

vTv Therapeutics Inc.  
Form 10-Q  
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37524

vTv Therapeutics Inc.

(Exact name of registrant as specified in its charter)

Delaware	47-3916571
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

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4170 Mendenhall Oaks Pkwy

High Point, NC 27265  
(Address of principal executive offices) (Zip Code)

(336) 841-0300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer      Accelerated filer  
Non-accelerated filer      Smaller reporting company  
Emerging growth company

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

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

Class of Stock	Shares Outstanding as of November 8, 2018
Class A common stock, par value \$0.01 per share	17,652,148
Class B common stock, par value \$0.01 per share	23,094,221

vTv THERAPEUTICS INC. AND SUBSIDIARIES

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FOR THE QUARTER ENDED September 30, 2018

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Signatures

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PART I – FINANCIAL INFORMATION

The financial statements and other disclosures contained in this report include those of vTv Therapeutics Inc. (“we”, the “Company” or the “Registrant”), which is the registrant, and those of vTv Therapeutics LLC (“vTv LLC”), which is the principal operating subsidiary of the Registrant. Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q to the “Company”, “we”, “us” and “our” refer to vTv Therapeutics Inc. and its consolidated subsidiaries.

vTv Therapeutics Inc.

## Condensed Consolidated Balance Sheets

(in thousands, except number of shares and per share data)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,766	\$ 11,758
Restricted cash and cash equivalents	—	162
Accounts receivable, net	—	8,000
Prepaid expenses and other current assets	1,006	442
Current deposits	1,124	—
Total current assets	5,896	20,362
Restricted cash and cash equivalents, long-term	2,500	2,500
Property and equipment, net	177	283
Long-term investments	2,480	2,480
Long-term deposits	36	2,292
Total assets	\$ 11,089	\$ 27,917
<b>Liabilities, Redeemable Noncontrolling Interest and Stockholders' Deficit</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,965	\$ 13,901
Current portion of deferred revenue	6,747	8,757
Current portion of notes payable	9,597	4,271
Total current liabilities	25,309	26,929
Notes payable	8,611	15,316
Deferred revenue, net of current portion	595	4,497
Warrant liability, related party	382	492
Other liabilities	258	290
Total liabilities	35,155	47,524
Commitments and contingencies		
Redeemable noncontrolling interest	19,912	131,440
Stockholders' deficit:		
Class A Common Stock, \$0.01 par value; 100,000,000 shares authorized, 15,772,449		
and 9,693,254 shares outstanding as of September 30, 2018 and December 31, 2017,		
respectively	158	97
Class B Common Stock, \$0.01 par value; 100,000,000 shares authorized, 23,094,221		
and 23,119,246 shares outstanding as of September 30, 2018 and December 31, 2017,		
respectively	232	232

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Additional paid-in capital	144,617	127,682
Accumulated deficit	(188,985 )	(279,058 )
Total stockholders' deficit attributable to vTv Therapeutics Inc.	(43,978 )	(151,047 )
Total liabilities, redeemable noncontrolling interest and stockholders' deficit	\$ 11,089	\$ 27,917

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

vTv Therapeutics Inc.

Condensed Consolidated Statements of Operations - Unaudited

(in thousands, except number of shares and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue	\$3,375	\$15	\$7,912	\$58
Operating expenses:				
Research and development	2,698	8,989	20,235	29,572
General and administrative	2,158	2,567	7,150	8,396
Total operating expenses	4,856	11,556	27,385	37,968
Operating loss	(1,481 )	(11,541 )	(19,473 )	(37,910 )
Other income	10	—	46	—
Other income – related party	319	—	610	—
Interest income	13	35	47	95
Interest expense	(822 )	(849 )	(2,547 )	(2,240 )
Loss before income taxes and noncontrolling interest	(1,961 )	(12,355 )	(21,317 )	(40,055 )
Income tax provision	—	—	200	—
Net loss before noncontrolling interest	(1,961 )	(12,355 )	(21,517 )	(40,055 )
Less: net loss attributable to noncontrolling interest	(1,165 )	(8,705 )	(14,697 )	(28,222 )
Net loss attributable to vTv Therapeutics Inc.	\$(796 )	\$(3,650 )	\$(6,820 )	\$(11,833 )
Net loss per share of vTv Therapeutics Inc. Class A Common				
Stock, basic and diluted	\$(0.06 )	\$(0.38 )	\$(0.64 )	\$(1.22 )
Weighted-average number of vTv Therapeutics Inc. Class A				
Common Stock, basic and diluted	12,305,949	9,693,254	10,701,599	9,693,254

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



vTv Therapeutics Inc.

## Condensed Consolidated Statement of Changes in Redeemable Noncontrolling Interest and Stockholders' Deficit - Unaudited

(in thousands, except number of shares)

	Class A Common Stock		Class B Common Stock		Additional		Total Accumulated Stockholders' Deficit	Total Stockholders' Deficit
	Redeemable Noncontrolling Interest	Shares	Amount	Shares	Amount	Paid-in Capital		
Balances at December 31, 2017	\$ 131,440	9,693,254	\$ 97	23,119,246	\$ 232	\$ 127,682	\$(279,058 )	\$(151,047 )
Net loss	(14,697 )	—	—	—	—	—	(6,820 )	(6,820 )
Cumulative effect of accounting change	—	—	—	—	—	—	213	213
Share-based compensation	—	—	—	—	—	2,345	—	2,345
Exchange of Class B Common Stock for Class A Common Stock	(151 )	25,025	—	(25,025 )	—	151	—	151
Issuance of Class A Common Stock to a related party under the Letter Agreements	—	6,042,503	61	—	—	14,939	—	15,000
Issuance of Letter Agreement and warrants to purchase Class A Common Stock - related party	—	—	—	—	—	(500 )	—	(500 )
Vesting of restricted stock units	—	11,667	—	—	—	—	—	—
Change in redemption value of	(96,680 )	—	—	—	—	—	96,680	96,680

noncontrolling  
interest

Balances at

September 30, 2018 \$ 19,912      15,772,449   \$ 158      23,094,221   \$ 232      \$ 144,617      \$(188,985 )   \$(43,978 )

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

vTv Therapeutics Inc.

## Condensed Consolidated Statements of Cash Flows - Unaudited

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net loss before noncontrolling interest	\$(21,517)	\$(40,055)
Adjustments to reconcile net loss before noncontrolling interest to net cash used in operating activities:		
(Gain) loss on disposal of property and equipment, net	(12 )	(11 )
Depreciation expense	111	152
Share-based compensation expense	2,345	2,657
Change in fair value of warrants, related party	(610 )	—
Amortization of debt discount	795	753
Changes in assets and liabilities:		
Accounts receivable	8,000	—
Prepaid expenses and other assets	(1,475 )	(113 )
Long-term deposits	2,256	(317 )
Accounts payable and accrued expenses	(4,936 )	(1,293 )
Deferred revenue	(5,912 )	(21 )
Other liabilities	(32 )	19
Net cash used in operating activities	(20,987)	(38,229)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of assets	12	32
Purchases of property and equipment	(5 )	(39 )
Net cash provided by (used in) investing activities	7	(7 )
<b>Cash flows from financing activities:</b>		
Issuance of Class A Common Stock to a related party under the Letter Agreements	15,000	—
Proceeds from debt issuance	500	7,500
Repayment of notes payable	(2,674 )	—
Net cash provided by financing activities	12,826	7,500
Net decrease in cash, cash equivalents and restricted cash and cash equivalents	(8,154 )	(30,736)
Total cash, cash equivalents and restricted cash and cash equivalents, beginning of period	14,420	51,505
Total cash, cash equivalents and restricted cash and cash equivalents, end of period	\$6,266	\$20,769
<b>Non-cash activities:</b>		
Change in redemption value of noncontrolling interest	\$(96,680)	\$36,349
Exchange of vTv Therapeutics Inc. Class B Common Stock and vTv Therapeutics, LLC member units for vTv Therapeutics Inc. Class A Common Stock	\$151	\$—
Issuance of Letter Agreement and warrants to purchase vTv Therapeutics Inc. Class A Common	\$500	\$—

Stock to a related party

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

vTv Therapeutics Inc.

Notes to Condensed Consolidated Financial Statements – Unaudited

(dollar amounts are in thousands, unless otherwise noted)

Note 1: Description of Business, Basis of Presentation and Going Concern

Description of Business

vTv Therapeutics Inc. (the “Company,” the “Registrant,” “we” or “us”) was incorporated in the state of Delaware in April 2015. The Company was formed to discover and develop orally administered small molecule drug candidates to fill significant unmet medical needs.

Principles of Consolidation

vTv Therapeutics Inc. is a holding company and its principal asset is a controlling equity interest in vTv Therapeutics LLC (“vTv LLC”), the Company’s principal operating subsidiary, which is a clinical-stage biopharmaceutical company engaged in the discovery and development of orally administered small molecule drug candidates to fill significant unmet medical needs.

The Company has determined that vTv LLC is a variable-interest entity (“VIE”) for accounting purposes and that vTv Therapeutics Inc. is the primary beneficiary of vTv LLC because (through its managing member interest in vTv LLC and the fact that the senior management of vTv Therapeutics Inc. is also the senior management of vTv LLC) it has the power and benefits to direct all of the activities of vTv LLC, which include those that most significantly impact vTv LLC’s economic performance. vTv Therapeutics Inc. has therefore consolidated vTv LLC’s results pursuant to Accounting Standards Codification Topic 810, “Consolidation” in its Condensed Consolidated Financial Statements. As of September 30, 2018, various holders own non-voting interests in vTv LLC, representing a 59.4% economic interest in vTv LLC, effectively restricting vTv Therapeutics Inc.’s interest to 40.6% of vTv LLC’s economic results, subject to increase in the future, should vTv Therapeutics Inc. purchase additional non-voting common units (“vTv Units”) of vTv LLC, or should the holders of vTv Units decide to exchange such units (together with shares of Class B Common Stock) for shares of Class A Common Stock (or cash) pursuant to the Exchange Agreement (as defined in Note 8). vTv Therapeutics Inc. has provided financial and other support to vTv LLC in the form of its purchase of vTv Units with the net proceeds of the Company’s initial public offering (“IPO”) in 2015, its agreeing to be a co-borrower under the Venture Loan and Security Agreement (the “Loan Agreement”) with Horizon Technology Finance Corporation and Silicon Valley Bank (together, the “Lenders”) which was entered into in 2016 and its entrance into the letter agreements, dated as of December 5, 2017 and July 30, 2018, with MacAndrews and Forbes Group LLC (the “Letter Agreements”). vTv Therapeutics Inc. will not be required to provide financial or other support for vTv LLC outside of its obligations pertaining to the Loan Agreement as a co-borrower. However, vTv Therapeutics Inc. will control its business and other activities through its managing member interest in vTv LLC, and its management is the management of vTv LLC. The creditors of vTv LLC do not have any recourse to the general credit of vTv Therapeutics Inc. except as allowed under the provisions of the Loan Agreement. Nevertheless, because vTv Therapeutics Inc. will have no material assets other than its interests in vTv LLC, any financial difficulties at vTv LLC could result in vTv Therapeutics Inc. recognizing a loss.

Going Concern and Liquidity

To date, the Company has not generated any product revenue and has not achieved profitable operations. The continuing development of our drug candidates will require additional financing. From its inception through September 30, 2018, the Company has funded its operations primarily through a combination of private placements of common and preferred equity, research collaboration agreements, upfront and milestone payments for license agreements, debt and equity financings and the completion of its IPO in August 2015. As of September 30, 2018, the Company had an accumulated deficit of \$189.0 million and has generated net losses in each year of its existence. As of September 30, 2018, the Company's liquidity sources included cash and cash equivalents of \$3.8 million and \$5.0 million of remaining funds available under the Letter Agreements. Management estimates that these sources of funding will allow the Company to continue its operations and activities for a period of less than twelve months from the issuance of these Condensed Consolidated Financial Statements.

Based on the Company's current operating plan, management believes that its current cash and cash equivalents and the remaining funds available under the Letter Agreements will allow the Company to meet its liquidity requirements into December 2018.

Though the Company's expected cash needs for the foreseeable future have been significantly reduced with the discontinuation of the STEADFAST and open label extension studies, the Company will require additional financing to continue its operations. The Company is seeking possible additional partnering opportunities for its GKA, GLP-1r and other drug candidates which it believes may provide additional cash for use in its operations and the continuation of clinical trials for its drug candidates. The Company is also

pursuing other sources of financing to provide flexibility to its operating plan. The timing and availability of such financing is not yet known. The failure of the STEADFAST Study to meet either co-primary endpoint may make it more difficult for the Company to obtain such financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Condensed Consolidated Financial Statements do not include adjustments to reflect the possible future effects on the recoverability and classification of recorded assets or the amounts of liabilities that might be necessary should the Company be unable to continue as a going concern.

#### Note 2: Summary of Significant Accounting Policies Unaudited Interim Financial Information

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying Condensed Consolidated Balance Sheet as of September 30, 2018, Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017, Condensed Consolidated Statement of Changes in Redeemable Noncontrolling Interest and Stockholders' Deficit for the nine months ended September 30, 2018 and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 are unaudited. These unaudited financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes for the year ended December 31, 2017 contained in the Company's Annual Report on Form 10-K. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary to state fairly the Company's financial position as of September 30, 2018, the results of operations for the three and nine months ended September 30, 2018 and 2017 and cash flows for the nine months ended September 30, 2018 and 2017. The December 31, 2017 Condensed Consolidated Balance Sheet included herein was derived from the audited financial statements but does not include all disclosures or notes required by GAAP for complete financial statements.

The financial data and other information disclosed in these notes to the financial statements related to the three and nine months ended September 30, 2018 and 2017 are unaudited. Interim results are not necessarily indicative of results for an entire year.

The Company does not have any components of other comprehensive income recorded within its Condensed Consolidated Financial Statements, and, therefore, does not separately present a statement of comprehensive income in its Condensed Consolidated Financial Statements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the grant date fair value of equity awards, the fair value of warrants to purchase shares of its Class A Common Stock, the fair value of the Class B Common Stock, the useful lives of property and equipment, the fair value of derivative liabilities, and the fair value of the Company's debt, among others. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying value of assets and liabilities.

#### Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash on deposit with multiple financial institutions. The balances of these cash accounts frequently exceed insured limits.

The accounts receivable balance at December 31, 2017 related to an upfront payment received in the first quarter of 2018 pursuant to the Company's license agreement with Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. ("Huadong").

Three customers represented 100% of the revenue earned during the three and nine months ended September 30, 2018. One customer represented 100% of the revenue earned during the three and nine months ended September 30, 2017.



## Cash and Cash Equivalents

The Company considers any highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

## Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents, current as of December 31, 2017 was \$0.2 million. This amount was received through a research, development and commercialization agreement with JDRF (the “JDRF Agreement”). There were no amounts held as restricted cash and cash equivalents as of September 30, 2018 related to this agreement. Restricted cash and cash equivalents, long-term as of September 30, 2018 and December 31, 2017 was \$2.5 million at each date. These amounts relate to the minimum balance that the Company must maintain in a deposit account that is pledged to secure the Loan Agreement and is subject to an account control agreement pursuant to the Loan Agreement.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 3,766	\$ 11,758
Restricted cash and cash equivalents	—	162
Restricted cash and cash equivalents, long-term	2,500	2,500
Total cash, cash equivalents and restricted cash and cash equivalents shown in the consolidated statement of cash flows	\$ 6,266	\$ 14,420

## Investments

In connection with the License Agreement with Reneo Pharmaceuticals, Inc. (“Reneo”) (the “Reneo License Agreement”), the Company received common stock and certain participation rights representing a minority equity interest in Reneo that is classified as a long-term investment in the Company’s Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017. This investment is accounted for under the cost method because the Company owns less than 20% of the voting equity and does not have the ability to exercise significant influence over Reneo.

On January 1, 2018, the Company adopted ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income. Since it does not have a readily determinable market value, the Company has elected to measure its investment in Reneo at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment.

No adjustments have been made to the value of the Company's investment in Reneo for the three and nine months ended September 30, 2018 either due to impairment or based on observable price changes.

#### Revenue Recognition

On January 1, 2018, the Company adopted ASC Topic 606, "Revenue From Contracts With Customers" ("ASC Topic 606"), using the modified retrospective method applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC Topic 605.

The Company recorded a net reduction to its opening accumulated deficit of \$0.2 million as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to the recognition of an asset for the incremental costs of obtaining contracts.

The majority of the Company's revenue results from its license and collaboration agreements associated with the development of investigational drug products. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For each contract meeting these criteria, the Company identifies the performance obligations included within the contract. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company then recognizes revenue under each contract as the related performance obligations are satisfied.

The transaction price under the contract is determined based on the value of the consideration expected to be received in exchange for the transferred assets or services. Development, regulatory and sales milestones included in the Company's collaboration agreements are considered to be variable consideration. The amount of variable consideration expected to be received is included in the transaction price when it becomes probable that the milestone will be met. For contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation using the Company's best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus margin approach. Revenue is recognized over the related period over which the Company expects the services to be provided using a proportional performance model or a straight-line method of recognition if there is no discernable pattern over which the services will be provided.

#### Research and Development

Major components of research and development costs include cash and share-based compensation, depreciation expense on research and development property and equipment, costs of preclinical studies, clinical trials and related clinical manufacturing, costs of drug development, costs of materials and supplies, facilities costs, overhead costs, regulatory and compliance costs, and fees paid to consultants and other entities that conduct certain research and development activities on the Company's behalf. Research and development costs are expensed as incurred.

The Company records accruals based on estimates of the services received, efforts expended and amounts owed pursuant to contracts with numerous contract research organizations. In the normal course of business, the Company contracts with third parties to perform various clinical study activities in the ongoing development of potential products. The financial terms of these agreements are subject to negotiation and variation from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events and the completion of portions of the clinical study or similar conditions. The objective of the Company's accrual policy is to match the recording of expenses in its financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical studies are recognized based on the Company's estimate of the degree of completion of the event or events specified in the specific clinical study.

The Company records nonrefundable advance payments it makes for future research and development activities as prepaid expenses. Prepaid expenses are recognized as expense in the Condensed Consolidated Statements of Operations as the Company receives the related goods or services.

Research and development costs that are reimbursed under a cost-sharing arrangement are reflected as a reduction of research and development expense.

#### Recently Issued Accounting Pronouncements

##### Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue From Contracts With Customers", that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Company adopted this guidance as of January 1, 2018 using the modified retrospective transition method. See Note 2 – "Revenue Recognition" for further details.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", which amends ASC 825-10, "Financial Instruments – Overall". This ASU amends various aspects of the recognition, measurement, presentation and disclosure of financial instruments. This ASU is effective for fiscal

years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance in the first quarter of fiscal 2018. The Company has elected to use the measurement alternative, defined as cost, less impairments, adjusted by observable price changes. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements. See Note 2 – "Investments" for further details.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"), which clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. ASU 2017-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

### Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Lease (Topic 842)" ("ASU 2016-02"), which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition by a lessee of lease assets and liabilities on its balance sheet for operating lease arrangements with lease terms greater than 12 months. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this guidance will result in the recognition of additional assets and liabilities related to the Company's operating leases within its Condensed Consolidated Balance Sheets.

### Note 3:Collaboration Agreements

#### Reneo License Agreement

On December 21, 2017, the Company entered into the Reneo License Agreement, under which Reneo obtained an exclusive, worldwide, sublicensable license to develop and commercialize the Company's peroxisome proliferation activated receptor delta (PPAR- ) agonist program, including the compound HPP593, for therapeutic, prophylactic or diagnostic application in humans. Under the terms of the Reneo License Agreement, Reneo paid the Company an upfront cash payment of \$3.0 million. The Company is eligible to receive additional potential development, regulatory and sales-based milestone payments totaling up to \$94.5 million. In addition, Reneo is obligated to pay the Company royalty payments at mid-single to low-double digit rates, based on tiers of annual net sales of licensed products. Such royalties will be payable on a licensed product-by-licensed product and country-by-country basis until the latest of expiration of the licensed patents covering a licensed product in a country, expiration of data exclusivity rights for a licensed product in a country or a specified number of years after the first commercial sale of a licensed product in a country. As additional consideration, the Company has also received common stock and certain participation rights representing a minority equity interest in Reneo.

Pursuant to the terms of the Reneo License Agreement, the Company is required to provide technology transfer services for a defined period after the effective date. In accordance with ASC Topic 606, the Company identified all of the performance obligations at the inception of the Reneo License Agreement. The significant obligations were determined to be the license and the technology transfer services. The Company has determined that the license and technology transfer services represent a single performance obligation because they were not capable of being distinct on their own. The transaction price has been fully allocated to this combined performance obligation. The remaining milestone payments that the Company is eligible to receive have not been included in the transaction price as of September 30, 2018, as it is not considered probable that such payments will be received. The unrecognized amount of the transaction price allocated to this performance obligation as of September 30, 2018 was \$2.6 million.

The Company determined that there was no discernable pattern in which the technology services would be provided during the transfer services period. As such, the Company determined that the straight-line method would be used to recognize revenue over the transfer service period. The remainder of this performance obligation will be recognized over approximately 8.5 months. For the three and nine months ended September 30, 2018, \$0.9 million and \$2.7 million of revenue has been recognized related to this combined performance obligation, respectively.

#### Huadong License Agreement

On December 21, 2017, the Company entered into a License Agreement with Huadong (the “Huadong License Agreement”), under which Huadong obtained an exclusive and sublicensable license to develop and commercialize the Company’s glucagon-like peptide-1 receptor agonist (“GLP-1r”) program, including the compound TTP273, for therapeutic uses in humans or animals, in China and certain other Pacific Rim countries, including Australia and South Korea (collectively, the “Huadong License Territory”). Additionally, under the Huadong License Agreement, the Company obtained a non-exclusive, sublicensable, royalty-free license to develop and commercialize certain Huadong patent rights and know-how related to the Company’s GLP-1r program for therapeutic uses in humans or animals outside of the Huadong License Territory. Under the terms of the Huadong License Agreement, Huadong paid the Company an initial license fee of \$8.0 million and is obligated to pay potential development and regulatory milestone payments totaling up to \$25.0 million, with an additional potential regulatory milestone of \$20.0 million if Huadong receives regulatory approval for a central nervous system indication. In addition, the Company is eligible for an additional \$50.0 million in potential sales-based milestones, as well as royalty payments ranging from low-single to low-double digit rates, based on tiered sales of licensed products.

Under the Huadong License Agreement, the Company is also responsible for conducting a Phase 2 multi-region clinical trial (the “Phase 2 MRCT”) including sites in both the United States and Huadong License Territory for the purpose of assessing the safety and efficacy of TTP273 in patients with type 2 diabetes. The Phase 2 MRCT will be designed to satisfy the requirements of the China

Food and Drug Administration necessary in order for Huadong to begin a Phase 3 clinical trial in China. The Company will also be responsible for contributing up to \$3.0 million in connection with the Phase 2 MRCT.

In accordance with ASC Topic 606, the Company identified all of the performance obligations at the inception of the Huadong License Agreement. The significant performance obligations were determined to be (i) the exclusive license to develop and commercialize the Company's GLP-1r program, (ii) technology transfer services related to the chemistry and manufacturing know-how for a defined period after the effective date (iii) the obligation to sponsor and conduct the Phase 2 MRCT, (iv) the Company's obligation to participate on a joint development committee, and (v) other obligations considered to be de minimis in nature.

The transaction price has been allocated to these performance obligations based on their relative standalone selling prices, which were estimated using an expected cost plus margin approach. The remaining milestone payments that the Company is eligible to receive have not been included in the transaction price as of September 30, 2018, as it is not considered probable that such payments will be received.

The Company has determined that the license and technology transfer services related to the chemistry and manufacturing know-how represent a combined performance obligation because they were not capable of being distinct on their own. The Company also determined that there was no discernable pattern in which the technology transfer services would be provided during the transfer service period. As such, the Company determined that the straight-line method would be used to recognize revenue for this performance obligation over the transfer service period. The unrecognized amount of the transaction price allocated to this performance obligation of \$3.3 million will be recognized over approximately 8.5 months. For the three and nine months ended September 30, 2018, \$1.2 million and \$3.5 million of revenue has been recognized related to this combined performance obligation, respectively.

The Company also determined that the obligation to sponsor and conduct a portion of the Phase 2 MRCT should be treated as a separate performance obligation. A portion of the total consideration received under the Huadong License Agreement was allocated to this performance obligation based on its estimated standalone selling price. This amount was deferred as of September 30, 2018 and revenue will be recognized using the proportional performance model over the period during which the Company conducts the Phase 2 MRCT trial. No revenue for this performance obligation has been recognized during the three and nine months ended September 30, 2018.

The Company also determined that the obligation to participate in the joint development committee (the "JDC") to oversee the development of products and the Phase 2 MRCT in accordance with the development plan should be treated as a separate performance obligation. A portion of the total consideration received under the Huadong License Agreement was allocated to this performance obligation based on its estimated standalone selling price. This amount was deferred as of September 30, 2018 and revenue will be recognized using the proportional performance model over the period of the Company's participation on the JDC. An immaterial amount of revenue for this performance obligation has been recognized during the three and nine months ended September 30, 2018.

#### Newsoara License Agreement

On May 31, 2018, the Company entered into a license agreement with Newsoara Biopharma Co., Ltd., ("Newsoara") (the "Newsoara License Agreement"), under which Newsoara obtained an exclusive and sublicensable license to develop and commercialize the Company's phosphodiesterase type 4 inhibitors ("PDE4") program, including the compound HPP737, in China, Hong Kong, Macau, Taiwan and other pacific rim countries (collectively, the "Newsoara License Territory"). Additionally, under the Newsoara License Agreement, the Company obtained a non-exclusive, sublicensable, royalty-free license to develop and commercialize certain Newsoara patent rights and know-how related to the Company's PDE4 program for therapeutic uses in humans outside of the Newsoara License Territory. Under the terms of the Newsoara License Agreement, Newsoara paid the Company an upfront cash payment of \$2.0 million.

The Company is eligible to receive additional potential development, regulatory and sales-based milestone payments totaling up to \$63.0 million. In addition, Newsoara is obligated to pay the Company royalty payments at high-single to low-double digit rates, based on tiers of annual net sales of licensed products. Such royalties will be payable on a licensed product-by-licensed product and country-by-country basis until the latest of expiration of the licensed patents covering a licensed product in a country, expiration of data exclusivity rights for a licensed product in a country or a specified number of years after the first commercial sale of a licensed product in a country.

Pursuant to the terms of the Newsoara License Agreement, the Company is required to provide technology transfer services for a defined period after the effective date. In accordance with ASC Topic 606, the Company identified all of the performance obligations at the inception of the Newsoara License Agreement. The significant obligations were determined to be the license and the technology transfer services. The Company has determined that the license and technology transfer services represent a single performance obligation because they were not capable of being distinct on their own. The transaction price has been fully allocated to this combined performance obligation. The remaining milestone payments that the Company is eligible to receive have not been included in the transaction price as of September 30, 2018, as it is not considered probable that such payments will be received. The unrecognized amount of the transaction price allocated to this performance obligation as of September 30, 2018 was \$0.3 million.



The Company determined that there was no discernable pattern in which the technology services would be provided during the transfer services period. As such, the Company determined that the straight-line method would be used to recognize revenue over the transfer service period. The remainder of this performance obligation will be recognized over approximately 0.5 months. For the three and nine months ended September 30, 2018, \$1.3 million and \$1.7 million of revenue has been recognized related to this combined performance obligation, respectively.

#### JDRF Agreement

In August 2017, the Company entered into the JDRF Agreement to support the funding of the Simplici-T1 Study, an adaptive Phase 1b/2 study to explore the effects of TTP399 in type 1 diabetics. The Company initiated the Phase 2 portion of this study in the second quarter of 2018. According to the terms of the JDRF Agreement, JDRF will provide research funding of up to \$3.0 million based on the achievement of research and development milestones, with the total funding provided by JDRF not to exceed approximately one-half of the total cost of the project. Additionally, the Company has the obligation to make certain milestone payments to JDRF upon the commercialization, licensing, sale or transfer of TTP399 as a treatment for type 1 diabetes.

Payments that the Company receives from JDRF under this agreement will be recorded as restricted cash and current liabilities and recognized as an offset to research and development expense, based on the progress of the project, and only to the extent that the restricted cash is utilized to fund such development activities. As of September 30, 2018, the Company had received funding under this agreement of \$0.8 million. Research and development costs were offset by a total of \$0.8 million over the course of this agreement. As of September 30, 2018, the Company has recognized restricted cash of an immaterial amount related to this agreement.

#### Contract Liabilities

Contract liabilities related to the Company's collaboration agreements consisted of the following (in thousands):

	September 30, 2018	December 31, 2017	Change
Deferred revenue	\$ 6,747	\$ 8,757	\$(2,010)
Deferred revenue - net of current portion	595	4,497	(3,902)
Total contract liabilities	\$ 7,342	\$ 13,254	\$(5,912)

The change in the Company's contract liabilities for the nine months ended September 30, 2018 was due to the recognition of revenue based on the estimated performance of services under the related collaboration agreements as well as the recognition of deferred revenue related to the Company's Newsoara License Agreement. There were no changes in the estimated transaction prices for the related contracts during the three and nine months ended September 30, 2018.

#### Note 4: Share-Based Compensation

During the three and nine months ended September 30, 2018, the Company issued non-qualified stock option awards to certain employees of the Company. These option awards vest ratably over a three-year period and the option awards expire after a term of ten years from the date of grant. As of September 30, 2018, the Company had total unrecognized stock-based compensation expense for its outstanding stock option awards of approximately \$1.6 million, which is

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expected to be recognized over a weighted average period of 1.5 years. The weighted average grant date fair value of option grants during the nine months ended September 30, 2018 and 2017 was \$2.28 and \$4.17 per option, respectively. The aggregate intrinsic value of the in-the-money awards outstanding at September 30, 2018 was \$0.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options granted. The fair value of stock options granted was estimated using the following assumptions:

	For the Nine Months Ended September 30,	
	2018	2017
Expected volatility	71.15% - 99.23%	76.88% - 85.93%
Expected life of option, in years	5.7 - 6.0	5.8 - 6.0
Risk-free interest rate	2.69% - 2.84%	1.87% - 2.24%
Expected dividend yield	0.00%	0.00%

The following table summarizes the activity related to the stock option awards for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Exercise Price
Awards outstanding at December 31, 2017	1,960,732	\$ 8.50
Granted	102,750	3.25
Forfeited	(280,794 )	6.17
Awards outstanding at September 30, 2018	1,782,688	\$ 8.57
Options exercisable at September 30, 2018	1,173,468	\$ 10.20
Weighted average remaining contractual term	7.3 Years	
Options vested and expected to vest at September 30, 2018	1,742,506	\$ 8.64
Weighted average remaining contractual term	7.7 Years	

The following table summarizes the activity related to the RSU awards for the nine months ended September 30, 2018:

	Number of Shares	Weighted-Average Grant Date Fair Value
Awards outstanding at December 31, 2017	35,000	\$ 5.81
Vested	(11,667 )	5.81
Awards outstanding at September 30, 2018	23,333	\$ 5.81
RSUs expected to vest at September 30, 2018	22,896	\$ 5.81

As of September 30, 2018, the Company had total unrecognized stock-based compensation expense for its outstanding RSU awards of approximately \$0.1 million, which is expected to be recognized over a weighted-average period of 1.4 years. The aggregate intrinsic value of the RSUs outstanding at September 30, 2018 was de minimis.

Compensation expense related to the grants of stock options and RSUs is included in research and development and general and administrative expense as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	\$ 247	\$ 405	\$ 871	\$ 1,077
General and administrative	332	554	1,474	1,580
Total share-based compensation expense	\$ 579	\$ 959	\$ 2,345	\$ 2,657

## Note 5:Notes Payable

Notes payable consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Notes payable under the Loan Agreement	\$ 17,396	\$ 20,000
Short-term financing	431	—
Accreted final payment (unamortized debt discount)	381	(413 )
Total notes payable	18,208	19,587
Less: Current portion	(9,597 )	(4,271 )
Total notes payable, net of current portion	\$ 8,611	\$ 15,316