but has not conducted a study to document its activities that qualify for research and development tax credits. This study may result in an adjustment to the Company's research and development credit carryforwards; however, since we have not conducted a study any adjustment is unknown, no amounts are being presented as an uncertain tax position. A full valuation allowance has been provided against the Company's research and development tax credits and, if an adjustment is required, this adjustment would be offset by an adjustment to the deferred tax asset established for the research and development tax credit carry-forwards and the valuation allowance.

We file income tax returns in the U.S. federal and Massachusetts jurisdictions. The statute of limitations for assessment by the Internal Revenue Service, or IRS, and state tax authorities is closed for tax years prior to 2012, although carryforward attributes that were generated prior to tax year 2012 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. The Company is currently not under examination by the Internal Revenue Service or any other jurisdictions for any tax years. The Company's policy is to record interest and penalties on any unrecognized tax benefits as part of tax expense. The Company has not recorded any interest or penalties on any unrecognized tax benefits since its inception. The Company does not believe material uncertain tax positions have arisen to date.

9. COMMITMENTS

Leases

In April 2015, the Company entered into an amendment to the lease for its headquarters in Milford, Massachusetts to extend the term of the lease through March 31, 2018 and expand the leased laboratory space. Prior to the amendment, the lease term expired in March 2016. Total rent expense for the years ended December 31, 2014 and 2015 was $53,000 and $76,000, respectively.

Future minimum commitments due under all leases at December 31, 2015 are as follows (in thousands):

Year Ending December 31,	
2016	$ 84
2017	87
2018	22
Total minimum lease payments	$193

Contingencies

The Company is subject to claims in the ordinary course of business, however, the Company is not currently a party to any pending or threatened litigation, the outcome of which would be expected to have a material adverse effect on its financial condition or the results of its operations. The Company accrues for contingent liabilities to the extent that the liability is probable and estimable, but there are no accruals for contingent liabilities in these consolidated financial statements.

During May 2015, the Company entered into a transition agreement with the Company's former President and Chief Executive Officer that terminated his employment agreement. Under the transition agreement, he continued to serve as our president and chief executive officer for a transition period that ended on August 17, 2015. Following the transition period, the Company is continuing to make 18 monthly payments totaling $464,000 and also provide benefits consistent with the coverage that was provided prior to the execution of the transition agreement. The remaining unpaid balance is included in accrued compensation and benefits at December 31, 2015 (see Note 5).

10. 401(k) PLAN

The Company has a 401(k)-defined contribution plan (the "401(k) Plan") for substantially all of its employees. Eligible employees may make pretax contributions to the 401(k) Plan up to statutory limits. At the election of its Board, the Company may elect to match employee contributions. For the years ended December 31, 2014 and 2015, the Company paid a match of up to 4%, which amounted to $26,000 and $48,000, respectively.

11. RELATED PARTY TRANSACTIONS

The Company incurred advisory fees of $75,000 and $56,000 to one of its Directors, in addition to director fees, during the years ended December 31, 2014 and 2015, respectively.

12. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 8, 2016, the date on which the consolidated financial statements were available to be issued, to ensure that this submission includes

appropriate disclosure of events both recognized in the consolidated financial statements and events which occurred subsequently but were not recognized in the consolidated financial statements.

BioHep Technologies Ltd. License Agreement

In January 2016, the Company entered into an amended and restated license agreement with BioHEP Technologies Ltd. (formerly known as Micrologix Biotech, Inc.) ("BioHEP"), which amended and restated the prior license agreement with BioHEP which the Company had entered into in December 2003. The amendment and restatement of the license agreement became effective on February 1, 2016.

In connection with the amendment and restatement of the license agreement, the Company issued 125,000 shares of its common stock to BioHEP and granted to BioHEP a warrant to purchase an additional 125,000 shares of its common stock at a purchase price of $16.00 per share, which warrant will expire on August 1, 2018. Under the amended and restated license agreement, BioHEP is eligible to receive up to $3.5 million in development and regulatory milestone payments for disease(s) caused by each distinct virus for which the Company develops licensed product(s). BioHEP is also eligible to receive tiered royalties in the low-to-mid single-digits on net product sales of licensed products by the Company and its affiliates and sublicensees, and a specified share of non-royalty sublicensing revenues the Company and its affiliates receive from sublicensees, which share of sublicensing revenues is capped at a maximum aggregate of $2.0 million under all such sublicenses.

Reverse Stock Split

A 1-for-4 reverse stock split of the Company's common stock was effected on March 8, 2016. All share and per share amounts, and the number of shares of common stock into which each share of preferred stock will convert, in the financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to additional paid-in capital.

Operating Lease

On March 24, 2016, the Company entered into a new operating lease for office and laboratory space in Hopkinton, Massachusetts with a lease term through May 31, 2021. The total payments due during the term of the lease are approximately $771,000.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes. Our historical results are not necessarily indicative of the results that may be expected in the future.

The selected consolidated statement of operations data for the years ended December 31, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014 and 2015 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus.

	Year Ended December 31,	
	2014	2015
(in thousands, except share and per share data)		
Consolidated Statement of Operations Data:		
Grant revenue	$ 738	$ 946
Operating expenses:		
Research and development	6,132	7,539
General and administrative	2,412	5,003
Total operating expenses	8,544	12,542
Loss from operations	(7,806)	(11,596)
Other income (expense):		
Interest income (expense), net	(1,906)	32
Net loss	$ (9,712)	$ (11,564)
Net loss per common share, basic and diluted[(1)]	$ (3.11)	$ (2.03)
Weighted-average common shares outstanding, basic and diluted[(1)]	3,118,344	5,682,799
Pro forma net loss per share, basic and diluted (unaudited)[(1)]		$ (1.95)
Pro forma weighted-average common shares outstanding, basic and diluted (unaudited)[(1)]		5,932,799

(1) See Notes 1 and 2 to our consolidated financial statements appearing in the 2015 annual report for further details on the calculation of basic and diluted net loss per common share.

	As of December 31,	
	2014	2015
(in thousands)		
Consolidated Balance Sheet Data:		
Cash, cash equivalents and marketable securities	$ 1,570	$12,871
Working capital	12,074	6,443
Total assets	13,805	14,577
Convertible notes	—	—
Convertible preferred stock	—	—
Total stockholders' equity	12,200	11,025

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of financial condition and results of operations together with the section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations, intentions and projections. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of this prospectus.

Overview

We are a clinical-stage biopharmaceutical company engaged in the discovery and development of a novel class of therapeutics using our proprietary small molecule nucleic acid hybrid, or SMNH, chemistry platform. We are developing our most advanced SMNH product, SB 9200, for the treatment of viral diseases. We have designed SB 9200 to selectively activate within infected cells the cellular proteins retinoic acid-inducible gene 1, or RIG-I, and nucleotide-binding oligomerization domain-containing protein 2, or NOD2, to inhibit viral replication and to cause the induction of intracellular interferon signaling pathways for antiviral defense. We believe that SB 9200 can play an important role in antiviral therapy by modulating the body's immune response to fight viral infections. In 2014, we completed a Phase 1 clinical trial of SB 9200 in 38 non-cirrhotic patients infected with the hepatitis C virus, or HCV, who had not received any prior antiviral treatment. We plan to initiate a Phase 2a clinical trial of SB 9200 for the treatment of chronic hepatitis B virus, or HBV, in the first half of 2016. Subject to obtaining additional financing beyond the proceeds of this offering, we also plan to explore the potential use of SB 9200 in other viral diseases, including respiratory syncytial virus, or RSV, human immunodeficiency virus, or HIV, latency and hepatitis delta virus, or HDV, conduct preclinical research of additional SMNH product candidates as antiviral therapies and conduct early-stage research programs exploring the use of SMNH compounds against targets implicated in certain inflammatory diseases and cancers.

We have not generated any revenue to date other than from grants from the National Institutes of Health, or NIH. We have incurred significant annual net operating losses in every year since our inception and expect to continue to incur net operating losses for the foreseeable future. Our net losses were $9.7 million and $11.6 million for the years ended December 31, 2014 and 2015, respectively. As of December 31, 2015, we had an accumulated deficit of $34.2 million. We expect to continue to incur significant expenses and increasing operating losses for the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase significantly if and as we:

- continue to develop and conduct clinical trials of SB 9200, including our planned Phase 2a clinical trial in chronic HBV;
- initiate and continue research and preclinical and clinical development efforts for our other product candidates;
- seek to identify and develop additional product candidates;
- seek regulatory and marketing approvals for our product candidates that successfully complete clinical trials, if any;
- establish sales, marketing, distribution and other commercial infrastructure in the future to commercialize various products for which we may obtain marketing approval, if any;

- require the manufacture of larger quantities of product candidates for clinical development and potentially commercialization;
- maintain, expand and protect our intellectual property portfolio;
- hire and retain additional personnel, including clinical, quality control and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and help us comply with our obligations as a public company; and
- add equipment and physical infrastructure to support our research and development programs.

As a result, we will need additional financing to support our continuing operations. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity or debt financings or other sources, which may include collaborations with third parties. Arrangements with collaborators or others may require us to relinquish rights to certain of our technologies or product candidates. Adequate additional financing may not be available to us on acceptable terms, or at all. Our inability to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenue to achieve profitability, and we may never do so.

As of December 31, 2015, we had $12.9 million in cash, cash equivalents and marketable securities. We expect that our existing cash, cash equivalents and marketable securities as of December 31, 2015, together with anticipated net proceeds from this offering, will enable us to fund our operating expenses and capital expenditure requirements at least into the third quarter of 2017. See "– Liquidity and Capital Resources."

Financial Operations Overview

Grant revenue

We have generated revenue from grants from the NIH for the development of SB 9200. The NIH grants provided funding of $6.4 million between October 2003 and December 31, 2015, and an additional $0.4 million of funding remains available to us under an existing grant for the development of SB 9200 through April 30, 2016.

Operating expenses

Our operating expenses since inception have consisted primarily of research and development expense and general and administrative costs.

Research and development

Research and development expenses consist primarily of costs incurred for our research activities, including our discovery efforts, and the development of our product candidates, which include:

- expenses incurred under agreements with third parties, including contract research organizations, or CROs, that conduct research, preclinical activities and clinical trials on our behalf as well as contract manufacturing organizations, or CMOs, that manufacture drug products for use in our preclinical and clinical trials;
- salaries, benefits and other related costs, including stock-based compensation expense, for personnel in our research and development functions;
- costs of outside consultants, including their fees, stock-based compensation and related travel expenses;

- the cost of laboratory supplies and acquiring, developing and manufacturing preclinical study and clinical trial materials;
- costs related to compliance with regulatory requirements; and
- facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We expense research and development costs as incurred. We recognize external development costs based on an evaluation of the progress to completion of specific tasks using information provided to us by our vendors and our clinical investigative sites. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and are reflected in our consolidated financial statements as prepaid or accrued research and development expenses.

Our primary focus of research and development since inception has been on the development of SB 9200. Our direct research and development expenses consist primarily of external costs, such as fees paid to investigators, consultants and CROs in connection with our preclinical studies and clinical trial and regulatory fees. We do not allocate employee-related costs and other indirect costs to specific research and development programs because our primary focus has been on the discovery and development of SB 9200. Our direct research and development expenses are not currently tracked on a program-by-program basis.

The successful development of our product candidates is highly uncertain. Accordingly, at this time, we cannot reasonably estimate the nature, timing and costs of the efforts that will be necessary to complete the remainder of the development of these product candidates. We are also unable to predict when, if ever, we will generate revenues from SB 9200 or any of our other current or potential product candidates. This is due to the numerous risks and uncertainties associated with developing medicines, including the uncertainties of:

- establishing an appropriate safety profile with investigational new drug, or IND, application enabling toxicology studies;
- successful enrollment in and completion of clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- launching commercial sales of the products, if and when approved, whether alone or in collaboration with others; and
- a continued acceptable safety profile of the products following approval.

A change in the outcome of any of these variables with respect to any of our product candidates would significantly change the costs and timing associated with the development of that product candidate.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect that our research and development expenses will continue to increase in the foreseeable future as we initiate clinical trials for certain product candidates and pursue later stages of clinical development of other product candidates. However, we do not believe that it is possible at this time to accurately project total program-specific expenses through commercialization. There are

numerous factors associated with the successful commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

General and administrative

General and administrative expenses consist primarily of salaries and other related costs, including stock-based compensation, for personnel in our executive, finance, corporate and business development and administrative functions. General and administrative expenses also include legal fees relating to patent and corporate matters; professional fees for accounting, auditing, tax and consulting services; insurance costs; travel expenses; and facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We anticipate that our general and administrative expenses will increase in the future as we increase our headcount to support the expected growth in our research and development activities and the potential commercialization of our product candidates. We also expect to incur increased expenses associated with being a public company, including increased costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance costs, and investor and public relations costs.

Other income (expense)

Interest income and interest expense consists primarily of interest income earned on our cash, cash equivalents and marketable securities and interest expense incurred on our convertible debt, respectively.

Critical Accounting Policies and Significant Judgments and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of our consolidated financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We believe that the estimates and assumptions involved in the accounting policies described below may have the greatest potential impact on our consolidated financial statements and, therefore, consider these to be our critical accounting policies. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

Accrued Research and Development Expenses

As part of the process of preparing our consolidated financial statements, we are required to estimate our accrued research and development expenses. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated costs incurred for the services when we have not yet been invoiced or otherwise notified of the actual costs. The majority of our service providers invoice us in arrears for services performed, on a predetermined schedule or when contractual milestones are met; however, some require advanced payments. We make estimates of our accrued expenses as of each balance sheet date in our consolidated financial statements based on facts and circumstances known to us at that time. Examples of estimated accrued research and development expenses include fees paid to:

- CROs in connection with performing research services on our behalf and clinical trials;
- investigative sites or other providers in connection with clinical trials;

- vendors in connection with preclinical and clinical development activities; and
- vendors related to product manufacturing, development and distribution of preclinical and clinical supplies.

We base our expenses related to preclinical studies and clinical trials on our estimates of the services received and efforts expended pursuant to quotes and contracts with multiple CROs that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. There may be instances in which payments made to our vendors will exceed the level of services provided and result in a prepayment of the clinical expense. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed, enrollment of patients, number of sites activated and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual or amount of prepaid expense accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in us reporting amounts that are too high or too low in any particular period. To date, we have not made any material adjustments to our prior estimates of accrued research and development expenses.

Convertible Note Financings

We have issued convertible notes with warrants on numerous occasions to finance our operations. When we issue convertible notes, we evaluate and account for embedded and freestanding features in our convertible note financings in accordance with professional standards. If the feature meets the definition of a derivative, professional standards generally provide three criteria that require companies to bifurcate the derivative from their host instruments and account for them as freestanding derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instruments are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. In accounting for convertible note financings, including the fair value of warrants issued in connection with the financings and the fair value of the stock underlying the conversion features of the notes. See further discussion regarding these significant estimates at *Critical Accounting Policies and Significant Judgments and Estimates – Stock-Based Compensation*. Proceeds are first allocated to freestanding and embedded derivatives required to be recognized at fair value and the residual proceeds are allocated to the convertible notes.

We have issued warrants in connection with our convertible note financings. We review the terms of all warrants issued and classify the warrants as a component of permanent equity if they are freestanding financial instruments that are legally detachable and separately exercisable from the notes, contingently exercisable, do not embody an obligation for the Company to repurchase its own shares, and permit the holders to receive a fixed number of common shares upon exercise. In addition, the warrants must require physical settlement and may not provide any guarantee of value or return. Warrants that meet these criteria are initially recorded at their grant date fair value and are not subsequently remeasured.

We classify warrants as liabilities if they are freestanding financial instruments that permit the holders to purchase mandatory redeemable equity instruments or they otherwise do not meet the criteria for equity classification. Liability-classified warrants are initially recorded at fair value and

remeasured at each period end while these instruments were outstanding or until they meet the criteria for equity classification. Gains and losses arising from changes in fair value are recognized in other income (expense) in the consolidated statements of operations and comprehensive loss. All of our warrants were equity-classified warrants during 2014 and 2015.

Stock-Based Compensation

We did not grant options until March 2015. We measure stock options and other stock-based awards granted to employees and directors based on the fair value on the date of grant and recognize the corresponding compensation expense of those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. Generally, we issue stock options and restricted stock awards with only service-based vesting conditions and record the expense for these awards using the straight-line method.

We measure stock options and other stock-based awards granted to consultants and nonemployees based on the fair value of the award on the date at which the related service is complete. We recognize this compensation expense over the period during which services are rendered by such consultants and nonemployees until completed. At the end of each financial reporting period prior to completion of the service, we remeasure the fair value of these awards using the then-current fair value of our common stock and updated assumption inputs in the Black-Scholes option-pricing model.

We estimate the fair value of each stock option grant using the Black-Scholes option-pricing model. Use of this model requires that we make assumptions as to the fair value of our common stock, the volatility of our common stock, the expected term of our stock options, the risk-free interest rate for a period that approximates the expected term of our stock options and our expected dividend yield. Because we are currently a private company and lack company-specific historical and implied volatility information, we estimate our expected volatility based on the historical volatility of a group of publicly traded peer companies. We expect to continue to do so until such time as we have adequate historical data regarding the volatility of our traded stock price. We use the simplified method prescribed by Securities and Exchange Commission Staff Accounting Bulletin No. 107, Share-Based Payment, to calculate the expected term of options granted to employees and directors. We base the expected term of options granted to consultants and nonemployees on the contractual term of the options. We determine the risk-free interest rate by reference to the United States Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that we have never paid cash dividends and do not expect to pay any cash dividends in the foreseeable future.

There were no stock options granted prior to 2015. The assumptions we used to determine the fair value of stock options granted to employees and directors are as follows, presented on a weighted-average basis:

	Year Ended December 31, 2015
Risk-free interest rate	1%
Expected term (in years)	6
Expected volatility	87%
Expected dividend yield	0%

These assumptions represented our best estimates, but the estimates involve inherent uncertainties and the application of our judgment. As a result, if factors change and we use significantly different assumptions or estimates, our stock-based compensation expense could be materially different.

We recognize compensation expense for only the portion of awards that are expected to vest. In developing a forfeiture rate estimate for pre-vesting forfeitures, we have considered our historical experience of actual forfeitures. If our future actual forfeiture rate is materially different from our estimate, our stock-based compensation expense could be significantly different from what we have recorded in the prior periods. However, estimates will not be necessary to determine the fair value of new awards once our common stock begins to be publicly traded.

During the years ended December 31, 2014 and 2015, we issued common stock to consultants and advisors as compensation for services and recognized expense equal to the fair value of the shares issued. In 2015, we began issuing stock options to employees, directors and consultants. The following table summarizes the classification of our stock-based compensation expenses recognized in our consolidated statements of operations and comprehensive loss:

	Year Ended December 31,	
	2014	2015
(in thousands)		
Research and development	$179	$ 323
General and administrative	85	802
	$264	$1,125

Determination of the Fair Value of Common Stock

We are a privately held company with no active public market for our common stock. Therefore, our board of directors determines the fair value of our common stock on each date of grant, with input from management, considering our most recently available third-party valuations of common stock and our board of directors' assessment of additional objective and subjective factors that it believes are relevant and which may have changed from the date of the most recent valuation through the date of the grant.

In the absence of a public trading market for our common stock, our board's determination of the fair value of our common stock was performed using methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants, or AICPA, Audit and Accounting Practice Aid Series: Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or AICPA Guide. We performed contemporaneous and retrospective valuations, with the assistance of a third-party specialist, as of December 31, 2013, December 31, 2014, June 30, 2015, August 10, 2015, September 30, 2015 and December 31, 2015, which resulted in valuations of our common stock of $6.76, $9.28, $11.68, $12.88, $12.96 and $15.60 per share, respectively. In addition to these valuations, our board of directors considered various objective and subjective factors to determine the fair value of our common stock as of each grant date, including:

- the prices at which we sold convertible notes, and conversion rights and preferences of the note holders relative to our common stock at the time of each grant;
- the price at which we sold common stock at the time of each grant;
- the progress of our research and development programs, including the status of preclinical studies and clinical trials for our product candidates;
- our stage of development and our business strategy;
- external market conditions affecting the biotechnology industry;
- trends within the biotechnology industry;
- our financial position, including cash on hand and our historical and forecasted performance and operating results;

- the lack of an active public market for our common stock;
- the likelihood of achieving a liquidity event, such as an initial public offering, or IPO, or sale of our company in light of prevailing market conditions; and
- the analysis of IPOs and the market performance of similar companies in the biopharmaceutical industry.

If a public trading market for our common stock is established in connection with the closing of this offering, we do not expect that it will be necessary for our board of directors to estimate the fair value of our common stock in connection with our accounting for granted stock options and restricted stock, as the fair value of our common stock will be its trading price on the date of grant.

Valuation Methodologies

Our common stock valuations were performed using the market approach to estimate the enterprise value of the Company in accordance with the AICPA Guide. The Market Approach is one of the three approaches (along with the Income Approach and Asset Approach) used to estimate enterprise and equity value. The market approach employs analysis using comparable companies in determining the value of the entity. Both public and private companies, if publicly available information exists, are considered in the Market Approach. Two information points commonly available, company valuation and transaction value, are used for their respective methodologies. There are a number of different methods within the Market Approach that may be used. The three main methods used are: the Guideline Public Companies Method, the Guideline Transactions Method and the Backsolve Method.

Beginning in 2012, we valued our common stock using the Backsolve Method. This method derives an implied market value of invested capital from a transaction involving a company's own securities. The price of a company's security that was involved in a recent arms-length transaction is used as a reference point in an allocation of value. The Backsolve Method requires considering the rights and preferences of each class of equity and solving for the total market value of invested capital that is consistent with a recent transaction in our own securities, considering the rights and preferences of each class of equity. Per the AICPA Guide, the Backsolve Method is generally the most reliable indicator of value of early-stage enterprises with no product revenue or cash flow, if relevant and reliable transactions have occurred in the company's equity securities. This methodology is also prescribed by the AICPA when a valuation is conducted in close proximity to the date of a financing transaction, and when other methodologies are deemed less reliable.

Since December 31, 2014, we have valued our common stock using the Guideline Public Companies Method, where there was not a direct equity financing with independent investors that could be used to determine enterprise value. This method derives a valuation based on the average multiple of market capitalization as compared to paid in capital of peer companies, which was then applied to our paid in capital balance.

While there are many different value allocation methods, these various methods can be grouped into three general categories as defined by the AICPA Guide, one of which is the Option-Pricing Method, or OPM. We used the OPM to allocate market value of invested capital to the various equity classes and debt comprising our capitalization structure. We chose the OPM over other acceptable methods due to the complex capital structure of our company, the uncertainty related to market conditions, and the lack of visibility on an imminent exit event. Under the OPM, each equity class is modeled as a call option with a distinct claim on the equity of our company. The option's exercise price is based on our company's total equity value available for each participating equity holder. The characteristics of each equity class determine the equity class' claim on the total equity value. By constructing a series of options in which the exercise price is set at incremental levels of value, which

correspond to the equity value necessary for each level of equity to participate, we determined the incremental option value of each series. When multiplied by the percentage of ownership of each equity class participating under that series, the result is the incremental value allocated to each class under that series.

Option Grants

The following table summarizes by grant date the number of shares subject to options granted during the year ended December 31, 2015, the per share exercise price of the options, the fair value of common stock underlying the options on date of grant, and the per share estimated fair value of the options. We did not grant any stock options prior to March 31, 2015.

Grant Date	Number of Shares	Per Share Exercise Price of Options[1]	Fair Value of Common Stock per Share on Date of Option Grant	Per Share Estimated Fair Value of Options[2][3]
March 31, 2015	148,250	$ 9.28	$ 9.28	$ 6.60
July 30, 2015	16,250	11.68	11.68	8.40
August 17, 2015	295,047	12.88	12.88	9.40
August 19, 2015	5,434	12.88	12.88	10.92
August 20, 2015	5,000	12.88	12.88	8.84
September 17, 2015	16,250	12.88	12.88	9.40
November 1, 2015	125,000	12.96	12.96	9.44

(1) The Per Share Exercise Price of Options represents the fair value of our common stock on the date of grant, as determined by our board of directors, after taking into account our most recently available contemporaneous valuation of our common stock and the various objective and subjective facts described above since the date of such valuation through the date of grant.

(2) The Per Share Estimated Fair Value of Options reflects the weighted average fair value of options granted on each grant date, determined using the Black-Scholes option-pricing model.

(3) For purposes of recording stock-based compensation for grants of options to nonemployees, we measure the fair value of the award on the service completion date (vesting date). At the end of each reporting period prior to completion of the services, we remeasure the value of any unvested portion of the option based on the then-current fair value of the option and adjust the expense accordingly. The weighted average fair value amounts presented in this column for grants to employees, directors and nonemployees reflect only the grant-date fair value of options granted to nonemployees and not any subsequently remeasured fair value of those options.

JOBS Act

In April 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was enacted. Section 107 of the JOBS Act provides that an “emerging growth company,” or EGC, can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. Thus, an EGC can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an EGC, we intend to rely on certain of these exemptions, including the exemption from the requirement that the auditors provide an attestation report on our system of internal controls over financial reporting pursuant to Section 404(b)

of the Sarbanes-Oxley Act and complying with any requirement that may be adopted by the Public Company Accounting Oversight Board, or PCAOB, regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an EGC until the earliest of the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; the last day of the fiscal year following the fifth anniversary of the date of the completion of this offering; the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or the date on which we are deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission.

Results of Operations

Comparison of Years Ended December 31, 2014 and 2015

The following table summarizes our results of operations for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Increase (Decrease)
	2014	2015	
(in thousands)			
Grant revenue	$ 738	$ 946	$ 208
Operating expenses:			
Research and development	6,132	7,539	1,407
General and administrative	2,412	5,003	2,591
Total operating expenses	8,544	12,542	3,998
Loss from operations	(7,806)	(11,596)	(3,790)
Other income (expense)	(1,906)	32	1,938
Net loss	$(9,712)	$(11,564)	$(1,852)

Grant revenue. Grant revenue was $0.7 million for the year ended December 31, 2014, compared to $0.9 million for the year ended December 31, 2015. The increase of $0.2 million was primarily due to increased development costs for SB 9200 that were reimbursed by NIH in the year ended December 31, 2015.

Research and development expenses. Research and development expenses were $6.1 million for the year ended December 31, 2014, compared to $7.5 million for the year ended December 31, 2015. The increase of $1.4 million was due primarily to additional salaries and benefits of $0.6 million associated with higher headcount in 2015, increased stock-based compensation of $0.1 million and increased spending on preclinical studies and clinical trial related activities for our Phase 1 clinical trial of SB 9200 of $0.6 million.

General and administrative expenses. General and administrative expenses were $2.4 million for the year ended December 31, 2014, compared to $5.0 million for the year ended December 31, 2015. The increase of $2.6 million was primarily due to additional salaries and benefits of $1.3 million associated with higher headcount in 2015, increased stock-based compensation of $0.7 million and increased legal, accounting and other consulting expenses of $0.4 million associated with preparing to be a public company and protecting our intellectual property.

Other income (expense). Interest income, net for the year ended December 31, 2015, was $32,000, related to the interest earned on marketable securities. Interest expense, net for the year ended December 31, 2014, was $1.9 million, related to accretion and accrued interest on our

convertible notes issued from October 2013 to July 2014 in the aggregate original principal amount of $6.9 million, which bore interest at a rate of 8.0% per year and which were converted into shares of common stock in December 2014, and amortization of the related deferred financing costs.

Liquidity and Capital Resources

Sources of Liquidity

We have financed our operations since inception primarily through NIH funding as well as private placements of convertible notes, common stock and warrants. From our inception through December 31, 2015, we received NIH funding of $6.4 million and gross proceeds from the issuance of convertible notes, common stock and warrants of $40.2 million. As of December 31, 2015, we had cash, cash equivalents and marketable securities totaling $12.9 million and an accumulated deficit of $34.2 million.

As of March 31, 2016, we had warrants to purchase an aggregate of 1,306,776 shares of common stock at a weighted average exercise price of $9.39 per share outstanding. Warrants to purchase 1,181,776 shares of our common stock at a weighted average exercise price of $8.69 per share will terminate as of the closing of this offering if not exercised prior to such date. If these warrants are exercised in full, we will receive $12.3 million in proceeds.

Cash Flows

The following table summarizes sources and uses of cash for each of the periods presented:

	Year Ended December 31,	
	2014	2015
(in thousands)		
Net cash used in operating activities	$(7,377)	$ (8,211)
Net cash used in investing activities	(55)	(8,931)
Net cash provided by financing activities	2,701	19,919
Net increase (decrease) in cash and cash equivalents	$(4,731)	$ 2,777

Net cash used in operating activities. The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in components of working capital. Net cash used in operating activities was $7.4 million and $8.2 million during the years ended December 31, 2014 and 2015, respectively. The increase in cash used in operating activities was primarily due to an increase in net loss of $1.9 million, a decrease in non-cash interest expense of $1.4 million and an increase in prepaid expense and other assets of $0.8 million, offset by a $1.9 million increase in accounts payable, a $0.9 million increase in non-cash stock-based compensation and a $0.5 million increase in accrued expenses during the year ended December 31, 2015.

Net cash used in investing activities. Net cash used in investing activities was $0.1 million and $8.9 million during the years ended December 31, 2014 and 2015, respectively. The increase in cash used in investing activities for the year ended December 31, 2015 was primarily due to the purchase of marketable securities of $8.5 million in addition to $0.4 million used to purchase property and equipment as compared to $0.1 million in the year ended December 31, 2014.

Net cash provided by financing activities. Net cash provided by financing activities was $2.7 million during the year ended December 31, 2014, compared to $19.9 million during the year ended December 31, 2015. The cash provided by financing activities in 2014 was primarily the result of $3.0 million of gross proceeds received from private placements of our convertible notes and $0.2 million in proceeds from exercised warrants offset by $0.5 million of broker commissions paid for the year ended

December 31, 2014, and in 2015 was primarily the result of $21.6 million of gross proceeds received from private placements of our common stock offset by $1.8 million of broker commissions paid during the year ended December 31, 2015.

Funding Requirements

We anticipate that our expenses will increase significantly if and as we continue to develop and conduct clinical trials with respect to SB 9200 product candidates; initiate and continue research, preclinical and clinical development efforts for our other product candidates and potential product candidates; maintain, expand and protect our intellectual property portfolio; establish a commercial infrastructure to support the marketing and sale of certain of our product candidates; and hire additional personnel, such as clinical, regulatory, quality control and scientific personnel. Furthermore, upon the closing of this offering, we expect to incur additional costs associated with operating as a public company. Specifically, we anticipate that our expenses will increase substantially if and as we:

- conduct our planned Phase 2 clinical program for SB 9200 in chronic HBV;
- develop SB 9200 for additional indications, including RSV, HIV latency and HDV;
- continue the research and development of our other product candidates;
- seek to leverage our SMNH platform and explore new targets in additional non-viral disease states;
- maintain, expand and protect our intellectual property portfolio; and
- add key clinical, scientific, operational and financial employees. Enhance our management information systems and personnel, including personnel to support our product development efforts and to support our transition to a public company.

We expect that the net proceeds from this offering, together with our existing cash, cash equivalents and marketable securities of $12.9 million at December 31, 2015, will enable us to fund our operating expenses and capital expenditures requirements at least into the third quarter of 2017 and to fund the Phase 2a clinical trial of SB 9200 that we plan to initiate in chronic HBV in the first half of 2016. However, we do not believe that the net proceeds of this offering and our existing cash, cash equivalents and marketable securities will be sufficient to fund all of the efforts that we plan to undertake or to fund the completion of development of SB 9200 beyond the planned trial, including our planned Phase 2b clinical trial of SB 9200 for chronic HBV that we plan to conduct subject to the results of the Phase 2a clinical trial, discussions with regulatory authorities and the receipt of additional funding beyond the proceeds of this offering. We have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development of SB 9200, we are unable to estimate the amounts of increased capital outlays and operating expenses associated with completing the research and development of our product candidates. Our future capital requirements will depend on many factors, including:

- initiation, progress, timing, costs and results of preclinical studies and clinical trials of SB 9200, including our planned Phase 2 clinical trials in chronic HBV;
- initiation, progress, timing, costs and results of preclinical studies and clinical trials of SB 9200 for additional indications, including RSV, HIV latency and HDV, and of our other product candidates;
- our obligation to make royalty and non-royalty sublicense receipt payments to third-party licensors, if any, under our licensing agreements;
- the number and characteristics of product candidates that we discover or in-license and develop;

- the outcome, timing and cost of seeking regulatory review by the FDA and comparable foreign regulatory authorities, including the potential for the FDA or comparable foreign regulatory authorities to require that we perform more studies than those that we currently expect;
- the costs of filing, prosecuting, defending and enforcing any patent claims and maintaining and enforcing other intellectual property rights;
- subject to receipt of marketing approval, revenue, if any, received from commercial sales of SB 9200 and any other products;
- the costs and timing of the implementation of commercial-scale manufacturing activities;
- the costs and timing of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval; and
- the costs of operating as a public company.

Identifying potential product candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if ever. Accordingly, we will need to obtain substantial additional funds to achieve our business objectives.

Adequate additional funds may not be available to us on acceptable terms, or at all. We do not currently have any committed external source of funds other than from the NIH. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Additional debt financing and equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and may require the issuance of warrants, which could potentially dilute your ownership interest.

If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs, or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development programs or any future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2015, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
(in thousands)					
Operating lease commitments[1]	$193	$84	$109	$—	$—
Total	$193	$84	$109	$—	$—

(1) On March 24, 2016, we entered into a new operating lease for office and laboratory space in Hopkinton, Massachusetts with a lease term through May 31, 2021. The total payments due

during the term of the lease are approximately $771,000. The amounts in the table only reflect amounts due under our lease for our space in Milford, Massachusetts and do not include amounts due under the Hopkinton lease.

In addition to the amounts shown in the above table, we have contractual obligations pursuant to our license agreement with BioHEP Technologies Ltd., or BioHEP. In January 2016, we entered into an amended and restated license agreement with BioHEP. Under the amended and restated license agreement, we have agreed to pay up to $3.5 million in development and regulatory milestone payments to BioHEP for disease(s) caused by each distinct virus for which we develop licensed product(s). BioHEP is also eligible to receive tiered royalties in the low-to-mid single-digits on net product sales of licensed products by us and our affiliates and sublicensees, and a specified share of non-royalty sublicensing revenues we and our affiliates receive from sublicensees, which share of sublicensing revenues is capped at a maximum aggregate of $2.0 million under all such sublicenses.

We enter into contracts in the normal course of business with third party service providers for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. We have not included our payment obligations under these contracts in the table as these contracts generally provide for termination upon notice, and therefore we believe that our non-cancelable obligations under these agreements are not material. We could also enter into additional research, manufacturing, supplier and other agreements in the future, which may require up-front payments and even long-term commitments of cash.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), or ASC 606, which amends the guidance for revenue recognition to replace numerous industry-specific requirements. ASC 606 implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. ASC 606 also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in ASC 606 are effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. In July 2015, FASB approved the deferral of adoption by one year. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently in the process of evaluating the effect the adoption of ASC 606 may have on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, or ASU 2014-15. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern and to provide related disclosures in certain circumstances. The requirements of ASU 2014-15 will be effective for the annual financial statement period beginning after December 15, 2016, with early adoption permitted. We are currently in the process of evaluating the impact of adopting the provisions of ASU 2015-15.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which simplifies the presentation of deferred income taxes. ASU 2015- I 7 requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016 (and interim periods within those fiscal years) with early adoption permitted. ASU 2015-17 may be either applied prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We have elected to early adopt ASU 2015-17 prospectively in the fourth quarter of 2015. There was no impact as a result of the adoption of ASU 2015-17.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk related to changes in interest rates. Our cash, cash equivalents and marketable securities of $12.9 million as of December 31, 2015, consisted of cash, money market accounts and short-term and long-term marketable debt securities. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of United States interest rates. However, because of the short-term nature of the instruments in our portfolio, an immediate 10% change in market interest rates would not be expected to have a material impact on the fair market value of our investment portfolio or on our financial condition or results of operations.

Management

Martin Driscoll has been our President, Chief Executive Officer and Director since August 2015 and in September 2015, Mr. Driscoll was appointed Chairman of the Board of Directors.

R. P. "Kris" Iyer, PhD is one of our founders and has been our Chief Scientific Officer and a member of our board of directors since our inception in 2002.

Nezam H. Afdhal, MD has been our Chief Medical Officer since November 2015 and served as a consultant to us from early 2011 to November 2015.

Jonathan Freve, CPA has been our Chief Financial Officer, Treasurer and Secretary since January 2015.

Non-Employee Directors

David Arkowitz has been a member of our board of directors since January 2014. Mr. Arkowitz has served as Chief Operating Officer and Chief Financial Officer of Visterra, Inc., a biotechnology company, since September 2013.

Jonathan Bates has been a member of our board of directors since 2008 and served as our Secretary and Treasurer from 2008 to January 2015. He has been a Managing Director of Altexa, Inc., a company that develops international and domestic businesses across industry sectors from energy to international trade, since 2005.

Kurt M. Eichler has been a member of our board of directors since July 2015. Since his retirement from LCOR, Inc. in October 2013, Mr. Eichler has been self-employed in several real estate related investment and development ventures.

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60 State Street
Boston, MA 02109

Transfer Agent

Computershare Trust Company, Inc.
250 Royall Street
Canton, MA 02021

Market for the Company's Equity

Our common stock began trading on The NASDAQ Capital Market under the symbol SBPH on May 6, 2016. The following table sets forth, for the period indicated, the high and low sale price of our common stock, as quoted on The NASDAQ Capital Market.

Period	High	Low
Second quarter 2016 (May 6, 2016 to June 15, 2016)	$11.75	$10.04

As of June 15, 2016, the number of holders of record of our common stock was 207. This number does not include beneficial owners whose shares are held in street name.

Dividends

We have never declared or paid cash dividends on our capital stock. We intend to retain all of our future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends to our stockholders in the foreseeable future.

Forward-Looking Statements

Any statements in this 2015 annual report about our future expectations, plans and prospects, including statements regarding our strategy, future operations, prospects, plans and objectives, and other statements containing the words "believes," "anticipates," "plans," "expects," "potential," "could," and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: whether our cash resources will be sufficient to fund our continuing operations for the period anticipated; whether results obtained in preclinical studies and early clinical trials will be indicative of results obtained in future clinical trials; whether SB 9200 will advance through the clinical trial process on a timely basis and receive approval from the United States Food and Drug Administration or equivalent foreign regulatory agencies; whether, if SB 9200 obtains approval, it will be successfully distributed and marketed; and other factors discussed in the "Risk Factors" section of our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 15, 2016. In addition, the forward-looking statements included in this 2015 annual report represent our views as of June 23, 2016. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

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