

ENANTA PHARMACEUTICALS INC

Form 10-K

December 11, 2015

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended September 30, 2015

OR

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

Commission File Number 001-35839

ENANTA PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

2834
(Primary Standard Industrial
Classification Code Number)

04-3205099
(I.R.S. Employer
Identification Number)

500 Arsenal Street
Watertown, Massachusetts 02472

(617) 607-0800

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

Common Stock, \$0.01 Par Value

The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, March 31, 2015, based on the last reported sale price of the registrant's common stock of \$30.62 per share was \$572,279,471. The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of November 30, 2015, was 18,795,071 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders scheduled to be held on February 11, 2016, which Definitive Proxy will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year end of September 30, 2015, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

As used in this Form 10-K, Enanta, the Company, we, our, and us refer to Enanta Pharmaceuticals, Inc., except the context otherwise requires or as otherwise indicated.

NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as aim, anticipate, assume, believe, contemplate, continue, could, due, estimate, may, objective, plan, predict, potential, positioned, seek, should, target, will, would, and other are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

the continued commitment of AbbVie, our collaborator, with respect to the development of product candidates incorporating paritaprevir or ABT-493;

the prospects and timing of preclinical studies and clinical trials of EDP-494 or any other product candidate of ours conducted by us or any collaborator of ours;

AbbVie's abilities to obtain and maintain regulatory approvals of paritaprevir-containing therapies, or our or any collaborator's abilities to do the same for therapies involving any of our other product candidates;

the timing and amount of any milestone payments or royalties from AbbVie;

the success of competing HCV drugs that are available now or become available later or other developments or projections relating to our competitors or our industry;

changes in our or any collaborator's plans to develop and commercialize our product candidates;

the rate and degree of market acceptance of paritaprevir-containing therapies or any of our product candidates and any combination therapies developed by AbbVie or us;

the size and growth of the potential markets for our products and product candidates and our abilities to serve those markets ourselves or with a collaborator, including our belief that substantial opportunities exist for improved treatments in HCV and other liver diseases;

our ability to obtain and maintain intellectual property protection for our product candidates and operate our business without infringing on the intellectual property rights of others;

the loss of any of our key scientific or management personnel;

regulatory developments in the United States and foreign countries affecting disease indications for our product candidates or anti-infective drugs generally;

the performance of third-party manufacturers of our products and product candidates, including any collaborators;

the accuracy of our estimates regarding our future expenses and revenues, and the sufficiency of our financial resources;

our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;

our ability to obtain and maintain collaborators for our development programs or to otherwise obtain additional funding for the development of our proprietary product candidates; and

our financial performance.

These forward-looking statements are based on our management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and

Table of Contents

assumptions. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be inaccurate. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under **Risk Factors** and discussed elsewhere in this Annual Report on Form 10-K. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this Annual Report on Form 10-K.

Table of Contents

ENANTA PHARMACEUTICALS, INC.

ANNUAL REPORT ON FORM 10-K

For the year ended September 30, 2015

INDEX

Item No.		Page
	<u>PART I</u>	
1.	<u>Business</u>	1
1A.	<u>Risk Factors</u>	25
1B.	<u>Unresolved Staff Comments</u>	55
2.	<u>Properties</u>	55
3.	<u>Legal Proceedings</u>	55
4.	<u>Mine Safety Disclosures</u>	55
	<u>PART II</u>	
5.	<u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	55
6.	<u>Selected Consolidated Financial Data</u>	57
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	58
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	73
8.	<u>Consolidated Financial Statements and Supplementary Data</u>	73
9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	74
9A.	<u>Controls and Procedures</u>	74
9B.	<u>Other Information</u>	74
	<u>PART III</u>	
10.	<u>Directors, Executive Officers and Corporate Governance</u>	75
11.	<u>Executive Compensation</u>	75
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	75
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	76
14.	<u>Principal Accounting Fees and Services</u>	76
	<u>PART IV</u>	
15.	<u>Exhibits, Financial Statement Schedules</u>	76
	<u>Signatures</u>	79

Table of Contents

PART I

ITEM 1. BUSINESS

BUSINESS

Overview

We are a research and development-focused biotechnology company that uses its robust chemistry-driven approach and drug discovery capabilities to create small molecule drugs primarily for the treatment of viral infections and liver diseases. Our lead product, paritaprevir, a protease inhibitor designed for use against the hepatitis C virus, referred to as HCV, is a key compound in AbbVie's marketed HCV treatment regimens. We also have a second HCV protease inhibitor in phase 3 development with AbbVie, as well as a wholly-owned HCV program using a different class of molecules known as cyclophilin inhibitors, which we plan to take into clinical trials in the first quarter of calendar 2016. In addition, we have a program in non-alcoholic steatohepatitis, or NASH, which we also plan to take into clinical trials in calendar 2016, as well as discovery programs in other areas of viral infection and liver disease.

Our HCV protease inhibitors have been discovered and developed through our collaboration with AbbVie (formerly Abbott Laboratories), including:

Paritaprevir: Paritaprevir is the protease inhibitor contained in VIEKIRA PAK[®] and AbbVie's other all-oral, interferon-free HCV treatment regimens currently marketed in the U.S., EU, Japan and other countries around the world. VIEKIRA PAK was approved and first sold in the U.S. in December 2014 for treatment of genotype 1 HCV, the most prevalent genotype of HCV in the U.S., EU and Japan. A regimen containing paritaprevir and only one other direct-acting antiviral, or DAA, is now approved in Japan (VIEKIRAX[®], September 2015) for the treatment of genotype 1 HCV and in the U.S. (TECHNIVIE[®], July 2015), EU (VIEKIRAX, January 2015) and other countries for the treatment of genotype 4 HCV.

ABT-493: Our next-generation protease inhibitor, ABT-493, is being developed by AbbVie in combination with its next-generation NS5A inhibitor, ABT-530, as a pan-genotypic, once daily, all oral, fixed-dose combination treatment for HCV. AbbVie completed two Phase 2 clinical trials of this investigational 2-DAA treatment and reported results in November 2015:

After 12 weeks of treatment with doses at or closest to the Phase 3 clinical dose, SVR₁₂ rates were 100% in genotype 1 HCV patients, 96% in genotype 2, and 93% in genotype 3.

Data after 8 weeks of treatment in non-cirrhotic genotype 1 chronic HCV patients demonstrated an SVR₁₂ rate of 97%.

In November 2015 AbbVie initiated its ENDURANCE-1 study, the first in a series of phase 3 studies of this next-generation combination treatment. ENDURANCE-1 will study 8-week and 12-week courses of this 2-DAA combination in non-cirrhotic genotype 1 HCV patients. AbbVie is planning for the first approval of this treatment in the U.S. in 2017.

In our fiscal 2015, we received \$125 million in milestone payments for commercialization regulatory approvals of paritaprevir, and we earned \$34.1 million in royalties on its allocated portion of AbbVie's net sales of paritaprevir-containing HCV regimens. We had \$209.4 million in cash and marketable securities at September 30, 2015, exclusive of the \$14.3 million in royalty receivables due us from AbbVie at that date and exclusive of the \$30 million milestone payment we earned in November 2015 upon reimbursement approval of VIEKIRAX in Japan. These existing resources will allow us to continue to invest for the foreseeable future in our current research and development programs, which include the following:

We have a cyclophilin inhibitor, EDP-494, which we are preparing for clinical trials in HCV in the first quarter of calendar 2016 to demonstrate its potential benefit as a host targeted antiviral, or HTA.

Table of Contents

Cyclophilin is a protein in the human body that has been shown to be involved in HCV replication. By focusing on this human, or host, target rather than a viral target, we have selected a mechanism shown to be less susceptible to the HCV resistance that can occur due to viral mutation in response to therapy. We believe that cyclophilin inhibitors will be particularly valuable in the presence of resistance associated variants, or RAVs, of HCV. The presence of pre-treatment, or baseline, RAVs in treatment-naïve patients, and the emergence of treatment emergent RAVs in treatment-experienced patients, can result in reduced ability to eradicate the HCV virus. Since cyclophilin is a host human target, and not a viral target, cyclophilin inhibitors are not affected by changes in the virus and, therefore, use of this class of inhibitor may provide a unique solution for a subset of hard-to-treat HCV patients. We plan to develop EDP-494 for use in combination with one or more DAAs for the treatment of any emerging HCV resistance to currently approved therapies and other therapies under development for HCV that use DAAs. It is also possible that an EDP-494-containing regimen may find utility in other hard-to-treat subpopulations of HCV patients.

We are also working on several compounds that selectively bind to and activate the farnesoid X receptor, referred to as FXR agonists, which we plan to develop for use in the treatment of non-alcoholic steatohepatitis, or NASH, and possibly primary biliary cholangitis, or PBC, both of which are liver diseases with very few therapeutic options. We plan to initiate clinical trials of an FXR agonist candidate in 2016.

We also have other early stage programs to discover new chemical entities for the treatment of other diseases with significant unmet medical need.

We have utilized our internal chemistry and drug discovery capabilities to generate all of our development-stage programs.

Our Strategy

Our primary objective is to become a leader in the field of viral infections and liver disease, with a focus on antiviral targets such as HCV and liver diseases such as NASH and PBC. Our strategy includes the following key elements:

Use our existing resources and future cash flow from our AbbVie collaboration to fund our research and development activities. Our existing financial resources and any future royalty revenues from our AbbVie collaboration will provide us substantial resources to fund our research and development programs. We had \$209.4 million in cash and marketable securities at September 30, 2015. In addition, before AbbVie had begun marketing VIEKIRAX in Japan, our royalty revenue from paritaprevir was running at a rate of approximately \$14.3 million per quarter at our 2015 fiscal year-end, or approximately \$57 million on an annualized basis.

Develop independently our own cyclophilin inhibitor compound for use in combination therapies for treatment of existing and emerging HCV RAVs. We are developing our cyclophilin inhibitor, EDP-494, which we are preparing for clinical trials beginning in the first quarter of calendar 2016. Once we demonstrate clinical data and possible proof-of-concept of EDP-494 in HCV, we will consider potential combinations of this compound with other high-barrier-to-resistance compounds for the treatment of HCV RAVs.

Develop independently our own novel treatment options for NASH and PBC. We are focusing efforts to identify potent and efficacious agonists of the farnesoid X receptor, or FXR, for the treatment of NASH and PBC. Recently, an FXR agonist developed by Intercept, obeticholic acid (OCA), has been shown to have efficacy in phase 3 PBC trials and phase 2b NASH trials. We are seeking to develop novel FXR agonists with improved efficacy and safety properties versus OCA and other published FXR agonists.

Invest in research and early-stage development of product candidates. We are continuing to invest significant resources in research programs and early-stage development of product candidates in an

Table of Contents

effort to identify and advance additional compounds that have the potential to address significant unmet medical needs in infectious disease and liver disease. We plan to announce one or more of these programs in calendar 2016. In addition, we may seek to augment our pipeline through the acquisition or in-licensing of external assets and/or technologies.

Collaborate, where appropriate, with pharmaceutical partners to accelerate the development and commercialization of our proprietary compounds. Strategic partnerships allow us to join forces with collaborators with substantially greater resources and late-stage development and commercialization expertise as we seek the right combinations for treatments for RAVs of HCV or potentially for NASH. Our decisions regarding our proprietary programs will be based on the results of our early phase clinical trials and the potential for combination with one or more drugs targeting other mechanisms of action of either of these diseases.

Our Research and Development Pipeline

The following table summarizes our product development pipeline in HCV antivirals and liver diseases:

Table of Contents**Our HCV Programs*****Background and Overview of HCV Market***

HCV is a virus that is a common cause of viral hepatitis, an inflammation of the liver. HCV is typically contracted by contact with the blood or other body fluids of another individual infected with HCV. HCV is a leading cause of chronic liver disease, including cirrhosis, organ failure and cancer, and the leading cause of death from liver disease in the United States. HCV disease progression occurs over a period of 20 to 30 years, with the majority of HCV-infected individuals generally exhibiting no major symptoms in the early stages of the disease. Therefore, until a major symptom is diagnosed, many individuals are unaware they are infected and live undiagnosed without seeking treatment. For that reason, new guidelines issued by the United States Centers for Disease Control and Prevention, or CDC, in 2013 recommend screening for all Americans born between the years 1945 and 1965 so that HCV-infected individuals will be aware of their condition and can consider treatment options.

An estimated 150 million people worldwide are chronically infected with HCV and have an increased risk of eventually developing liver cirrhosis or liver cancer. More than 350,000 people die every year from HCV-related liver diseases. The CDC estimated in 2015 that approximately 3.2 million people in the United States are chronically infected with HCV, with an estimated 29,000 new infections in 2013, the most recent year for which the CDC published data. We believe that the chronically infected population remains largely untreated, even with the introduction of several new regimens beginning in 2013. The reported worldwide sales of the first of the currently available therapies for HCV (sofosbuvir and simeprevir) in 2014 totaled approximately \$15 billion. With the introduction of Gilead's Harvoni® and AbbVie's VIEKIRA PA® in late 2014, worldwide sales of the four leading HCV therapies in the first nine months of 2015 totaled approximately \$15.9 billion. In its November 2015 Global Medicines Use in 2020, the IMS Institute for Healthcare Informatics estimated that the worldwide market for HCV treatments will report increase to approximately \$36 billion by 2020, of which \$30 billion is projected to be in the developed countries of the world.

HCV is a small, single-stranded RNA virus. The specific genetic makeup, or genotype, of the virus can vary and at least six genotypes have been characterized in HCV-infected patients, with over 50 sub-types identified. Genotypes are designated with numbers (genotypes 1-6) and subtypes with letters (*e.g.*, genotype 1a). HCV genotypes 1, 2, 3 and 4 are found worldwide, but their prevalence varies among geographic regions. Genotype 1, including its subtypes 1a and 1b, is the most common genotype globally, accounting for approximately 74% of all HCV infections. It is estimated that patients with genotype 2 or 3 represent approximately 12% of the worldwide chronically infected HCV population, with approximately 6% comprised of genotypes 4 through 6 and the remaining 8% of patients in other undesignated categories. The specific genotype and subtype of HCV in a patient appears to play a significant role in the degree of efficacy of standard of care therapy. Genotype 1a is the most common genotype in North America, and genotype 1b is the most common in Europe and Japan.

Since the discovery of the virus in the late 1980s, considerable progress has been made in the treatment of HCV-infected individuals. The standard of care for HCV traditionally consisted of weekly injections of interferon, a protein that interferes with viral replication, with twice-daily dosing of ribavirin for 24 to 48 weeks. Ribavirin is a broad-spectrum drug that prevents the replication of a number of DNA and RNA-based viruses. This regimen was moderately effective in many patients, resulting in a cure in only about 50% of genotype 1-infected patients. Medical practice defines a cure as the point at which there is no quantifiable virus in a patient's blood for a sustained period of time after cessation of therapy, which is often referred to as a sustained virologic response, or SVR.

Recently introduced treatment regimens contain direct acting antivirals, or DAAs, with initial approvals coming for the protease inhibitor class of DAAs. The first two protease inhibitors approved, telaprevir (Incivek®, Vertex

Pharmaceuticals) and boceprevir (Victrelis®, Merck), showed cure rates of approximately 70% in genotype 1-infected patients, when co-administered with an interferon-based regimen. Telaprevir and boceprevir were approved in 2011 for use in combination with interferon and ribavirin in patients infected with genotype 1 virus,

Table of Contents

and combination therapy incorporating a protease inhibitor emerged as a new standard of care for a segment of HCV patients. In November 2013 the FDA approved a new protease inhibitor from Janssen Therapeutics, simeprevir (Olysio®), for the treatment of genotype 1 chronic hepatitis C in adult patients with compensated liver disease. Simeprevir showed cure rates of up to 80% in genotype 1-infected patients. However, the once-daily treatment was approved only for use with pegylated interferon and ribavirin. In December 2013, the FDA approved Gilead's sofosbuvir (Sovaldi®), a nucleotide analogue inhibitor of the HCV NS5B polymerase enzyme. Sofosbuvir is a once-a-day treatment given in combination with ribavirin for the treatment of chronic hepatitis C in adult patients with genotype 2 or 3 infection. Sofosbuvir was also approved in combination with pegylated interferon and ribavirin for the treatment of chronic hepatitis C in treatment-naïve adult patients with genotype 1 (the predominant genotype in the major world markets) and genotype 4 infection. However, medical practice quickly evolved to use a combination of sofosbuvir and simeprevir for these genotypes, which the FDA then approved in November 2014 for genotype 1 patients. Meanwhile, in October 2014, the FDA approved Gilead's Harvoni®, an interferon-free combination therapy containing sofosbuvir and an NS5A inhibitor, as a once-a-day treatment for genotype 1 infection. AbbVie's 3-DAA regimen (VIEKIRA PAK®) was then approved by the FDA in December 2014. Gilead, AbbVie, Janssen and Merck are all developing next generation DAAs for use in various combinations for specific subpopulations and, in some cases, for use across several of the genotypes, which is referred to as pan-genotypic.

While the recently approved treatments for HCV have provided significant benefit to HCV patients, as will others still in development, to date these treatments do not provide 100% cure rates for all HCV patients. We believe that emergent RAVs will result in a new population of patients who have failed existing treatments and that there may continue to be significant opportunity for a new combination therapy that can address these treatment failures. Accordingly, we believe there remains a significant unmet medical need in the HCV field, which is likely to grow as more patients receive treatment and some portion of them are not cured.

Scientific Background

Most of the new approved therapies and others under development targeting HCV focus directly on the viral life cycle and proteins that are critical to HCV replication. Replication of the HCV genome occurs on intracellular membranes and requires the participation of multiple viral proteins, some of which have enzymatic activities. Agents, often referred to as inhibitors, that target viral proteins directly are generally referred to as direct acting antivirals, or DAAs. Current DAA therapies typically include some combination of one or more inhibitors of the NS3 protease, the NS5A protein, and the NS5B polymerase. In addition to targets in HCV itself, there are human host proteins that are critical to viral replication. Inhibitors that interfere with host targets resulting in antiviral activity are referred to as host-targeted antivirals, or HTAs. One of the most promising HTA approaches to HCV treatment focuses on the human host protein known as cyclophilin A, or cyclophilin.

Table of Contents

Key Proteins in the HCV Replication Complex

NS3 Protease. As HCV replicates, it generates long strands of protein that must be processed into many individual active functional proteins that are referred to as non-structural proteins with the designated abbreviation NS, including NS3 and NS5A. The NS3 protease is responsible for most of this protein processing of the newly translated HCV protein, and plays an essential role in the viral life cycle. Inhibition of the protease prevents these new critical proteins from forming and therefore prevents replication and survival of the virus.

NS5A. The NS5A protein has key roles in both the RNA replication of HCV and modulation of the physiology of its host cell in the body. Research has shown that targeting NS5A gives rise to profound antiviral activity, and as a result, this protein has emerged as an additional important DAA target for anti-HCV drugs.

NS5B Polymerase. HCV is a single-stranded RNA virus, and NS5B is an HCV RNA polymerase responsible for synthesis of new HCV RNA, allowing the HCV genome to be copied and the virus to survive and replicate. Two separate classes of DAA inhibitors of NS5B polymerase are used as treatments for HCV. Nucleoside/nucleotide inhibitors of NS5B directly inhibit the active site of that enzyme and prevent further elongation of the RNA, and thus are equally active against all HCV genotypes. A second class, known as non-nucleoside inhibitors, affects replication of the RNA by altering the shape of the enzyme at remote sites on the enzyme surface so that any given inhibitor is usually only active against certain HCV genotypes.

Cyclophilin. Viral function requires an interaction of the viral protein NS5A with the human host protein known as cyclophilin. Inhibitors that interfere with this NS5A-cyclophilin interaction would essentially provide a treatment that protects the human host cells from infection by the virus. Several studies using the immunosuppressive drug cyclosporine A, a known cyclophilin inhibitor, support the clinical validation of cyclophilin as an HTA for treatment of HCV infection. However, the immunosuppressive activity of cyclosporine A and associated side effects limit its clinical use and thus an effective cyclophilin inhibitor for HCV would need to be devoid of immunosuppressive activity. Clinical proof-of-concept of a cyclophilin inhibitor was established with alisporivir, a non-immunosuppressive cyclosporine A derivative that has demonstrated effectiveness against many HCV genotypes and as a high barrier to HCV resistance, with no cross-resistance with several DAAs.

Table of Contents***Our Evolving Approach to the Development of Treatments for HCV***

We have successfully identified clinical development candidates for inhibitors of three of the fundamental, validated targets within the HCV field, including inhibitors of two of the critical proteins of HCV replication, the NS3 protease and the NS5A protein, as well inhibitors of the human host protein cyclophilin, which the hepatitis C virus co-opts into its viral replication machinery. We have already combined our protease inhibitors with AbbVie's marketed HCV therapies and its next-generation therapy currently in phase 3 clinical development. In addition, we are planning to advance EDP-494, our lead cyclophilin inhibitor, into clinical trials in the quarter ending March 31, 2016 and, if successful, we plan to explore its further development in combination with one or more other high-barrier-to-resistance mechanisms to inhibit the replication of HCV and its RAVs.

Paritaprevir, the Protease Inhibitor in AbbVie's marketed therapies for HCV Infection

Our protease inhibitor, paritaprevir, was discovered through our collaboration with AbbVie. Co-administration of paritaprevir with ritonavir, which we refer to together as paritaprevir/r, combines paritaprevir with a commonly used boosting agent that increases the blood concentrations of many protease inhibitors and has enabled once-daily dosing of paritaprevir. AbbVie developed paritaprevir/r in a 3-DAA combination with its non-nucleoside polymerase and NS5A inhibitors, with or without ribavirin, for treatment of genotype 1 HCV patients, which was approved in the U.S. in December 2014 and in the EU in January 2015. This 3-DAA combination is sold as VIEKIRA PAK in the U.S. and as VIEKIRAX®+EXVIERA® in the EU for non-cirrhotic patients and those with early stage, or compensated, cirrhosis. In genotype 1a and 1b HCV patients AbbVie's clinical trials showed SVR rates of 90-100% depending on the patient and group. AbbVie also markets a 2-DAA combination with the same NS5A inhibitor for genotype 4 HCV patients in the U.S. and EU under the name VIEKIRAX, which is also approved for genotype 1 patients in Japan.

AbbVie continues to advance its paritaprevir-containing regimens through regulatory and reimbursement approvals worldwide. In addition, in December 2015 AbbVie's New Drug Application (NDA) was accepted by the FDA for a fixed-dose formulation of the active components of VIEKIRA PAK, which would simplify the dosage for genotype 1 HCV patients to three identical pills taken once daily. Since AbbVie began marketing its paritaprevir-containing regimens in 2015, it reported gross sales of those regimens totaling \$469 million in the quarter ended September 30, 2015, which resulted in the payment of \$14.3 million of royalties to us.

ABT-494, Next-Generation HCV Protease Inhibitor

AbbVie is also developing a next-generation protease inhibitor, ABT-493, discovered within the Enanta-AbbVie collaboration. AbbVie has co-formulated ABT-493 with AbbVie's next-generation NS5A inhibitor, ABT-530 for development as a pan-genotypic, once daily, all oral, fixed-dose combination treatment for HCV. AbbVie completed two Phase 2 clinical trials of this investigational 2-DAA treatment and reported results in November 2015. After 12 weeks of treatment with doses at or closest to the Phase 3 clinical dose, SVR₁₂ rates were 100% in genotype 1 HCV patients, 96% in genotype 2, and 93% in genotype 3. Data after 8 weeks of treatment in non-cirrhotic genotype 1 chronic HCV patients demonstrated an SVR₁₂ rate of 97%.

In November 2015 AbbVie initiated its ENDURANCE-1 study, the first in a series of phase 3 studies of this next-generation combination treatment. ENDURANCE-1 will study 8-week and 12-week courses of this 2-DAA combination in non-cirrhotic genotype 1 HCV patients. AbbVie is planning for the first approval of this treatment in the U.S. in 2017.

EDP-494, Cyclophilin (Cyp) Inhibitor for HCV Infection

In anticipation of resistance arising to DAA HCV therapy that targets viral proteins, we have been developing an alternative HTA approach that targets the human host protein, cyclophilin, which is essential for replication of HCV.

Table of Contents

Interruption of Viral Replication of HCV RNA by Cyclophilin Inhibitor

Abbreviation: CypA refers to cyclophilin A

We have demonstrated in replicon assays that our lead cyclophilin-targeting inhibitor, EDP-494, is a potent inhibitor of HCV replication in wild-type virus and in virus with resistance associated variants (RAVs) and is more potent than the clinical stage cyclophilin inhibitor alisporivir. Typically, cyclophilin inhibitors are based on the structures of cyclosporine A, which is known to be immunosuppressant with associated side effects that limit its clinical use. Based on our understanding of the structural elements of cyclosporine A that contribute to immunosuppressive activity, we have designed those elements out of our cyclophilin inhibitors and have confirmed a lack of *in vitro* immunosuppressive activity. We have advanced EDP-494 through preclinical studies and plan to study it in clinical trials beginning in the first quarter of calendar 2016.

EDP-239, an NS5A Inhibitor for HCV Infection

We have also discovered EDP-239, an NS5A inhibitor. This compound has demonstrated potent activity against major genotypes in the replicon assay, which is a common *in vitro* test for determining potency of an active compound in reducing HCV replication. EDP-239 successfully completed phase 1 studies in 2015, including a proof-of-concept study, but its further development will depend upon its potential utility as an additional component of an EDP-494 containing combination therapy, which will be determined after early clinical trials of EDP-494.

Nucleotide Polymerase Inhibitor Program for HCV Infection

We have a small-molecule drug discovery effort underway for inhibitors of nucleotide polymerase, which is a clinically validated mechanism that is less susceptible to HCV resistance. We are seeking to advance novel candidates that have the requisite characteristics to make them viable contenders for further development in combination with EDP-494. If we are ready to study EDP-494 in combination studies before we have identified a nucleotide polymerase inhibitor of our own, we will shift our focus to external compounds of that inhibitor class that are already in clinical development or otherwise available.

Table of Contents

Our FXR Program

Background and Overview of NASH and PBC Market

Non-alcoholic fatty liver disease (NAFLD) is the accumulation of excessive fat in the form of triglycerides, a process known as steatosis, in liver cells that is not caused by alcohol. It is normal for the liver to contain some fat. However, if more than 5%–10% of the liver's weight is fat, then it is called a fatty liver. A subgroup of these patients have liver cell injury and inflammation in addition to excessive fat (steatohepatitis). Progression of this condition leads to non-alcoholic steatohepatitis (NASH). NASH is widely considered to be the liver expression of metabolic diseases related to type 2 diabetes, insulin resistance, obesity, hyperlipidemia and hypertension.

According to the World Gastroenterology Organization Global Guidelines 2014, NASH is an increasingly common chronic liver disease with worldwide distribution that is closely associated with diabetes and obesity, which have both reached epidemic proportions. It is estimated that there are at least 1.46 billion obese adults worldwide. Approximately 6 million individuals in the USA are estimated to have progressed to NASH and some 600,000 to NASH-related cirrhosis. NASH and NAFLD are now considered the number one cause of liver disease in Western countries.

Currently, there are no approved treatments for NASH. While patients presenting with NASH are counseled on life style modifications, new effective treatments are urgently needed, particularly in the setting of advanced fibrosis and cirrhosis. Currently, two advanced Phase 3 trials are initiating in NASH, conducted by Intercept Pharmaceuticals and Genfit. In addition, several large Phase 2b studies are underway, including those from Tobira, Galmed, Galectin, and Gilead. In addition, earlier stage trials are ongoing from a number of companies.

Primary biliary cholangitis (formerly known as primary biliary cirrhosis), or PBC, is a chronic, or long-term, disease of the liver that slowly destroys the medium-sized bile ducts within the liver. Bile is a digestive liquid that is made in the liver. It travels through the bile ducts to the small intestine, where it helps digest fats and absorb fatty vitamins.

In patients with PBC, the bile ducts are destroyed by inflammation. This causes bile to remain in the liver, where gradual injury damages liver cells and causes cirrhosis, or scarring of the liver. As cirrhosis progresses and the amount of scar tissue in the liver increases, the liver loses its ability to function, leading to potential liver failure, liver transplantation or hepatocellular carcinoma. While PBC is a relatively rare disease (in the U.S., the incidence has been estimated as 4.5 cases for women and 0.7 cases per 100,000 for men), it remains as one of the major causes of liver failure and/or the need for liver transplant.

Currently, there is only one approved drug for PBC, ursodeoxycholic acid, also known as ursodiol. Ursodiol is a naturally occurring bile acid found in small quantities in normal human bile. When given at high doses to PBC patients, many respond with improved liver function. However, a significant number of patients do not respond to ursodiol, and thus new treatments are urgently needed.

Agonists of the farnesoid X receptor, or FXR agonists, have shown promising activity in many preclinical models of liver disease. One FXR agonist, OCA from Intercept Pharmaceuticals, has already demonstrated clinical efficacy in both NASH and PBC. We believe that new FXR agonists may provide substantial therapeutic benefit in NASH and PBC and may overcome some of the potential shortcomings of OCA, including limited effects on resolution of NASH, elevation of LDL, and pruritis.

Scientific Background

The farnesoid X receptor, or FXR, is a nuclear hormone receptor that functions to modulate gene expression in response to various metabolic stimuli. FXRs are expressed at high levels in the liver and intestine. Bile acids have been identified as important physiological ligands for FXRs, able to bind and activate the receptor. The downstream gene modulation resulting from bile acid engagement of FXRs not only contribute to the regulation

Table of Contents

of bile acid synthesis and metabolism, but is also involved in a number of other metabolic processes, in particular lipid metabolism. More recently, it has been discovered that bile acids, via FXR, are able to promote insulin sensitivity and decrease lipid synthesis in the liver. In addition, studies have shown that bile acid-dependent FXR activation is able to provide beneficial effects on fibrosis in the liver as well. For these reasons, FXR is considered to be a viable target for NASH. Indeed, recent Phase 2b trials with obeticholic acid, a synthetic analog of natural bile acids known to activate FXR, demonstrated efficacy in NASH patients. In PBC, improved outcomes would be expected due to the reduction of bile acid synthesis by activation of FXR. OCA has also demonstrated efficacy in a Phase 3 trial in PBC.

Our Approach to the Treatment of NASH and PBC

Even though there has been clinical validation demonstrated by the prototypical FXR agonist OCA, we believe that there is opportunity for treatment that shows improvements in potency and efficacy and reductions in potential safety liabilities for the treatment of NASH and PBC. Using our strong chemistry capabilities, we have undertaken the discovery and development of new FXR agonists that we believe may provide substantial improvements over currently known FXR agonists. We intend to advance our agents through preclinical testing and aim to move a candidate into the clinic in 2016.

Drug Discovery and Chemical Development

We have internally developed all of the initial compounds in our research and development programs. Our scientists have expertise in the areas of medicinal chemistry, molecular virology and pharmacology, with highly developed sets of skills in compound generation, target selection, screening and pharmacology, preclinical development and lead optimization. We are utilizing these skills and capabilities in our discovery and development of antiviral and other product candidates.

We focus on infectious disease and liver disease indications representing large and growing market opportunities with significant unmet medical needs. Our selection of a particular therapeutic target within those disease indications takes into consideration the experience and expertise of our scientific team. The final selection is based on the possibility of being able to generate robust medicinal chemistry structure-activity relationships to assist lead optimization and secure relevant intellectual property rights. Once we have identified lead compounds, they are tested using *in vitro* and *in vivo* pharmacology studies and *in vivo* research models of antiviral or antibacterial efficacy.

Bicyclolide Antibiotics

Through our internal chemistry efforts, we created a new family of antibiotics called Bicyclolides to overcome resistance associated with existing macrolide antibiotics. The main focus of our antibiotic work had been on new mechanisms targeting resistant, Gram-positive pathogens, including bacteria resistant to currently marketed macrolides. In September 2011, National Institute of Allergy and Infectious Diseases, or NIAID, contracted for us to undertake the initial clinical development of our lead product candidate, which NIAID wanted to investigate as a medical biodefense countermeasure against several pathogens. NIAID funded our preclinical and early clinical development of this candidate. Based primarily on the competitive landscape for antibiotics for Gram-positive bacterial infections, in December 2014 we decided not to continue commercial development of our antibiotic program. Given that we were no longer pursuing a commercial indication for our lead antibiotic candidate, we and NIAID amended our contract so that it was completed in August 2015 upon our delivery of the study report for the Phase 1 clinical study. We are not currently conducting any research in the field of antibiotics.

Table of Contents**Collaboration and License Agreements*****AbbVie***

We entered into a Collaborative Development and License Agreement with Abbott Laboratories in November 2006 to develop and commercialize HCV NS3 and NS3/4A protease inhibitors. The agreement, which was amended in January and December 2009, was assigned to AbbVie Inc. on January 1, 2013 in connection with Abbott's transfer of its research-based pharmaceuticals business to AbbVie. Under the agreement, we have granted AbbVie an exclusive, worldwide, royalty-bearing license, including a right to grant sublicenses, to specified intellectual property, including several issued U.S. patents, relating to protease inhibitors. We also granted AbbVie access to our drug discovery capabilities in the HCV NS3 and NS3/4A protease inhibitor field. AbbVie granted us a co-exclusive (together with AbbVie), royalty-free, fully paid license, without the right to grant sublicenses, to certain of AbbVie's intellectual property, AbbVie's interest in joint intellectual property and improvements discovered by AbbVie, for the purpose of allowing us to conduct certain development and commercialization activities in the United States relating to protease inhibitors. AbbVie is responsible for and funds all costs associated with the development, manufacturing and commercialization of paritaprevir, ABT-493 and any other compounds under this agreement. We are eligible to receive milestone payments and royalties with respect to these compounds. So long as a product candidate is being developed or commercialized under the agreement, we undertake not to conduct any activity, or grant licenses to a third party, relating to protease inhibitors.

A joint steering committee was established under the agreement with review and oversight responsibilities for all research, development and commercialization activities. The joint steering committee is comprised of three of our senior personnel and three senior personnel from AbbVie; however, AbbVie has final authority to make all decisions regarding development and commercialization activities.

The research program and the evaluation period, which was performed by both parties, ended in June 2011. The first commercialized compound is paritaprevir, and ABT-493 is the next-generation compound under development. The first clinical milestone for paritaprevir was achieved in 2010. Through September 30, 2015, we have received from AbbVie a total of \$285 million, consisting of an upfront license payment, research funding, milestone payments and an initial preferred stock financing. In addition, we have earned a total of approximately \$34 million in royalties on AbbVie's net sales of HCV products allocable to paritaprevir in the year ended September 30, 2015.

In November, 2015, we also earned a final paritaprevir-related milestone payment of \$30 million upon AbbVie's achievement of reimbursement approval of VIEKIRAX in Japan, and we are eligible to receive additional milestone payments totaling up to \$80 million upon AbbVie's achievement of commercial regulatory approval milestones for any ABT-493-containing treatment in selected world markets similar to those for paritaprevir.

We are eligible to receive annually tiered royalties ranging from the low double digits up to twenty percent, or up to the high teens on a blended basis, based on the annual net sales of each product developed under the agreement. However, if a product is determined to be a combination product, as was the case for paritaprevir and is expected to be the case for ABT-493, the net sales of the combination product will be adjusted on a country-by-country and product-by-product basis to reflect a good faith determination of the relative value of each pharmaceutically active ingredient, based on estimated fair market value. This means that AbbVie's worldwide annual net sales of a combination product will first be allocated to determine the royalty-bearing portion, and then multiplied by the annually tiered royalty rates to determine Enanta's actual royalty for a given year. In October 2014 we entered into an amendment to our agreement with AbbVie to finalize the net sales allocations for regimens containing paritaprevir, as well as for any regimen containing ABT-493. Under the terms of this agreement, 30% of net sales of a 3-DAA regimen containing paritaprevir are allocated to paritaprevir and 45% of net sales of a 2-DAA regimen containing

paritaprevir are allocated to paritaprevir. For ABT-493, 50% of net sales will be allocated for a 2-DAA regimen and 33 $\frac{1}{3}$ % for a 3-DAA regimen. If there is any active ingredient other than DAA s in any ABT-493-containing regimen sold by AbbVie, there will be a further adjustment to net sales based on the relative value of the non-DAA ingredient.

Table of Contents

Royalties owed to us under the agreement can be reduced by AbbVie in certain circumstances, including (i) if AbbVie exercises its right to license or otherwise acquire rights to intellectual property controlled by a third party where a product could not be legally developed or commercialized in a country without the third-party intellectual property right, (ii) where a product developed under the collaboration agreement is sold in a country and not covered by a valid patent claim in such country, or (iii) where sales of a generic product are equal to at least a specified percentage of AbbVie's market share of a product in a country.

AbbVie's obligation to pay royalties on a product developed under the agreement expires on a country-by-country basis upon the later of (i) the date of expiration of the last of the licensed patents with a valid claim covering the product in the applicable country, and (ii) ten years after the first commercial sale of the product in the applicable country.

Under the agreement, we also have an option to fund 40% of U.S. development costs and U.S. commercialization efforts (sales and promotion costs), in exchange for 40% of any U.S. profits, allocable to any product candidate that ultimately achieves regulatory approval and commercialization. We did not exercise our option right with respect to paritaprevir or ABT-493, but we retain our option right for any additional product developed under the agreement, which must be exercised within a specified period after the successful completion of a Phase 2a trial of the additional product. If we exercise our co-development option right, we would be eligible for a different schedule of milestones and milestone payments than those described above, but would not be eligible to receive royalties on U.S. sales. If any additional collaboration product containing a protease inhibitor is co-developed, we would be eligible to receive future milestone payments totaling up to \$40 million for similar regulatory and reimbursement approval milestones. There are no additional protease inhibitors currently being developed in our collaboration with AbbVie.

Our intellectual property existing as of the effective date of the agreement remains our property. Any intellectual property jointly developed will be jointly owned. We will have unilateral right to enforce Enanta patent rights on any covered product following the first commercial sale of such product, as will AbbVie. In the event of infringement related to any Enanta patents, we will have the first right and option to initiate legal proceedings or take other actions. In the event of infringement related to any AbbVie patents, AbbVie will have the first right and option to initiate legal proceedings or take other actions. In the event of infringement of a joint patent right, we will discuss with AbbVie whether to initiate legal proceedings or take other actions. AbbVie will have the obligation to defend at its sole expense any actions brought against either party alleging infringement of third-party rights by reason of the activities conducted under the agreement and we will have the right to obtain separate counsel at our own expense. Additionally, AbbVie, at its sole expense, will be responsible for all trademark prosecution.

Subject to the exceptions described above, a party's rights and obligations under the agreement continue until: (i) such time as AbbVie is no longer developing a product candidate or (ii) if, as of the time AbbVie is no longer developing any product candidates, AbbVie is commercializing any other protease inhibitor product, such time as all royalty terms for all covered products and all co-development terms for all co-developed products have ended. Accordingly, the final expiration date of the agreement is currently indeterminable.

Either party may terminate the agreement for cause in the event of a material breach, subject to prior notice and the opportunity to cure, or in the event of the other party's bankruptcy. Additionally, AbbVie may terminate the agreement for any reason upon specified prior notice.

If we terminate the agreement for cause or AbbVie terminates without cause, any licenses and other rights granted to AbbVie will terminate and AbbVie will be deemed to have granted us (i) a non-exclusive, perpetual, fully paid, worldwide, royalty-free license, with the right to sublicense, under AbbVie's intellectual property used in any product candidate and (ii) an exclusive (even as to AbbVie), perpetual, fully paid, worldwide, royalty-free license, with the

right to sublicense, under AbbVie's interest in joint intellectual property rights to develop product candidates resulting from covered compounds and to commercialize any products derived from

Table of Contents

such compounds. Upon our request, AbbVie will also transfer to us all right, title and interest in any related product trademarks, regulatory filings and clinical trials.

If AbbVie terminates the agreement for our uncured breach, the milestone and royalty payments payable by AbbVie may be reduced, the licenses granted to AbbVie will remain in place, we will be deemed to have granted AbbVie an exclusive license under our interest in joint intellectual property, AbbVie will continue to have the right to commercialize any covered products, and all rights and licenses granted to us by AbbVie will terminate.

NIAID Contract

In September 2011, we were awarded a contract from NIAID to fund preclinical and early clinical development of our lead candidate in a new class of bridged bicyclic antibiotics known as Bicyclolides. The lead candidate was under development by NIAID for use by the U.S. government as medical biodefense countermeasures against multiple bacteria found in anthrax, plague and tularemia.

The contract was completed in August 2015. Under the terms of the NIAID contract, which was completed in August 2015, NIAID has paid us research and development funding totaling approximately \$18.7 million through September 30, 2015, and there may be additional payments to us in connection with final reconciliation of payments due under the contract.

Under the contract, all intellectual property rights held by us and any inventions, know-how or other intellectual property rights derived as a result of this contract will be our property, subject to certain rights of the United States federal government. See **Risk Factors** We could be unsuccessful in obtaining or maintaining adequate patent and other intellectual property protection for one or more of our product candidates.

Competition

We are engaged in segments of the pharmaceutical industry that are highly competitive and rapidly changing. Many large pharmaceutical and biotechnology companies, academic institutions, governmental agencies and other public and private research organizations are commercializing or pursuing the development of products that target HCV, NASH and other viral diseases and liver diseases that we may target in the future.

Many of our competitors have substantially greater commercial infrastructure and greater financial, technical and personnel resources than we have, as well as drug candidates in late-stage clinical development. Our competitors may succeed in developing competing products and obtaining regulatory approval before we or any collaborator of ours does with our product candidates, or they may gain acceptance for the same markets that we are targeting. If we are not first to market with one of our product candidates in one or more disease indications, our competitive position could be compromised because it may be more difficult for us to obtain marketing approval for that product candidate and market acceptance of that product candidate as a second competitor. In addition, any new product that competes with an approved product typically must demonstrate compelling advantages in efficacy, convenience, tolerability or safety, or some combination of these factors, in order to overcome price competition and be commercially successful.

We expect our current and future product candidates to face intense and increasing competition as new products enter the HCV and antiviral markets and advanced technologies become available, particularly in the case of HCV in combinations with existing products and other new products. First generation protease inhibitors, Incivek (telaprevir) of Vertex and Victrelis (boceprevir) of Merck, were approved in 2011 by the FDA for the treatment of HCV in combination with interferon and ribavirin, which in combination were the previous standard of care. However, by January 2015 both Vertex and Merck had announced they would discontinue the sale of these products, noting

competing treatments and diminishing market demand. A third protease inhibitor, simeprevir (Olysio) from Janssen Therapeutics, was approved by the FDA in November 2013 for use in genotype 1 HCV patients only when used in combination with pegylated interferon and ribavirin. The evolving

Table of Contents

competitive landscape in HCV intensified in December 2013, when the FDA approved sofosbuvir (Sovaldi®), a nucleotide analogue inhibitor of the HCV NS5B polymerase enzyme from Gilead, for patients with genotype 2 or 3 HCV and no requirement for interferon (also approved for patients with genotypes 1 or 4 when combined with pegylated interferon and ribavirin). On July 9, 2014, Bristol-Myers Squibb, or BMS, gained approval in Japan for the NS5A/protease inhibitor combination daclatasvir/asunaprevir. In October 2014 the FDA approved Gilead's interferon-free Harvoni®, a fixed-dose combination of sofosbuvir and ledipasvir (a NS5A inhibitor) for patients with genotype 1 HCV. Also in November 2014 the FDA approved an interferon-free combination therapy of simeprevir and sofosbuvir for genotype 1 HCV patients. In December 2014, AbbVie's VIEKIRA PAK treatment regimen containing our collaboration's paritaprevir was approved by the FDA, and since then approvals of other paritaprevir-containing regimens and Harvoni followed in the EU and Japan. In July 2015, BMS received approval in the U.S. for daclatasvir in combination with sofosbuvir for genotype 3 HCV patients. Also in that month, the FDA approved the paritaprevir-containing regimen Technivie™ from our partner AbbVie for genotype 4 HCV patients. Other all-oral, next-generation treatment regimens are under development at Merck and Gilead and may obtain regulatory approvals in other settings for the treatment of HCV in the next year. These other potential new treatment regimens may render AbbVie's treatment regimens containing any of our HCV product candidates noncompetitive. In particular, regimens containing our HCV product candidates may not be able to compete successfully with other products and regimens, a number of which remain under active development and involve multiple classes of inhibitors of HCV, including protease inhibitors, polymerase inhibitors (nucleoside and non-nucleoside), NS5A inhibitors, and others, under development by companies such as Achillion, BMS, Gilead, Johnson & Johnson, Medivir, Merck, Regulus and Roche, as well as by our collaborator AbbVie.

Competitive products in the form of other treatment methods or a vaccine for HCV may render our product candidates licensed to others, as well as any future product candidates we may develop ourselves, obsolete or noncompetitive. Even if successfully developed and subsequently approved by the FDA, our product candidates will face competition based on their safety and effectiveness, the timing and scope of the regulatory approvals, reimbursement coverage, price, patent position, the availability and cost of supply, marketing and sales capabilities, and other factors. If the product candidates developed under our collaboration agreement with AbbVie face competition from generic products, the collaboration agreement provides that the royalty rate applicable to such product candidates is reduced significantly by a specified percentage on a product-by-product, country-by-country basis. If we and our collaborator are not able to compete effectively against our current and future competitors, our business will not grow and our financial condition, operations and stock price will suffer.

Though there is currently no approved treatment for NASH and just one for PBC (ursadiol), we expect significant competition from other companies in the development of new treatments for these and related liver conditions. We are aware of several companies with programs that are significantly more advanced than ours, including companies with compounds in Phase 2 or later stage clinical trials for NASH or related conditions. These companies include Alberio, Conatus, Galectin, Galmed, Genfit, Gilead, GlaxoSmithKline, Intercept, Novartis, Novo Nordisk and Tobira. A significant number of other companies are conducting earlier clinical trials that may be applicable in NASH and other cholestatic diseases, including AstraZeneca, Boehringer Ingelheim, Cymabay, Durect, Islet, Medicnova, Metabolic Solutions Development Company, NGM, Nimbus, Poxel, Shire, and Viking, and there are additional companies conducting preclinical studies in these disease areas.

If we are not able to develop new products that can compete effectively against our current and future competitors, our business will not grow and our financial condition, operations and stock price will suffer.

Many of our competitors have substantially greater commercial infrastructures and financial, technical and personnel resources than we have. We will not be able to compete successfully unless we are able to:

design and develop products that are superior to other products in the market;

attract qualified scientific, medical, sales and marketing and commercial personnel;

Table of Contents

obtain patent and/or other proprietary protection for our processes and product candidates;

obtain required regulatory approvals; and

collaborate with others in the development and commercialization of new products.

Established competitors may invest heavily to quickly discover and develop novel compounds that could make our product candidates obsolete. In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to overcome price competition and to be commercially successful. If we and our collaborators are not able to compete effectively against current and future competitors for our product candidates, our business will not grow and our financial condition will be adversely affected.

Intellectual Property

As part of our business strategy, we actively seek patent protection for our product candidates in the United States and certain major foreign jurisdictions and file additional patent applications, when appropriate, to cover improvements to our compounds. We also rely on trade secrets, internal know-how, technological innovations and agreements with third parties to develop, maintain and protect our competitive position. Our ability to be competitive will depend on the success of this strategy.

Each of our major programs typically has several issued patents and pending patent claims in the program area containing claims to compounds, methods of use and processes for synthesis, but only a few of the issued patents and/or pending patent applications cover the lead product candidate in the program.

HCV NS3 Protease Inhibitor Program. The patent portfolio directed to the HCV protease inhibitor program with AbbVie included as of September 30, 2015, 48 issued U.S. patents, with five U.S. non-provisional applications, 237 issued foreign patents and approximately 206 foreign non-provisional applications. The issued United States patents and the applications, if granted, will expire between 2023 and 2035 before taking into account any extensions that may be obtained through patent term extension or adjustment, or term reduction due to filing of terminal disclaimers. AbbVie is a joint owner of a number of these patent applications. AbbVie also has rights to some or all of these patents and patent applications pursuant to its collaboration agreement with us.

HCV NS5A Inhibitor Program. Our patent portfolio directed to our HCV NS5A inhibitor program included as of September 30, 2015, 27 issued U.S. patents, three U.S. non-provisional applications, 11 issued foreign patents, 11 foreign non-provisional applications and one PCT application. The issued United States patents and the applications, if granted, will expire between 2030 and 2034 before taking into account any extensions that may be obtained through patent term extension or adjustment, or term reduction due to filing of terminal disclaimers.

Cyclophilin Inhibitor Program. Our ongoing research activities include identifying compounds that inhibit cyclophilin, a protein in the human body that has been shown to be involved in HCV replication. Our current portfolio directed to cyclophilin binders for the treatment of HCV included as of September 30, 2015, nine issued U.S. patents, two U.S. non-provisional applications, one U.S. provisional application, one PCT application, nine granted foreign patents and eight foreign non-provisional applications. The issued United States patents and patent applications, if granted, will expire between 2030 and 2035 before taking into account any extensions that may be obtained through patent term extension or adjustment, or term reduction due to filing of terminal disclaimers.

Antibacterial Program. Our patent portfolio directed to antibacterials included as of September 30, 2015, approximately 32 issued U.S. patents, one U.S. non-provisional application, 59 foreign patents and seven non-provisional foreign applications. These patents and patent applications, if granted, will expire between 2020 and 2032 before taking into account any extension that may be obtained through patent term extension or adjustment, or term reduction due to filing of terminal disclaimers.

Table of Contents

We may obtain patents for certain compounds many years before we obtain marketing approval for products containing such compounds. Because patents have a limited life, which may begin to run prior to the commercial sale of the related product, the commercial value of the patent may be limited. However, we may be able to apply for patent term extensions in the United States and in a number of European countries, compensating in part for delays in obtaining marketing approval, but we cannot be certain we will obtain such extensions.

It is also very important that we do not infringe patents or other proprietary rights of others. If we do infringe such patents or other proprietary rights, we could be prevented from developing or selling products or from using the processes covered by those patents, could be required to pay substantial damages, or could be required to obtain a license from the third party to allow us to use their technology, which may not be available on commercially reasonable terms or at all. If we were not able to obtain a required license or develop alternative technologies, we may be unable to develop or commercialize some or all of our products, and our business could be adversely affected.

In addition, we jointly own patent applications, together with AbbVie, that claim paritaprevir as a chemical entity. However, there is no guaranty that such applications will issue. We also own one issued patent that claims EDP-239 as a chemical entity. Further, the existence of issued patents does not guarantee our right to practice the patented technology or commercialize the patented product. Third parties may have or obtain rights to patents that could be used to prevent or attempt to prevent us from commercializing our product candidates. If these other parties are successful in obtaining valid and enforceable patents, and establishing our infringement of those patents, we could be prevented from commercializing our product candidates unless we were able to obtain a license under such patents, which may not be available on commercially reasonable terms or at all.

Much of our scientific capabilities depend upon the knowledge, experience and skills of key scientific and technical personnel. To protect our rights to our proprietary know-how and technology, we endeavor to require all employees, as well as our consultants and advisors when feasible, to enter into confidentiality agreements that require disclosure and assignment to us of ideas, developments, discoveries and inventions made by these employees, consultants and advisors in the course of their service to us.

We may be unable to obtain, maintain and protect the intellectual property rights necessary to conduct our business, and we may be subject to claims that we infringe or otherwise violate the intellectual property rights of others, which could materially harm our business. For more information, see [Risk Factors](#) [Risks Related to Our Intellectual Property Rights](#).

Government Regulation

Government authorities in the United States, at the federal, state and local level, and in other countries extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, labeling, packaging, storage, record-keeping, promotion, advertising, distribution, post-approval monitoring and reporting, marketing and export and import of products such as those we are developing. Any pharmaceutical candidate that we develop must be approved by the FDA before it may be legally marketed in the United States and by the appropriate foreign regulatory agency before it may be legally marketed in foreign countries.

United States Drug Development Process

In the United States, the FDA regulates drugs under the Federal Food, Drug and Cosmetic Act, or FDCA, and implementing regulations. Drugs are also subject to other federal, state and local statutes and regulations. The process of obtaining regulatory approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources. Failure to comply with the

applicable United States requirements at any time during the product development process, approval process or after approval, may subject an applicant to administrative or judicial sanctions. FDA

Table of Contents

sanctions could include refusal to approve pending applications, withdrawal of an approval, a clinical hold, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal penalties. Any agency or judicial enforcement action could have a material adverse effect on us.

The process required by the FDA before a drug may be marketed in the United States generally involves the following:

Completion of preclinical laboratory tests, animal studies and formulation studies according to GLPs or other applicable regulations;

Submission to the FDA of an Investigational New Drug Application, or an IND, which must become effective before human clinical trials may begin;

Performance of adequate and well-controlled human clinical trials according to the FDA's current Good Clinical Practices, or GCPs, to establish the safety and efficacy of the proposed drug for its intended use;

Submission to the FDA of a New Drug Application, or an NDA, for a new drug product;

Satisfactory completion of an FDA inspection of the manufacturing facility or facilities where the drug is to be produced to assess compliance with the FDA's current Good Manufacturing Practice standards, or cGMP, to assure that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality and purity;

Potential FDA audit of the nonclinical and clinical trial sites that generated the data in support of the NDA; and

FDA review and approval of the NDA.

The lengthy process of seeking required approvals, which can often take anywhere from six months from the time the NDA is filed if there is a priority review for a breakthrough therapy to twelve months for a standard review, and the continuing need for compliance with applicable statutes and regulations require the expenditure of substantial resources. There can be no certainty that approvals will be granted.

Before testing any compounds with potential therapeutic value in humans, the product candidate enters the preclinical testing stage. Preclinical tests include laboratory evaluations of product chemistry, toxicity and formulation, as well as animal studies to assess the potential safety and activity of the product candidate. The conduct of the preclinical tests must comply with GLP and other federal regulations and requirements. The sponsor must submit the results of the preclinical tests, together with manufacturing information, analytical data, any available clinical data or literature and a proposed clinical protocol, to the FDA as part of the IND. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA places the clinical trial on a clinical hold within that 30-day time period. In such a

case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. The FDA may also impose clinical holds on a drug at any time before or during clinical trials due to safety concerns or non-compliance. Accordingly, we cannot assure that submission of an IND will result in the FDA allowing clinical trials to begin, or that, once begun, issues will not arise that suspend or terminate such trial.

Clinical trials involve the administration of the product candidate to healthy volunteers or patients having the disease being studied under the supervision of qualified investigators, generally physicians not employed by or under the trial sponsor's control. Clinical trials are conducted under protocols detailing, among other things, the objectives of the clinical trial, dosing procedures, subject selection and exclusion criteria, and the parameters to be used to monitor subject safety. Each protocol must be submitted to the FDA as part of the IND. Clinical trials must be conducted in accordance with the FDA's GCP requirements. Further, each clinical trial must be reviewed and approved by an independent institutional review board, or IRB, at or servicing each institution at

Table of Contents

which the clinical trial will be conducted. An IRB is charged with protecting the welfare and rights of trial participants and considers such items as whether the risks to individuals participating in the clinical trials are minimized and are reasonable in relation to anticipated benefits. The IRB also approves the informed consent form that must be provided to each clinical trial subject or his or her legal representative and must monitor the clinical trial until it is completed.

Human clinical trials prior to approval are typically conducted in three sequential phases that may overlap or be combined:

Phase 1. The drug is initially introduced into healthy humans and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. In the case of some products for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted only in patients having the specific disease.

Phase 2. The drug is evaluated in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance, optimal dosage and dosing schedule for patients having the specific disease.

Phase 3. Clinical trials are undertaken to further evaluate dosage, clinical efficacy and safety in an expanded patient population at geographically dispersed clinical trial sites. These clinical trials, which usually involve more patients than earlier trials, are intended to establish the overall risk/benefit ratio of the product and provide an adequate basis for product labeling. Generally, at least two adequate and well-controlled Phase 3 clinical trials are required by the FDA for approval of an NDA.

Post-approval studies, or Phase 4 clinical trials, may be conducted after initial marketing approval. These studies are used to gain additional experience from the treatment of patients in the intended therapeutic indication and may be required by the FDA as part of the approval process.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and written IND safety reports must be submitted to the FDA by the investigators for serious and unexpected AEs or any finding from tests in laboratory animals that suggests a significant risk for human patients. Phase 1, Phase 2 and Phase 3 clinical trials may not be completed successfully within any specified period, if at all. The FDA, or the sponsor or its data safety monitoring board, may suspend a clinical trial at any time on various grounds, including a finding that the research patients are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients.

Concurrent with clinical trials, companies usually complete additional animal studies and develop additional information about the chemistry and physical characteristics of the drug as well as finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and, among other things, must include methods for testing the identity, strength, quality and purity of the final drug. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its shelf life.

U.S. Review and Approval Processes

The results of product development, preclinical studies and clinical trials, along with descriptions of the manufacturing process, analytical tests conducted on the chemistry of the drug, proposed labeling and other relevant information are submitted to the FDA as part of an NDA requesting approval to market the product. The

Table of Contents

submission of an NDA is subject to the payment of substantial user fees by the applicant; a waiver of such fees may be obtained under certain limited circumstances.

In addition, under the Pediatric Research Equity Act, or PREA, an NDA or supplement to an NDA must contain data to assess the safety and effectiveness of the drug for the claimed indications in all relevant pediatric subpopulations and to support dosing and administration for each pediatric subpopulation for which the product is safe and effective. The FDA may grant deferrals for submission of pediatric data or full or partial waivers.

The FDA reviews all NDAs submitted before it accepts them for filing and may request additional information rather than accepting an NDA for filing. Once the submission is accepted for filing, the FDA begins an in-depth review of the NDA. Under the goals and policies agreed to by the FDA under the Prescription Drug User Fee Act, or PDUFA, the FDA has twelve months in which to complete its initial review of a standard NDA and respond to the applicant, and six months for a priority NDA. The FDA does not always meet its PDUFA goal dates for standard and priority NDAs.

After the NDA submission is accepted for filing, the FDA reviews the NDA to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP to assure and preserve the product's identity, strength, quality and purity. In addition to its own review, the FDA may refer applications for novel drug products or drug products that present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions. During the approval process, the FDA also will determine whether a Risk Evaluation and Mitigation Strategy, or REMS, is necessary to assure the safe use of the drug. If the FDA concludes that a REMS is needed, the sponsor of the NDA must submit a proposed REMS; the FDA will not approve the NDA without a REMS, if required.

Before approving an NDA, the FDA will inspect the facilities at which the product is to be manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. If the FDA determines that the application, manufacturing process or manufacturing facilities are not acceptable it will outline the deficiencies in the submission and often will request additional testing or information.

The NDA review and approval process is lengthy and difficult, and the FDA may refuse to approve an NDA if the applicable regulatory criteria are not satisfied or may require additional clinical data or other data and information. Even if such data and information is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data obtained from clinical trials are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA will issue a complete response letter if the agency decides not to approve the NDA. The complete response letter usually describes all of the specific deficiencies in the NDA identified by the FDA. The deficiencies identified may be minor, for example, requiring labeling changes, or major, for example, requiring additional clinical trials. Additionally, the complete response letter may include recommended actions that the applicant might take to place the application in a condition for approval. If a complete response letter is issued, the applicant may either resubmit the NDA, addressing all of the deficiencies identified in the letter, or withdraw the application.

If a product receives regulatory approval, the approval may be limited to specific diseases and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Further, the FDA may require that certain contraindications, warnings or precautions be included in the product labeling. In addition, the FDA may require Phase 4 testing, which involves clinical trials designed to further assess a product's safety and effectiveness and may require testing and surveillance programs to monitor the safety of approved products that have been commercialized.

Table of Contents

Expedited Development and Review Programs

The FDA has four programs intended to expedite the development and review of new drugs addressing unmet medical needs or treating serious or life-threatening conditions: fast track, breakthrough therapy, priority review, and accelerated approval.

The FDA fast track program is intended to expedite or facilitate the process for reviewing new products to treat serious or life-threatening conditions and address unmet medical needs. Fast track designation applies to the combination of the product and the specific indication for which it is being studied. Under the fast track program, the sponsor will have more frequent interactions with the FDA during drug development, and may also submit sections of the NDA on a rolling basis to the FDA for review before submitting the complete application. Fast track does not guarantee that a product will be reviewed more quickly or receive FDA approval.

The FDA breakthrough therapy program is intended to expedite the development and review of drugs for serious or life-threatening conditions. Preliminary clinical evidence must show that the drug may have substantial improvement over existing therapies on one or more clinically significant endpoints. Although the drug does not have to address an unmet medical need, designation of breakthrough therapy status carries all the fast track program features. Additionally, the breakthrough therapy program entitles the sponsor to earlier and more frequent interaction with the FDA review team regarding development of nonclinical and clinical data, and allows the FDA to offer product development and regulatory advice necessary to shorten the time for product approval. The breakthrough therapy status does not guarantee a quicker development or review of the product, and does not ensure FDA approval.

The FDA also has a priority review program for products offering significant improvement in the treatment, diagnosis or prevention of a disease. The goal of the priority review program is to shorten the review period to six months from the ten months required for standard review. Any drug with breakthrough therapy, accelerated approval designation, or fast track can be granted priority review if it meets the necessary criteria.

The FDA accelerated approval program is intended to expedite the development and review of products with the potential to treat serious or life-threatening illnesses and provide meaningful therapeutic benefit over existing treatments. The program allows approval of a product on the basis of adequate and well-controlled clinical studies establishing that the product has an effect on a surrogate endpoint that is reasonably likely to predict a clinical benefit, or on the basis of an effect on a clinical endpoint that can be measured earlier than survival or irreversible morbidity. As a condition of approval, the FDA generally requires that a sponsor of the product perform adequate and well-controlled post-marketing clinical studies to establish safety and efficacy for the approved indication. Failure to conduct such studies or failure of the studies to establish required safety and efficacy may result in revocation of approval. The FDA also requires, as a condition for accelerated approval, pre-approval of promotional materials, which could adversely impact the timing of the commercial launch or subsequent marketing of the product.

Post-Approval Requirements

Any drug products for which we receive FDA approvals are subject to continuing regulation by the FDA. Certain requirements include, among other things, record-keeping requirements, reporting of adverse experiences with the product, providing the FDA with updated safety and efficacy information on an annual basis or more frequently for specific events, product sampling and distribution requirements, complying with certain electronic records and signature requirements and complying with FDA promotion and advertising requirements. These promotion and advertising requirements include, among others, standards for direct-to-consumer advertising, prohibitions against promoting drugs for uses or in patient populations that are not described in the drug's approved labeling (known as off-label use), rules for conducting industry-sponsored scientific and educational activities and promotional activities

involving the internet. Failure to comply with FDA requirements can have negative consequences, including the immediate discontinuation of noncomplying materials, adverse publicity,

Table of Contents

enforcement letters from the FDA, mandated corrective advertising or communications with doctors, and civil or criminal penalties. Although physicians may prescribe legally available drugs for off-label uses, manufacturers may not market or promote such off-label uses.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our product candidates. Manufacturers of our product candidates are required to comply with applicable FDA manufacturing requirements contained in the FDA's cGMP regulations. These regulations require, among other things, quality control and quality assurance as well as the corresponding maintenance of comprehensive records and documentation. Drug manufacturers and other entities involved in the manufacture and distribution of approved drugs are also required to register their establishments and list any products they make with the FDA and to comply with related requirements in certain states. These entities are further subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with cGMP and other laws. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain cGMP compliance. Discovery of problems with a product after approval may result in serious and extensive restrictions on a product, manufacturer or holder of an approved NDA. These restrictions may include suspension of a product until the FDA is assured that quality standards can be met, continuing oversight of manufacturing by the FDA under a consent decree, which frequently includes the imposition of costs and continuing inspections over a period of many years, as well as possible withdrawal of the product from the market. In addition, changes to the manufacturing process generally require prior FDA approval before being implemented. Other types of changes to the approved product, such as adding new indications and additional labeling claims, are also subject to further FDA review and approval.

The FDA also may require post-marketing testing, known as Phase 4 testing, as well as risk minimization action plans and surveillance to monitor the effects of an approved product or place conditions on an approval that could otherwise restrict the distribution or use of the product.

U.S. Patent Term Restoration and Marketing Exclusivity

Drug Price Competition and Patent Term Restoration Act of 1984

Depending upon the timing, duration and specifics of the FDA approval of the use of our product candidates, some of our United States patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, commonly referred to as the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent restoration term of up to five years as compensation for patent term lost during federal regulatory review preceding the FDA regulatory review process. However, patent term restoration cannot extend the remaining term of a patent beyond a total of 14 years from the product's approval date. The patent term restoration period is generally one-half the time between the effective date of an IND and the submission date of an NDA plus the time between the submission date of an NDA and the approval of that application. Only one patent applicable to an approved drug is eligible for the extension and the application for the extension must be submitted within 60 days of approval, prior to the expiration of the patent. The United States Patent and Trademark Office, in consultation with the FDA, reviews and approves the application for any patent term extension or restoration. In the future, we may apply for restoration of patent term for one of our currently owned or licensed patents to add patent life beyond its current expiration date, depending on the expected length of the clinical trials and other factors involved in the filing of the relevant NDA. However, there is no guarantee that any such application will be approved.

Federal Food, Drug and Cosmetic Act (FDCA)

Market exclusivity provisions under the FDCA, which are independent of patent status and any patent related extensions, can also delay the submission or the approval of certain applications of other companies seeking to

reference another company's NDA. If the new drug is a new chemical entity subject to an NDA, the FDCA provides a five-year period of non-patent marketing exclusivity within the United States to the first applicant to

Table of Contents

obtain approval of an NDA for a new chemical entity. A drug is a new chemical entity if the FDA has not previously approved any other new drug containing the same active moiety, which is the molecule or functional group of a molecule responsible for the action of the drug substance. During the exclusivity period, the FDA may not accept for review an abbreviated new drug application, or ANDA, or a so-called Section 505(b)(2) NDA, submitted by another company for another version of such drug where the applicant does not own or have a legal right of reference to all the data required for approval. However, such an application may be submitted after four years if it contains a certification of patent invalidity or non-infringement to one of the patents listed with the FDA by the innovator NDA holder. The FDCA also provides three years of marketing exclusivity for an NDA, or supplement to an existing NDA if new clinical investigations, other than bioavailability studies, that were conducted or sponsored by the applicant are deemed by the FDA to be essential to the approval of the application, for example new indications, dosages or strengths of an existing drug. This three-year exclusivity covers only the conditions associated with the new clinical investigations and does not prohibit the FDA from approving ANDAs for drugs containing the original active agent. Five-year and three-year exclusivity will not delay the submission or approval of a full NDA. However, an applicant submitting a full NDA would be required to conduct or obtain a right of reference to all of the preclinical studies and adequate and well-controlled clinical trials necessary to demonstrate safety and effectiveness.

Other U.S. Healthcare Laws and Compliance Requirements

In the United States, our activities are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration), other divisions of the United States Department of Health and Human Services (*e.g.*, the Office of Inspector General), the United States Department of Justice and individual United States Attorney offices within the Department of Justice, state attorney generals and state and local governments. For example, sales, marketing and scientific/educational grant programs must comply with the anti-fraud and abuse provisions of the Social Security Act, the False Claims Act, the privacy and security provisions of the Health Insurance Portability and Accountability Act, or HIPAA, and similar state laws, each as amended. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990 and the Veterans Health Care Act of 1992, each as amended. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. Under the Veterans Health Care Act, or VHCA, drug companies are required to offer certain pharmaceutical products at a reduced price to a number of federal agencies including the United States Department of Veterans Affairs and United States Department of Defense, the Public Health Service and certain private Public Health Service designated entities in order to participate in other federal funding programs including Medicare and Medicaid. Recent legislative changes purport to require that discounted prices be offered for certain United States Department of Defense purchases for its TRICARE program via a rebate system. Participation under the VHCA requires submission of pricing data and calculation of discounts and rebates pursuant to complex statutory formulas, as well as the entry into government procurement contracts governed by the Federal Acquisition Regulations.

In order to distribute products commercially, we must comply with state laws that require the registration of manufacturers and wholesale distributors of pharmaceutical products in a state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Several states have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities, and/or register their sales representatives, as well as to prohibit pharmacies and other healthcare entities from providing certain physician prescribing data to pharmaceutical companies for use in sales and marketing, and to

prohibit certain other sales and marketing practices. All of our activities are potentially subject to federal and state consumer protection and unfair competition laws.

Table of Contents

Europe / Rest of World Government Regulation

In addition to regulations in the United States, we will be subject to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products.

Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries. Certain countries outside of the United States have a similar process that requires the submission of a clinical trial application much like the IND prior to the commencement of human clinical trials. In the European Union, for example, a clinical trial application, or CTA, must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and IRB, respectively. Once the CTA is approved in accordance with a country's requirements, clinical trials may proceed.

The requirements and process governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, the clinical trials are conducted in accordance with International Conference on Harmonisation (ICH) / WHO Good Clinical Practice standards and the applicable regulatory requirements and the ethical principles that have their origin in the Declaration of Helsinki.

To obtain regulatory approval of an investigational drug under European Union regulatory systems, we must submit a marketing authorization application to the European Medicines Agency, or the EMA. The application used to file an NDA in the United States is similar to that required in the European Union, with the exception of, among other things, country-specific document requirements.

For other countries outside of the European Union, such as countries in Eastern Europe, Latin America or Asia, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, again, the clinical trials are conducted in accordance with GCPs and the applicable regulatory requirements and the ethical principles that have their origin in the Declaration of Helsinki.

If we fail to comply with applicable foreign regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

Pharmaceutical Coverage, Pricing and Reimbursement

Significant uncertainty exists as to the coverage and reimbursement status of any product candidates for which we obtain regulatory approval. In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend in part on the availability of reimbursement from third-party payors. Third-party payors include government health administrative authorities, managed care providers, private health insurers and other organizations. The process for determining whether a payor will provide coverage for a drug product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the drug product. Third-party payors may limit coverage to specific drug products on an approved list, or formulary, which might not include all of the FDA-approved drug products for a particular indication. Third-party payors are increasingly challenging the price and examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy. We may need to conduct expensive pharmaco-economic studies in order to demonstrate the medical necessity and cost-effectiveness of our products, in addition to the costs required to obtain the FDA approvals. Our product candidates may not be considered medically necessary or cost-effective. A payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to

realize an appropriate return on our investment in product development.

In 2003, the United States government enacted legislation providing a partial prescription drug benefit for Medicare recipients, which became effective at the beginning of 2006. Government payment for some of the

Table of Contents

costs of prescription drugs may increase demand for any products for which we receive marketing approval. However, to obtain payments under this program, we would be required to sell products to Medicare recipients through prescription drug plans operating pursuant to this legislation. These plans will likely negotiate discounted prices for our products. Federal, state and local governments in the United States continue to consider legislation to limit the growth of healthcare costs, including the cost of prescription drugs. Future legislation could limit payments for pharmaceuticals such as the product candidates that we are developing.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, collectively known as the Affordable Care Act, substantially changed the way healthcare is financed by both governmental and private insurers, and significantly impacted the pharmaceutical industry.

The comprehensive overhaul has extended coverage to approximately 17 million previously uninsured Americans. Since its adoption, the Affordable Care Act contains a number of provisions, including those governing enrollment in federal healthcare programs, reimbursement changes and fraud and abuse, which have affected existing government healthcare programs and have resulted in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program. Additionally, the Affordable Care Act, as limited by the United States Supreme Court's decision in June 2012:

increases the minimum level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1%;

requires collection of rebates for drugs paid by Medicaid managed care organizations;

requires manufacturers to participate in a coverage gap discount program, under which they must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D, beginning January 2011; and

imposes a non-deductible annual fee on pharmaceutical manufacturers or importers who sell branded prescription drugs to specified federal government programs.

There have been proposed in Congress a number of legislative initiatives regarding healthcare, including possible repeal of the Affordable Care Act. At this time, it remains unclear whether there will be any changes made to the Affordable Care Act, whether to certain provisions or its entirety. The full impact that the Affordable Care Act and other new laws will have on our business is uncertain. Nor is it clear whether other legislative changes will be adopted, if any, or how such changes would affect the demand for our product candidates once commercialized.

Different pricing and reimbursement schemes exist in other countries. In the European Community, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national healthcare systems that fund a large part of the cost of those products to consumers. Some jurisdictions operate positive and negative list systems under which products may only be marketed once a reimbursement price has been agreed. To obtain reimbursement or pricing approval, some of these countries may require the completion of clinical trials that compare the cost-effectiveness of a particular product candidate to currently available therapies. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits. The

downward pressure on healthcare costs in general, particularly prescription drugs, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, in some countries, cross-border imports from low-priced markets exert a commercial pressure on pricing within a country.

The marketability of any drug candidates for which we receive regulatory approval for commercial sale may suffer if the government and third-party payors fail to provide adequate coverage and reimbursement. In addition, emphasis on managed care in the United States has increased and we expect will continue to increase the

Table of Contents

pressure on pharmaceutical pricing. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which we receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Manufacturing

We do not have our own manufacturing capabilities, except with respect to limited amounts of active pharmaceutical ingredients needed for preclinical development. In the past we have relied on third-party manufacturers for supply of active pharmaceutical ingredients, and we expect that in the future we will rely on such manufacturers for supply of ingredients that will be used in clinical trials of our product candidates that we are developing ourselves.

Manufacturing for each of our two lead product candidates, namely paritaprevir and ABT-493 are being conducted by AbbVie. We do not expect to establish our own manufacturing facilities and we will continue to rely on third-party manufacturers to produce commercial quantities of any product candidates that we commercialize ourselves. We believe that all of the materials required for the manufacture of those product candidates could be obtained from more than one source.

Sales and Marketing

We currently do not have any commercialization or sales and marketing capabilities, and currently have no fixed plans to invest in or build such capabilities internally. We have partnered our lead product candidate with AbbVie. We may also partner or collaborate with, or license commercial rights to, other larger pharmaceutical or biopharmaceutical companies to support the development of our cyclophilin inhibitor product candidates, or other product candidates for large market indications, through late-stage clinical development and, if successful, commercialization. However, we still retain all commercial rights to our independent programs and we will continue to evaluate our alternatives for commercializing them once they are more advanced in their clinical development.

Employees

As of September 30, 2015, we had 69 full-time employees, 39 of whom hold Ph.D. degrees. None of our employees is subject to a collective bargaining agreement or represented by a trade or labor union. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

RISK FACTORS

Our business faces significant risks and uncertainties. Certain factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them.

Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in or incorporated by reference into this Annual Report on Form 10-K and our other public filings with the SEC. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Risks Related to Our Business

Our financial prospects for the next several years are dependent upon the development and commercialization efforts of AbbVie for combination therapies incorporating the protease inhibitors paritaprevir or ABT-493 for the

treatment of HCV. AbbVie may act in its best interest rather than in our best interest, which could adversely affect our business.

We rely on AbbVie to fund and conduct the clinical development and commercialization of paritaprevir and ABT-493 (our next-generation protease inhibitor, in clinical development), over which AbbVie has complete

Table of Contents

control. Our ability to generate significant revenue in the near term will depend primarily on the successful development, regulatory approval, marketing and commercialization by AbbVie of combination therapies incorporating paritaprevir or ABT-493. Such success is subject to significant uncertainty, and we have no control over the resources, time and effort that AbbVie may devote to paritaprevir or ABT-493. Any of several events or factors could have a material adverse effect on our ability to generate revenue from AbbVie's commercialization of paritaprevir or potentially ABT-493 in combination therapies. For example, AbbVie:

may not achieve satisfactory levels of market acceptance and reimbursement by physicians, patients and third-party payers for combination therapies incorporating one of our protease inhibitor product candidates in the various markets of the world where these therapies are being introduced and sold by AbbVie;

may not compete successfully with any such combination therapies against alternative products and therapies for HCV;

may have to comply with additional requests and recommendations from the FDA, including label restrictions for paritaprevir or similar restrictions or additional clinical trials for ABT-493;

may not make all regulatory filings and obtain all necessary approvals from the FDA and similar foreign regulatory agencies, and all commercially necessary reimbursement approvals;

may be unable to complete successfully the clinical development of an ABT-493-containing regimen;

may not commit sufficient resources to the development or regulatory approval of regimens containing ABT-493 or to the marketing and distribution of regimens containing paritaprevir or ABT-493, whether for competitive or strategic reasons or otherwise due to a change in business priorities;

may cease to perform its obligations under the terms of our collaboration agreement;

may unilaterally terminate our collaboration agreement on specified prior notice without any reason and without any further commitment to continue development of any of our protease inhibitor candidates;

may not be able to manufacture paritaprevir or ABT-493 in compliance with requirements of the FDA and similar foreign regulatory agencies and in commercial quantities sufficient to meet market demand; and

may independently develop products that compete with regimens containing paritaprevir or ABT-493 in the treatment of HCV.

We do not have access to all information regarding the products being developed and potentially commercialized by AbbVie, including information about clinical trial design and execution, safety reports from clinical trials, spontaneous safety reports for any marketed product, regulatory affairs, process development, manufacturing, marketing, sales and other areas known by AbbVie. Thus, our ability to keep our stockholders informed about the status of products and product candidates under our collaboration is limited by the degree to which AbbVie keeps us informed. If AbbVie does not perform in the manner we expect or fulfill its responsibilities in a timely manner, or at all, the further development and global commercialization of paritaprevir and the clinical development, regulatory approval and commercialization efforts related to ABT-493 could be delayed or terminated or be commercially unsuccessful. In addition, AbbVie has the right to make decisions regarding the development and commercialization of product candidates without consulting us, and may make decisions with which we do not agree. Conflicts between us and AbbVie may arise if there is a dispute about the progress of the clinical development of a product candidate, the achievement and payment of a milestone amount, the relative values allocated to the pharmaceutically active ingredients, or the ownership of intellectual property developed during the course of our collaboration agreement. If AbbVie acts in a manner that is not in our best interest, then it could adversely affect our business and prospects.

Table of Contents

We and AbbVie face substantial competition in the markets for HCV drugs, and there are many companies developing potential therapies for non-alcoholic steatohepatitis (NASH), as well as other liver and viral diseases, which may result in others discovering, developing or commercializing products before ours or doing so more successfully than we or our collaborators.

The pharmaceutical and biotechnology industries are intensely competitive and rapidly changing. Many large pharmaceutical and biotechnology companies, academic institutions, governmental agencies and other public and private research organizations are commercializing or pursuing the development of products that target HCV, NASH and other infectious diseases or liver diseases that we may target in the future.

Many of our competitors have substantially greater commercial infrastructure and greater financial, technical and personnel resources than we have, as well as drug candidates in late-stage clinical development.

Our competitors may succeed in developing competing products and obtaining regulatory approval before we or any collaborator of ours does with our product candidates, or they may gain acceptance for the same markets that we are targeting. If we are not first to market with one of our product candidates in one or more disease indications, our competitive position could be compromised because it may be more difficult for us to obtain marketing approval for that product candidate and market acceptance of that product candidate as a second competitor. In addition, any new product that competes with an approved product typically must demonstrate compelling advantages in efficacy, convenience, tolerability or safety, or some combination of these factors, in order to overcome price competition and be commercially successful.

We expect our current and future product candidates to face intense and increasing competition as new products enter the HCV and antiviral markets and advanced technologies become available, particularly in the case of HCV in combinations with existing products and other new products. First generation protease inhibitors, Incivek® (telaprevir) of Vertex and Victrelis (boceprevir) of Merck, were approved in 2011 by the FDA for the treatment of HCV in combination with interferon and ribavirin, which in combination were the previous standard of care. However, by January 2015 both Vertex and Merck had announced they would discontinue the sale of these products, noting competing treatments and diminishing market demand. A third protease inhibitor, simeprevir (Olysio®) from Janssen Therapeutics, was approved by the FDA in November 2013 for use in genotype 1 HCV patients only when used in combination with pegylated interferon and ribavirin. The evolving competitive landscape in HCV intensified in December 2013, when the FDA approved sofosbuvir (Sovaldi®), a nucleotide analogue inhibitor of the HCV NS5B polymerase enzyme from Gilead, for patients with genotype 2 or 3 HCV and no requirement for interferon (also approved for patients with genotypes 1 or 4 when combined with pegylated interferon and ribavirin). On July 9, 2014, Bristol-Myers Squibb gained approval in Japan for the NS5A/protease inhibitor combination daclatasvir/asunaprevir. In October 2014 the FDA approved Gilead's interferon-free Harvoni®, a fixed-dose combination of sofosbuvir and ledipasvir (a NS5A inhibitor) for patients with genotype 1 HCV. Also in November 2014 the FDA approved an interferon-free combination therapy of simeprevir and sofosbuvir for genotype 1 HCV patients. In December 2014, AbbVie's VIEKIRA PAK treatment regimen containing our collaboration's paritaprevir was approved by the FDA, and since then approvals of other paritaprevir-containing regimens and Harvoni followed in the EU and Japan. In July 2015, BMS received approval in the US for daclatasvir in combination with sofosbuvir for genotype 3 HCV patients. Also in that month, the FDA approved the paritaprevir-containing regimen Technivie™ from our partner AbbVie for genotype 4 HCV patients. Other all-oral, next-generation treatment regimens are under development at Merck and Gilead and may obtain regulatory approvals in other settings for the treatment of HCV in the next year. These other potential new treatment regimens may render AbbVie's treatment regimens containing any of our HCV product candidates noncompetitive. In particular, regimens containing our HCV product candidates may not be able to compete successfully with other products and regimens, a number of which remain under active development and involve multiple classes of inhibitors of HCV, including protease inhibitors, polymerase inhibitors (nucleoside and

non-nucleoside), NS5A inhibitors, and others, under development by companies such as Achillion, Bristol-Myers Squibb, Gilead, Johnson & Johnson, Medivir, Merck, Regulus and Roche, as well as by our collaborator AbbVie.

Table of Contents

Competitive products in the form of other treatment methods or a vaccine for HCV may render our product candidates licensed to others, as well as any future product candidates we may develop ourselves, obsolete or noncompetitive. Even if successfully developed and subsequently approved by the FDA, our product candidates will face competition based on their safety and effectiveness, the timing and scope of the regulatory approvals, reimbursement coverage, price, patent position, the availability and cost of supply, marketing and sales capabilities, and other factors. If the product candidates developed under our collaboration agreement with AbbVie face competition from generic products, the collaboration agreement provides that the royalty rate applicable to such product candidates is reduced significantly by a specified percentage on a product-by-product, country-by-country basis. If we and our collaborator are not able to compete effectively against our current and future competitors, our business will not grow and our financial condition, operations and stock price will suffer.

Though there is currently no approved treatment for NASH, we expect significant competition from other companies in the development of new treatments for NASH and related conditions. We are aware of several companies with programs that are significantly more advanced than ours, including companies with compounds in Phase 2 or later stage clinical trials for NASH or related conditions. These companies include Alberio, Conatus, Galectin, Galmed, Genfit, Gilead, GlaxoSmithKline, Intercept, Novo Nordisk, and Tobira. A significant number of other companies are conducting earlier clinical trials that may be applicable in NASH and other cholestatic diseases, including AstraZeneca, Boehringer Ingelheim, Cymabay, Durect, Islet, Medicnova, Metabolic Solutions Development Company, NGM, Nimbus, Shire, and Viking, and there are additional companies conducting preclinical studies in these disease areas.

If we are not able to develop new products that can compete effectively against our current and future competitors, our business will not grow and our financial condition, operations and stock price will suffer.

We have not developed independently any approved products and we have limited clinical development experience, which makes it difficult to assess our ability to develop and commercialize our future product candidates.

AbbVie has been and will continue to be responsible for all of the clinical development of our paritaprevir and ABT-493 protease inhibitor product candidates. We have not yet demonstrated an ability to address successfully many of the risks and uncertainties associated with late stage clinical development, regulatory approval and commercialization of therapeutic products such as the ones we plan to develop independently. For example, to execute our business plan for development of our independent programs for any combinations of any of our cyclophilin inhibitors, NS5A inhibitors and nucleotide polymerase inhibitors for HCV, as well as for any of our research programs beyond HCV, we will need to successfully:

execute clinical development of our future product candidates and demonstrate acceptable safety and efficacy for them alone and, at least in the case of HCV, in combination with other drugs or drug candidates;

obtain required regulatory approvals for the development and commercialization of our future product candidates;

develop and maintain any future collaborations we may enter into for any of these programs;

obtain and maintain patent protection for our product candidates and freedom from infringement of intellectual property of others;

establish acceptable commercial manufacturing arrangements with third-party manufacturers;

build and maintain robust sales, distribution and marketing capabilities, either independently or in collaboration with future collaborators;

gain market acceptance for our future product candidates among physicians, payers and patients; and

manage our spending as costs and expenses increase due to clinical trials, regulatory approvals and commercialization.

Table of Contents

If we are unsuccessful in accomplishing these objectives, we may not be able to successfully develop and commercialize our future product candidates and expand our business or continue our operations.

If we are not successful in discovering further product candidates in addition to paritaprevir and ABT-493, our ability to expand our business and achieve our strategic objectives will be impaired.

Most of our internal research programs are at preclinical stages. Research programs designed to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying additional potential product candidates, yet fail to yield product candidates for clinical development or commercialization for many reasons, including the following:

the research methodology used may not be successful in identifying additional potential product candidates;

competitors may develop alternatives that render our future product candidates less commercially viable or obsolete;

competitors may obtain intellectual property protection that effectively prevents us from developing a potential product candidate;

a future product candidate may, on further study, be shown not to be an effective treatment in humans or to have harmful side effects or other characteristics that indicate it is unlikely to be effective or otherwise does not meet applicable regulatory criteria; and

a future product candidate may not be capable of being produced in commercial quantities at an acceptable cost, or at all.

Additional drug candidates that we may develop will require significant research, preclinical and clinical studies, regulatory approvals and commitments of resources before they can be commercialized. We cannot give assurance that our research will lead to the discovery of any additional drug candidates that will generate additional revenue for us. If we are unable to identify additional compounds suitable for preclinical and clinical development, we may not be able to obtain sufficient product revenue in future periods, which likely would result in significant harm to our financial position and adversely impact our stock price.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our product candidates.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel. We are highly dependent upon our senior management, particularly Jay R. Luly, Ph.D., our Chief Executive Officer and President, and Yat Sun Or, Ph.D., our Senior Vice President, Research and Development and Chief Scientific Officer, as well as other employees and consultants. Although none of these individuals has informed us to date that he or she intends to retire or resign in the near future, the loss of services of any of these individuals or one or more of our other members of senior management could delay or prevent the

successful development of our future product candidates.

Although we have not historically experienced unique difficulties attracting and retaining qualified employees, we could experience such problems in the future. For example, competition for qualified personnel in the biotechnology and pharmaceutical fields is intense. In addition, we will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms.

Table of Contents

We may encounter difficulties in managing our growth and expanding our operations successfully.

As we expand our research efforts and seek to advance our product candidates through clinical trials, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various strategic partners, suppliers and other third parties. Future growth will impose significant added responsibilities on members of management. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to manage our development efforts and clinical trials effectively and hire, train and integrate additional management, administrative and sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing our company.

Expenses associated with development of our product candidates may cause our earnings to fluctuate from period to period.

Many of the preclinical and clinical development activities required for our product candidates will have to be contracted out to CROs at significant expense. It is difficult to accurately predict the timing of these expenses, and we expect that they will vary from quarter to quarter. In addition, the FDA or other regulatory agencies may require more preclinical or clinical testing than we originally anticipated for any of our drug candidates. We may also be required to purchase expensive competitor drugs for use in our trials, either to demonstrate potential treatment combinations or as comparators to our product candidates. As a result, the expenses of our development programs and our operating results may fluctuate significantly from quarter to quarter, and our stock price may be adversely affected.

To date, our principal sources of revenue have been our collaboration agreements, including our current agreement with AbbVie and our prior agreement with Novartis. Future milestone payments and the level of royalties under the AbbVie agreement are uncertain. We have had no products approved for commercial sale by us. Therefore, it is possible that we may incur operating losses in one or more years in the future, and our ability to achieve sustained profitability is unproven.

In each of our 2013, 2014 and 2015 fiscal years, our net income resulted primarily from license payments, including milestone payments we earned from AbbVie and/or Novartis and royalties we earned in 2015 on AbbVie's net sales allocated to paritaprevir. There is no assurance, however, that we will report net income in subsequent years. To date, we have not commercialized any products ourselves and we have not yet generated sustained revenue from product sales by AbbVie.

Our principal source of revenue has been our collaboration agreements, including our current agreement with AbbVie. The level of future royalties on paritaprevir are uncertain given the competitive nature of the market for HCV therapies, the emergence of new, but not yet approved, therapies for HCV, the changing nature of payer contracts of AbbVie and others, and the varying rates of reimbursement in different countries. In addition, it is not yet clear what will be the impact, if any, of the October 2015 warning letter from the FDA regarding the risks of AbbVie's VIEKIRA PAK and TECHNIVIE regimens in patients with decompensated cirrhosis, for which it had never been recommended. Future milestone payments are uncertain because AbbVie may choose not to continue research or development activities for our ABT-493 product candidate. For example, under our previous collaboration with Novartis for the development of our NS5A inhibitor, Novartis decided in September 2014 not to pursue further development of the licensed product candidate in light of its decision that HCV was no longer a strategic focus of Novartis, which resulted in the NS5A inhibitor program being transferred back to us and our collaboration being terminated. In addition, under our AbbVie collaboration we may not achieve the specified milestones for ABT-493, that product candidate may not

be approved by the FDA or other regulatory authorities or, if ABT-493 is approved, the combination containing it may not be accepted in the market. If we are unable to develop and commercialize any more of our product candidates, either alone or with our collaborators, or if any

Table of Contents

such product candidate or paritaprevir does not achieve market acceptance, we may never generate sufficient product royalties or product sales. In addition, for any of our product candidates other than paritaprevir or ABT-493 included in a treatment regimen with more than one active compound, it would be uncertain what portion of net sales of the regimen would be allocated to our product candidate. The existence of multiple active compounds in the regimen or an unfavorable allocation to our product candidate could adversely affect our royalty revenue. Even if we do generate significant product royalties or product sales, we may not be able to sustain profitability on a quarterly or annual basis. Our failure to sustain profitability could depress the market price of our common stock and ultimately could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations. A decline in the market price of our common stock also could cause you to lose all or a part of your investment.

We may require substantial additional financing in the longer term to achieve our goals if the further commercialization of paritaprevir is delayed or curtailed or if the development of ABT-493 is delayed or terminated. A failure to obtain this necessary capital when needed could force us to delay, limit, reduce or terminate some or all of our product development efforts.

Since our inception, most of our resources have been dedicated to the discovery and preclinical development of our product candidates. In particular, we have expended, and believe that we will continue to expend for the foreseeable future, substantial resources discovering and developing our proprietary product candidates. These expenditures will include costs associated with research and development, preclinical manufacturing of product candidates, conducting preclinical experiments and clinical trials and obtaining regulatory approvals, as well as commercializing any products later approved for sale. For the foreseeable future, we expect to incur substantial additional costs associated with research and development for our internally developed programs, exclusive of costs incurred by our collaborator in developing our licensed product candidate ABT-493. In addition, we may seek opportunities to in-license or otherwise acquire new therapeutic candidates and therapies.

Our future capital requirements depend on many factors, including:

the number and characteristics of the future product candidates we pursue;

the scope, progress, results and costs of researching and developing any of our future product candidates on our own, including conducting preclinical research and clinical trials;

the timing of, and the costs involved in, obtaining regulatory approvals for any future product candidates we develop independently;

the cost of commercialization activities, if any, of any future product candidates we develop independently that are approved for sale, including marketing, sales and distribution costs;

the cost of manufacturing our future product candidates and any products we successfully commercialize independently, including manufacturing for clinical development;

the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patents, including litigation costs and the outcome of such litigation; and

the level of future sales of paritaprevir-containing regimens and the resulting levels of annually tiered royalties on paritaprevir, as well as the level of potential sales, if any, of ABT-493-containing regimens. Additional funds may not be available if and when we need them, on terms that are acceptable to us, or at all. Our ability to raise funds will depend on financial, economic and market conditions and other factors, many of which are beyond our control. If adequate funds are not available to us on a timely basis, we may be required to delay, limit, reduce or terminate preclinical studies, clinical trials or other research and development activities for one or more of our product candidates.

Table of Contents

Our government funded contract for our antibiotic program, which was concluded in fiscal 2015, is subject to audit and adjustments that could affect our previously reported revenues.

Our contract with the National Institute of Allergy and Infectious Diseases, or NIAID, a division of the National Institutes of Health, an agency of the United States Department of Health and Human Services, to support our antibiotic program, was completed in fiscal 2015. Our contract related costs and fees, including allocated indirect costs, are subject to audits and adjustments by negotiation between us and the U.S. government. As part of the audit process, the government audit agency verifies that all charges made by a contractor against a contract are legitimate and appropriate. Audits may result in recalculation of contract revenues and non-reimbursement of some contract costs and fees. Any audits of our contract related costs and fees could result in material adjustments to our reported revenue and require payments by us to the U.S. government.

Risks Related to Development, Clinical Testing and Regulatory Approval of Our Product Candidates

Clinical drug development involves a lengthy and expensive process with uncertain timelines and uncertain outcomes. If clinical trials are prolonged or delayed, we, AbbVie or any other future collaborator may be unable to commercialize our product candidates on a timely basis.

Clinical testing is expensive and, depending on the stage of development, can take a substantial time period to complete. Its outcome is inherently uncertain, and failure can occur at any time during clinical development. None of our product candidates in our pipeline other than paritaprevir has yet advanced beyond Phase 2 clinical trials. Any future clinical trials of our other product candidates may fail to demonstrate sufficient safety and efficacy. Moreover, regulatory and administrative delays for any product candidate in our pipeline may adversely affect our or any collaborator's clinical development plans and jeopardize our or any collaborator's ability to attain product approval, commence product sales and compete successfully against other therapies.

Clinical trials can be delayed for a variety of reasons, including delays related to:

reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

failure of third-party contractors, such as CROs, or investigators to comply with regulatory requirements;

delay or failure in obtaining the necessary approvals from regulators or institutional review boards, or IRBs, in order to commence a clinical trial at a prospective trial site, or their suspension or termination of a clinical trial once commenced;

difficulty in recruiting suitable patients to participate in a trial;

difficulty in having patients complete a trial or return for post-treatment follow-up;

clinical sites deviating from trial protocol or dropping out of a trial;

problems with drug product or drug substance storage and distribution;

adding new clinical trial sites;

our inability to manufacture, or obtain from third parties, adequate supply of drug product sufficient to complete our preclinical studies and clinical trials;

governmental or regulatory delays and changes in regulatory requirements, policy and guidelines, including guidelines specifically addressing requirements for the development of DAAs for the treatment of HCV;

program discontinuations or clinical holds for a program of a competitor, which could increase the level of regulatory scrutiny or delay data review or other response times by regulators with respect to one of our programs in the same class as the competitor's program; or

varying interpretations of data by the FDA, the EMA and similar foreign regulatory agencies.

Table of Contents

The results of any Phase 3 clinical trial may not be adequate to support marketing approval for one of AbbVie's regimens containing a protease inhibitor. These clinical trials are lengthy and usually involve from many hundreds to thousands of patients. In addition, if the FDA or the EMA disagrees with AbbVie's choice of the key testing criteria, or primary endpoint, or the results for the primary endpoint are not robust or significant relative to the control group of patients not receiving the experimental therapy or are subject to confounding factors, or are not adequately supported by other study endpoints, the FDA or the EMA, or both, may refuse to approve AbbVie's product candidate. The FDA or the EMA also may require additional clinical trials as a condition for approving any of these product candidates. AbbVie estimates that it will likely be 2017 before an NDA for one of AbbVie's HCV treatment regimens containing one of our product candidates other than paritaprevir could be approved by the FDA or the EMA.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the IRBs of the institutions in which such trial is being conducted, by any Data Safety Monitoring Board, or DSMB, for such trial, or by the FDA, the EMA or other regulatory authorities. Such authorities may impose such a suspension or termination due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. In addition, delays can occur due to safety concerns arising from trials or other clinical data regarding another company's product candidate in the same compound class as one of ours. If we or our collaborators experience delays in the completion of, or termination of, any clinical trial of one of our product candidates, the commercial prospects of the product candidate will be harmed, and our or our collaborators' ability to commence product sales and generate product revenues from the product candidate will be delayed. In addition, any delays in completing our clinical trials will increase our costs and slow down our product candidate development and approval process. Any of these occurrences may harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.

EDP-494 or any product candidate in our current NASH program may have undesirable side effects which may delay or prevent marketing approval, or, if approval is received, require our product candidate to be taken off the market, require us to include safety warnings or otherwise limit sales.

We have designed our EDP-494 to be substantially different from another cyclophilin inhibitor, alisporivir. The combination of interferon with ribavirin and alisporivir has been associated with pancreatitis in patients receiving treatment with the combination during clinical trials. We do not plan to develop EDP-494 in combination with interferon or ribavirin, which have also been associated with pancreatitis in other clinical contexts not including a cyclophilin inhibitor. However, we cannot give any assurance that EDP-494 will not result in any unforeseen side effects.

In our NASH program we are developing agonists of the farnesoid X receptor, or FXR, that are designed to bind to that receptor and then trigger a response from it. With the exception of one drug approved to treat cholesterol gallstone dissolution and a rare lipid storage disease, there are no approved FXR agonists and the adverse effects from long-term exposure to this drug class are unknown. Unforeseen side effects from any of our product candidates could arise either during clinical development or, if approved, after the approved product has been marketed. The range and potential severity of possible side effects from systemic therapies like FXR agonists is significant.

In addition, our drug candidates for NASH will be developed as a potential treatment for a severe disease that commonly occurs in patients with other serious conditions, including metabolic syndrome and diabetes. Any clinical trials in NASH will necessarily be conducted in patient populations that will be more prone than the general

population to exhibit certain disease states or adverse events. It may be difficult to discern whether

Table of Contents

certain events or symptoms observed during our trials were due to our drug candidates or placebo, resulting in our company and our development programs being negatively affected even if such events or symptoms are ultimately determined to be unlikely related to our drug candidates.

If any of our product candidates receives marketing approval and we or others later identify undesirable or unacceptable side effects caused by such products:

regulatory authorities may require the addition of labeling statements, specific warnings, a contraindication or field alerts to physicians and pharmacies;

we may be required to change instructions regarding the way the product is administered, conduct additional clinical trials or change the labeling of the product;

we may be subject to limitations on how we may promote the product;

sales of the product may decrease significantly;

regulatory authorities may require us to take our approved product off the market;

we may be subject to litigation or product liability claims; and

our reputation may suffer.

Any of these events could prevent us or any potential future collaborator from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenue from the sale of any product we develop with EDP-494 or any of our FXR agonists for NASH.

If we, or AbbVie in the case of our protease inhibitor product candidates, are required to suspend or discontinue clinical trials due to side effects or other safety risks associated with our product candidates, or if we or AbbVie are required to conduct studies on the long-term effects associated with the use of any of those product candidates, efforts to commercialize any of those product candidates could be delayed or halted.

Clinical trials involving our product candidates may be suspended or terminated at any time for a number of safety-related reasons. For example, we or AbbVie may voluntarily suspend or terminate clinical trials if at any time one of our product candidates, or a combination therapy including any of them, presents an unacceptable safety risk to the clinical trial patients. In addition, IRBs or regulatory agencies may order the temporary discontinuation or termination of clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements, including if they present an unacceptable safety risk to patients.

Administering any product candidate to humans may produce undesirable side effects. The existence of undesirable side effects resulting from any of our product candidates, or a combination therapy including any of them, could cause

us, AbbVie or regulatory authorities, such as the FDA or EMA, to interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or EMA or other regulatory agencies denying further development or approval of our product candidates for any or all targeted indications. This, in turn, could prevent us or AbbVie from commercializing our product candidates.

Results of earlier clinical trials may not be predictive of the results of later-stage clinical trials.

The results of preclinical studies and early clinical trials of our product candidates, whether ABT-493, EDP-494 , EDP-239 or any of our future product candidates, may not be predictive of the results of later-stage clinical trials, if any. In addition, results of Phase 3 clinical trials in one or more ethnic groups are not necessarily indicative of results in other ethnic groups. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy results despite having progressed through preclinical studies and initial clinical trials. Many companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to adverse safety profiles or lack of efficacy, notwithstanding promising results in earlier studies. Similarly, future clinical trial results may not be successful for these or other reasons.

Table of Contents

Product candidate development risk is heightened by any changes in the planned clinical trials compared to the completed clinical trials. As product candidates are developed through preclinical early and late stage clinical trials towards approval and commercialization, it is customary that various aspects of the development program, such as manufacturing and formulation, are altered along the way in an effort to optimize processes and results. Such changes carry the risk that they will not achieve these intended objectives. Any of these changes could make the results of planned clinical trials or other future clinical trials we or our collaborators may initiate less predictable and could cause our product candidates to perform differently, which could delay completion of clinical trials, delay approval of our product candidates and/or jeopardize our or our collaborators' ability to commence product sales and generate revenues.

The regulatory approval processes of the FDA, the EMA and other comparable foreign authorities are lengthy, time-consuming and inherently unpredictable, and if we or our collaborators are ultimately unable to obtain timely regulatory approval for our product candidates, our business will be substantially harmed.

The regulatory approval process is expensive and, while the time required to gain FDA and foreign regulatory approval is uncertain, it may take years. Regulatory approvals are unpredictable and depend upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of preclinical and clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. We or our collaborators may be required to undertake and complete certain additional preclinical studies to generate toxicity and other data required to support the submission of a New Drug Application, or NDA, to the FDA or comparable application to other regulatory authorities. AbbVie obtained all regulatory approvals for paritaprevir, our sole approved product. We have not obtained regulatory approval by ourselves for any of our other product candidates and it is possible that none of our existing product candidates or any of our future product candidates will ever obtain regulatory approval. Furthermore, approval in the United States by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA.

Our product candidates could fail to receive regulatory approval for many reasons, including the following:

the FDA, the EMA or other comparable foreign regulatory authorities may disagree with the design or implementation of our or our collaborators' clinical trials;

we or our collaborators may be unable to demonstrate to the satisfaction of the FDA, the EMA or other comparable foreign regulatory authorities that a product candidate is safe and effective for its proposed indication;

the results of clinical trials may not meet the level of statistical significance required by the FDA, the EMA or other comparable foreign regulatory authorities for approval;

we or our collaborators may be unable to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;

the FDA, the EMA or other comparable foreign regulatory authorities may disagree with our or our collaborators' interpretation of data from preclinical studies or clinical trials;

the data collected from clinical trials of our product candidates may not be sufficient to support the submission of an NDA or other submissions or to obtain regulatory approval in the United States or elsewhere;

the FDA or comparable foreign regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which we or our collaborators contract for clinical and commercial supplies of any of our product candidate; and

the approval policies or regulations of the FDA, the EMA or other comparable foreign regulatory authorities may significantly change in a manner rendering our or our collaborators' clinical data insufficient for approval.

Table of Contents

We and our collaborators cannot be assured that after spending substantial time and resources, we or our collaborators will obtain regulatory approvals in any desired jurisdiction. Even if we or our collaborators were to obtain approval, regulatory authorities may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Significant clinical trial delays could allow our competitors to obtain marketing approval before we or our collaborators do or could in effect shorten the patent protection period during which we may have the exclusive right to commercialize our product candidates. In addition, we or our collaborators may not be able to ultimately achieve the prices intended for our products. In many foreign countries, including those in the European Union, a product candidate must be approved for reimbursement before it can be approved for sale in that country. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates and our business.

Even if we receive regulatory approval for any of our product candidates we develop independently, we will be subject to ongoing FDA obligations and continued regulatory review in other jurisdictions, which may result in significant additional expense. Additionally, our product candidates, if approved, could be subject to labeling and other restrictions and market withdrawal and we may be subject to penalties if we or our collaborators fail to comply with regulatory requirements or experience unanticipated problems with our products.

Any regulatory approvals that we receive for our product candidates we develop independently may be subject to limitations on the approved indicated uses for which the product may be marketed or subject to certain conditions of approval, or may contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the product candidate.

In addition, if the FDA approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, as well as continued compliance with current good manufacturing practices, or cGMP, and good clinical practices, or GCP, for any clinical trials that we or our collaborators conduct post-approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market or voluntary or mandatory product recalls;

fines, warning letters or holds on any post-approval clinical trials;

refusal by the FDA to approve pending applications or supplements to approved applications filed by us or our collaborators, or suspension or revocation of product license approvals;

product seizure or detention, or refusal to permit the import or export of products; and

injunctions or the imposition of civil or criminal penalties.

We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we or our collaborators are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we or our collaborators are not able to maintain regulatory compliance, our product candidates may lose any marketing approval that may have been obtained and we may not achieve or sustain profitability, which would adversely affect our business.

Table of Contents

We, or only AbbVie in the case of paritaprevir or ABT-493, may delay or terminate the development of a product candidate at any time if we or AbbVie believe the perceived market or commercial opportunity does not justify further investment, which could materially harm our business and adversely affect our stock price.

Even though the results of preclinical studies and clinical trials that we or AbbVie have conducted or may conduct in the future may support further development of one or more of our product candidates, we, or only AbbVie in the case of ABT-493, may delay, suspend or terminate the future development of a product candidate at any time for strategic, business, financial or other reasons, including the determination or belief that the emerging profile of the product candidate is such that it may not receive regulatory approvals in key markets, gain meaningful market acceptance, otherwise provide any competitive advantages in its intended indication or market or generate a significant return to stockholders. Such a delay, suspension or termination could materially harm our business, results of operations or financial condition. In addition, AbbVie has the right to make decisions regarding the development and commercialization of paritaprevir and ABT-493 without consulting us, and may make decisions with which we do not agree.

Our internal computer systems, or those of our collaborators, CROs or other contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of development programs for our product candidates.

Despite the implementation of security measures, our internal computer systems and those of our collaborators, CROs, and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our independent drug development programs or those of our collaborators. For example, the loss of clinical trial data from ongoing or future clinical trials for any of our product candidates could result in delays in regulatory approval efforts and significantly increase costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to data or applications, or inappropriate disclosure of confidential or proprietary information, we or our collaborators could incur liability and the further development of our product candidates could be delayed.

Risks Related to Commercialization of Our Product Candidates

If, in the future, we are unable to establish our own sales, marketing and distribution capabilities or enter into licensing or collaboration agreements for these purposes, we may not be successful in commercializing any future product candidates.

We do not have a sales or marketing infrastructure and have no sales, marketing or distribution experience. We will seek to either build our own commercial infrastructure to commercialize any future products if and when they are approved, or enter into licensing or collaboration agreements where our collaborator is responsible for commercialization, as in the case of our collaboration with AbbVie, or where we have the right to assist in the future development and commercialization of such products.

To develop internal sales, distribution and marketing capabilities, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that any of our proprietary product candidates will be approved. For product candidates for which we decide to perform sales, marketing and distribution functions ourselves, we could face a number of additional risks, including:

our inability to recruit and retain adequate numbers of effective sales and marketing personnel;

the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future products;

the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and

Table of Contents

unforeseen costs and expenses associated with creating an independent sales and marketing organization. Where and when appropriate, we may elect to utilize contract sales forces or distribution partners to assist in the commercialization of our product candidates. If we enter into arrangements with third parties to perform sales, marketing and distribution services for our products, the resulting revenues or the profitability from these revenues to us are likely to be lower than if we had sold, marketed and distributed our products ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of these third parties may fail to devote the necessary resources and attention to sell, market and distribute our products effectively.

If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

Our commercial success depends upon significant market acceptance among physicians, patients and healthcare payors of products containing paritaprevir or any other protease inhibitor product candidates licensed to AbbVie, if approved, as well as similar market acceptance of any future product candidates we plan to develop independently or in collaboration with others.

Paritaprevir, as well as ABT-493 or any other product candidate that we may develop in the future that obtains regulatory approval, whether as part of a combination therapy or as a monotherapy, may not gain market acceptance among physicians, healthcare payors, patients and the medical community. For example, the standard of care in HCV is likely to continue to evolve rapidly as many new product candidates are being developed and tested. The degree of market acceptance of any product for which we or any collaborator of ours receives approval for commercial sale depends on a number of factors, including:

the efficacy and safety of treatment regimens containing one of our product candidates, as demonstrated in clinical trials, and the degree to which these regimens represent a clinically meaningful improvement in care as compared with other available therapies;

the clinical indications for which any treatment regimen containing one of our product candidates become approved;

acceptance among physicians, major operators of clinics, payors and patients of any treatment regimen containing one of our product candidates;

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the potential and perceived advantages of treatment regimens containing one of our product candidates over alternative treatments;

the cost of treatment of regimens containing one of our product candidates in relation to alternative treatments;

the availability of adequate reimbursement and pricing by third parties and government authorities and successful negotiation of favorable agreements with payors by us or our collaborator, as well as the impact of any agreements among any of the foregoing and one or more of our competitors limiting access to our product in favor of one or more competitive products;

the continued growth and longevity of the HCV drug market;

the levels of funding for HCV treatment provided by government-funded healthcare;

the relative convenience and ease of administration of any treatment regimen containing one of our product candidates compared to competitive regimens;

Table of Contents

the prevalence and severity of adverse side effects, whether involving the use of treatment regimens containing one of our products candidates or similar, competitive treatment regimens; and

the effectiveness of our or our collaborators sales and marketing efforts.

If treatment regimens containing one of our product candidates are approved and then fail to achieve market acceptance, we may not be able to generate significant additional revenue. Further, if new, more favorably received therapies are introduced after any such regimen achieves market acceptance, then we may not be able to maintain that market acceptance over time.

Even if AbbVie successfully commercializes paritaprevir in its HCV treatment regimens, or even if we, or AbbVie is in the case of ABT-493, are able to commercialize any other treatment regimen containing one of our product candidates, the resulting products may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives in the United States, which would harm our business.

The regulations that govern marketing approvals, pricing and reimbursement for new drug products vary widely from country to country. In the United States, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act of 2010, collectively referred to as the ACA, may significantly change the way healthcare is financed by both governmental and private insurers. While we cannot predict what impact on federal reimbursement policies this law will have in general or specifically on any product or regimen that we or any of our collaborators commercializes, the ACA may result in downward pressure on pharmaceutical reimbursement, which could negatively affect market acceptance of new products. In addition, although the United States Supreme Court has upheld the constitutionality of most of the ACA, some states have indicated that they intend not to implement certain sections of the ACA, and some members of the U.S. Congress are still working to repeal the ACA. We cannot predict whether these challenges will continue or other proposals will be made or adopted, or what impact these efforts may have on us or AbbVie. AbbVie or any collaborators ability to commercialize any products successfully also will depend in part on the extent to which reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. We cannot be sure that reimbursement will be available for any product that we or any collaborator commercialize and, if reimbursement is available, the level of reimbursement. In addition, reimbursement may impact the demand for, or the price of, any product candidate for which we or a collaborator obtains marketing approval. If reimbursement is not available or is available only to limited levels, we or AbbVie may not be able to successfully commercialize any product candidate for which marketing approval is obtained.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or comparable authorities in other jurisdictions. Moreover, eligibility for reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also be insufficient to cover our and any collaborator s costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports

of drugs from countries where they may be sold at lower prices than in the United States. Third-party payors often rely upon Medicare coverage policy and payment limitations

Table of Contents

in setting their own reimbursement policies. Our or any collaborator's inability to promptly obtain coverage and profitable payment rates from both government-funded and private payors for any approved products that any collaborator or we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

Foreign governments tend to impose strict price controls, which may adversely affect our future profitability.

In most foreign countries, particularly in the European Union, prescription drug pricing and/or reimbursement is subject to governmental control. In those countries that impose price controls, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we or our collaborators may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies.

Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we or our collaborators might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues that are generated from the sale of the product in that country. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, or if there is competition from lower priced cross-border sales, our results of operations will be negatively affected.

Risks Related to Our Dependence on Third Parties

We may not be successful in establishing new product collaborations, which could adversely affect our ability to develop and commercialize one or more of our future product candidates. If we are unsuccessful in maintaining or forming alliances on favorable terms, our business may not succeed.

We may seek to enter into additional product collaborations in the future, including alliances with other biotechnology or pharmaceutical companies, to enhance and accelerate the development and commercialization of one or more of our future product candidates. We face significant competition in seeking appropriate collaborators and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish other product collaborations or other alternative arrangements for any future product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy. Even if we are successful in our efforts to establish product collaborations, the terms that we agree upon may not be favorable to us and we may not be able to maintain such product collaborations if, for example, development or approval of a product candidate is delayed or sales of an approved product are disappointing.

If our existing collaboration agreement with AbbVie is terminated, or if we determine that entering into other product collaborations is in our best interest but we either fail to enter into, delay in entering into or fail to maintain such collaborations:

the development of certain of our current or future product candidates may be terminated or delayed;

our cash expenditures related to development of certain of our future product candidates would increase significantly and we may need to seek additional financing;

we may be required to hire additional employees or otherwise develop expertise, such as clinical, regulatory, sales and marketing expertise, which we do not currently have;

Table of Contents

we will bear all of the risk related to the development of any such product candidates; and

the competitiveness of any product candidate that is commercialized could be reduced.

We intend to rely on third-party manufacturers to produce our clinical product candidate supplies and any commercial supplies of any approved future product candidates. Any failure by a third-party manufacturer to produce acceptable supplies for us may delay or impair our ability to initiate or complete our clinical trials or sell any resulting product.

We do not currently own or operate any manufacturing facilities. We plan to work with third-party contract manufacturers to produce sufficient quantities of any future product candidates for preclinical testing, clinical trials and commercialization. If we are unable to arrange for such a third-party manufacturing source, or fail to do so on commercially reasonable terms, we may not be able to successfully produce, develop and market our future product candidates, or we may be delayed in doing so.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including reliance on the third party for regulatory compliance and quality control and assurance, volume production, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control (including a failure to synthesize and manufacture our product candidates in accordance with our product specifications) and the possibility of termination or nonrenewal of the agreement by the third party at a time that is costly or damaging to us. In addition, the FDA and other regulatory authorities require that our product candidates be manufactured according to cGMP and similar foreign standards. Pharmaceutical manufacturers and their subcontractors are required to register their facilities and/or products manufactured at the time of submission of the marketing application and then annually thereafter with the FDA and certain state and foreign agencies. They are also subject to periodic unannounced inspections by the FDA, state and other foreign authorities. Any subsequent discovery of problems with a product, or a manufacturing or laboratory facility used by us or our collaborators, may result in restrictions on the product or on the manufacturing or laboratory facility, including marketed product recall, suspension of manufacturing, product seizure, or a voluntary withdrawal of the drug from the market. Any failure by our third-party manufacturers to comply with cGMP or failure to scale up manufacturing processes, including any failure to deliver sufficient quantities of product candidates in a timely manner, could lead to a delay in, or failure to obtain, regulatory approval of any of our product candidates.

We plan to rely on third-party manufacturers to purchase from third-party suppliers the materials necessary to produce our future product candidates for our clinical studies. There are a small number of suppliers for certain capital equipment and materials that we plan to use to manufacture our drugs. Such suppliers may not sell these materials to our manufacturers at the times we need them or on commercially reasonable terms. Moreover, we currently do not have any agreements for the production of these materials. Although we do not intend to begin a clinical trial unless we believe we have a sufficient supply of a product candidate to complete the clinical trial, any significant delay in the supply of a product candidate or the material components thereof for an ongoing clinical trial due to the need to replace a third-party manufacturer could considerably delay completion of our clinical studies, product testing and potential regulatory approval of our product candidates. If our manufacturers or we are unable to purchase these materials after regulatory approval has been obtained for our product candidates, the commercial launch of our product candidates would be delayed or there would be a shortage in supply, which would impair our ability to generate revenue from the sale of our product candidates.

Contract manufacturers may not be able to manufacture our product candidates at a cost or in quantities or in a timely manner necessary to develop and commercialize them. If we successfully commercialize any of our product candidates, to meet our projected needs we may need to find third parties that will increase their scale of production,

or we may have to establish or access large-scale commercial manufacturing capabilities. We may require additional funds, personnel and other resources to build, lease or operate any manufacturing facility.

Table of Contents

A portion of our research and a portion of our manufacturing of certain key intermediates used in the manufacture of the active pharmaceutical ingredients for our future product candidates takes place in China through third-party researchers and manufacturers, a significant disruption in the operation of those researchers or manufacturers or political unrest in China could materially adversely affect our business, financial condition and results of operations.

Although manufacturing for our lead product candidates paritaprevir and ABT-493 is being conducted by AbbVie, we have relied on third parties located in China to manufacture and supply certain key intermediates used in the manufacture of our active pharmaceutical ingredients, or API, for our research product candidates, and we expect to continue to use such third party manufacturers for such intermediates for any future product candidates we develop independently. Any disruption in production or inability of our manufacturers in China to produce adequate quantities to meet our needs, whether as a result of a natural disaster or other causes, could impair our ability to operate our business on a day-to-day basis and to continue our research and development of our future product candidates. We also use contract researchers in China to conduct a portion of our search for our early stage programs. Any disruption in the team conducting that research could cause delays in one or more of our research programs and could require us to curtail one or more programs, at least until we could contract for that research to be done elsewhere. Furthermore, since these researchers and manufacturers are located in China, we are exposed to the possibility of product supply disruption and increased costs in the event of changes in the policies of the Chinese government, political unrest or unstable economic conditions in China. Any of these matters could materially and adversely affect our business and results of operations. Any recall of the manufacturing lots or similar action regarding our API used in clinical trials could delay the trials or detract from the integrity of the trial data and its potential use in future regulatory filings. In addition, manufacturing interruptions or failure to comply with regulatory requirements by any of these manufacturers could significantly delay clinical development of potential products and reduce third-party or clinical researcher interest and support of proposed trials. These interruptions or failures could also impede commercialization of our future product candidates and impair our competitive position. Further, we may be exposed to fluctuations in the value of the local currency in China. Future appreciation of the local currency could increase our costs. In addition, our labor costs could continue to rise as wage rates increase due to increased demand for skilled laborers and the availability of skilled labor declines in China.

We will rely on third parties to monitor, support, conduct and/or oversee clinical trials of our future product candidates that we develop independently and, in some cases, to maintain regulatory files for those product candidates. If we are not able to maintain or secure agreements with such third parties on acceptable terms, if these third parties do not perform their services as required, or if these third parties fail to timely transfer any regulatory information held by them to us, we may not be able to obtain regulatory approval for, or commercialize, our product candidates.

We will rely on academic institutions, CROs, hospitals, clinics and other third-party collaborators who are outside our control to monitor, support, conduct and/or oversee preclinical and clinical studies of our future product candidates. We will also rely on third parties to perform clinical trials on our future product candidates when they reach that stage. As a result, we have less control over the timing and cost of these studies and the ability to recruit trial subjects than if we conducted these trials wholly by ourselves. If we are unable to maintain or enter into agreements with these third parties on acceptable terms, or if any such engagement is terminated, we may be unable to enroll patients on a timely basis or otherwise conduct our trials in the manner we anticipate. In addition, there is no guarantee that these third parties will devote adequate time and resources to our studies or perform as required by a contract or in accordance with regulatory requirements, including maintenance of clinical trial information regarding our future product candidates. If these third parties fail to meet expected deadlines, fail to timely transfer to us any regulatory information, fail to adhere to protocols or fail to act in accordance with regulatory requirements or our agreements with them, or if they otherwise perform in a substandard manner or in a way that compromises the quality or accuracy

of their activities or the data they obtain, then clinical trials of our future product candidates may be extended, delayed or terminated, or our data may be rejected by the FDA or regulatory agencies.

Table of Contents

To the extent we elect to enter into additional licensing or collaboration agreements to partner our future product candidates, our dependence on such relationships may adversely affect our business.

Our commercialization strategy for some of our future product candidates may depend on our ability to enter into collaboration agreements with other companies to obtain assistance and funding for the development and potential commercialization of these product candidates, similar to what we have done with AbbVie. Supporting diligence activities conducted by potential collaborators and negotiating the financial and other terms of a collaboration agreement are long and complex processes with uncertain results. Even if we are successful in entering into one or more additional collaboration agreements, collaborations can involve greater uncertainty for us, as we may have limited or no control over certain aspects of our collaborative programs. We may determine that continuing a collaboration under the terms provided is not in our best interest, and we may terminate the collaboration. Our collaborators could delay or terminate their agreements with us, and our product candidates subject to collaborative arrangements may never be successfully commercialized.

Further, our collaborators may develop alternative products or pursue alternative technologies either on their own or in collaboration with others, including our competitors, and the priorities or focus of our collaborators may shift such that our programs receive less attention or resources than we would like, or they may be terminated altogether. Any such actions by our collaborators may adversely affect our business prospects and ability to earn revenue. In addition, we could have disputes with our collaborators, such as the interpretation of terms in our agreements. Any such disagreements could lead to delays in the development or commercialization of any potential products or could result in time-consuming and expensive litigation or arbitration, which may not be resolved in our favor.

Even with respect to programs that we intend to commercialize ourselves, we may enter into agreements with collaborators to share in the burden of conducting clinical trials, manufacturing and marketing our product candidates or products. In addition, our ability to apply our proprietary technologies to develop proprietary compounds will depend on our ability to establish and maintain licensing arrangements or other collaborative arrangements with the holders of proprietary rights to such compounds. We may not be able to establish such arrangements on favorable terms or at all, and our collaborative arrangements may not be successful.

Risks Related to Our Intellectual Property Rights

We could be unsuccessful in obtaining or maintaining adequate patent protection for one or more of our product candidates.

Our commercial success will depend, in large part, on our ability to obtain and maintain patent and other intellectual property protection with respect to our product candidates. We cannot be certain that patents will be issued or granted with respect to our patent applications that are currently pending, or that issued or granted patents will not later be found to be invalid and/or unenforceable, be interpreted in a manner that does not adequately protect our products, or otherwise provide us with any competitive advantage. The patent position of biotechnology and pharmaceutical companies is generally uncertain because it involves complex legal and factual considerations. The standards applied by the United States Patent and Trademark Office and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, there is no uniform worldwide policy regarding patentable subject matter or the scope of claims allowable in biotechnology and pharmaceutical patents. Consequently, patents may not issue from our pending patent applications. As such, we do not know the degree of future protection that we will have on our proprietary products and technology, if any, and a failure to obtain adequate intellectual property protection with respect to our product candidates and proprietary technology could have a material adverse impact on our business.

In addition, certain of our activities have been funded, and may in the future be funded, by the United States federal government. For example, the preclinical and early clinical development of our lead antibiotic candidate, which we are no longer developing, was funded under a contract with NIAID, an entity of the United States federal government. When new technologies are developed with United States federal government funding,

Table of Contents

the government obtains certain rights in any resulting patents, including a nonexclusive license authorizing the government to use the invention for non-commercial purposes. These rights may permit the government to disclose our confidential information to third parties and to exercise march-in rights to use or allow third parties to use our patented technology. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the United States government-funded technology, or because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give preference to United States industry. In addition, United States government-funded inventions must be reported to the government and United States government funding must be disclosed in any resulting patent applications. In addition, our rights in such inventions are subject to certain requirements to manufacture products in the United States.

Issued patents covering one or more of our product candidates could be found invalid or unenforceable if challenged in court.

Despite measures we take to obtain patent and other intellectual property protection with respect to our product candidates and proprietary technology, any of our intellectual property rights could be challenged or invalidated. For example, if we were to initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the United States and in some other jurisdictions, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the United States Patent and Trademark Office, or the applicable foreign counterpart, or made a misleading statement, during prosecution. Although we believe that we have conducted our patent prosecution in accordance with the duty of candor and in good faith, the outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on a product candidate. Even if a defendant does not prevail on a legal assertion of invalidity and/or unenforceability, our patent claims may be construed in a manner that would limit our ability to enforce such claims against the defendant and others. Any loss of patent protection could have a material adverse impact on one or more of our product candidates and our business.

Enforcing our intellectual property rights against third parties may also cause such third parties to file other counterclaims against us, which could be costly to defend and could require us to pay substantial damages, cease the sale of certain products or enter into a license agreement and pay royalties (which may not be possible on commercially reasonable terms or at all). Any efforts to enforce our intellectual property rights are also likely to be costly and may divert the efforts of our scientific and management personnel.

Claims that our product candidates or the sale or use of our future products infringe the patent or other intellectual property rights of third parties could result in costly litigation or could require substantial time and money to resolve, even if litigation is avoided.

Our commercial success depends upon our ability to develop, manufacture, market and sell our product candidates and use our proprietary technology without infringing the intellectual property rights of others. We cannot guarantee that our product candidates or any uses of our product candidates do not and will not in the future infringe third-party patents or other intellectual property rights. Third parties might allege that we or our collaborators are infringing their patent rights or that we have misappropriated their trade secrets, or that we are otherwise violating their intellectual property rights, whether with respect to the manner in which we have conducted our research or to the composition,

use or manufacture of the compounds we have developed or are developing with our collaborators. Such third parties might resort to litigation against us or other parties we have

Table of Contents

agreed to indemnify, which litigation could be based on either existing intellectual property or intellectual property that arises in the future.

It is also possible that we failed to identify, or may in the future fail to identify, relevant patents or patent applications held by third parties that cover our product candidates. For example, applications filed before November 29, 2000 and certain applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Other patent applications in the United States and several other jurisdictions are published approximately 18 months after the earliest filing for which priority is claimed, with such earliest filing date being commonly referred to as the priority date. Furthermore, publication of discoveries in the scientific or patent literature often lags behind actual discoveries. Therefore, we cannot be certain that we or our collaborators were the first to invent, or the first to file patent applications on, our product candidates or for their uses, or that our product candidates will not infringe patents that are currently issued or that are issued in the future. In the event that a third party has also filed a patent application covering one of our product candidates or a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the U.S. Patent and Trademark Office or its foreign counterpart to determine priority of invention. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our products or their use.

In order to avoid or settle potential claims with respect to any patent or other intellectual property rights of third parties, we may choose or be required to seek a license from a third party and be required to pay license fees or royalties or both, which could be substantial. These licenses may not be available on acceptable terms, or at all. Even if we or any future collaborators were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced, by court order or otherwise, to cease some or all aspects of our business operations, if, as a result of actual or threatened patent or other intellectual property claims, we are unable to enter into licenses on acceptable terms. Further, we could be found liable for significant monetary damages as a result of claims of intellectual property infringement. For example, we have received, and may in the future receive, offers to license and demands to license from third parties claiming that we are infringing their intellectual property or owe license fees and, even if such claims are without merit, there can be no assurance that we will successfully avoid or settle such claims.

In addition, if AbbVie licenses or otherwise acquires rights to intellectual property controlled by a third party in various circumstances, for example, where a product could not be legally developed or commercialized in a country without the third-party intellectual property right, it is entitled under our collaboration agreement to decrease payments payable to us on a product-by-product basis and, in certain cases, on a country-by-country basis. Any of the foregoing events could harm our business significantly.

Defending against claims of patent infringement, misappropriation of trade secrets or other violations of intellectual property rights could be costly and time consuming, regardless of the outcome. Thus, even if we were to ultimately prevail, or to settle at an early stage, such litigation could burden us with substantial unanticipated costs. In addition, litigation or threatened litigation could result in significant demands on the time and attention of our management team, distracting them from the pursuit of other company business. Claims that our product candidates or the sale or use of our future products infringe, misappropriate or otherwise violate third-party intellectual property rights could therefore have a material adverse impact on our business.

Unfavorable outcomes in intellectual property litigation could limit our research and development activities and/or our ability to commercialize certain products.

If third parties successfully assert their intellectual property rights against us, we might be barred from using certain aspects of our technology, or barred from developing and commercializing certain products. Prohibitions against using certain technologies, or prohibitions against commercializing certain products, could be imposed by a court or by a settlement agreement between us and a plaintiff. In addition, if we are unsuccessful in defending

Table of Contents

against allegations that we have infringed, misappropriated or otherwise violated patent or other intellectual property rights of others, we may be forced to pay substantial damage awards to the plaintiff. There is inevitable uncertainty in any litigation, including intellectual property litigation. There can be no assurance that we would prevail in any intellectual property litigation, even if the case against us is weak or flawed. If litigation leads to an outcome unfavorable to us, we may be required to obtain a license from the intellectual property owner in order to continue our research and development programs or to market any resulting product. It is possible that the necessary license will not be available to us on commercially acceptable terms, or at all. Alternatively, we may be required to modify or redesign our products in order to avoid infringing or otherwise violating third-party intellectual property rights. This may not be technically or commercially feasible, may render our products less competitive, or may delay or prevent the entry of our products to the market. Any of the foregoing could limit our research and development activities, our ability to commercialize one or more product candidates, or both.

Most of our competitors are larger than we are and have substantially greater resources. They are, therefore, likely to be able to sustain the costs of complex intellectual property litigation longer than we could. In addition, the uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to conduct our clinical trials, continue our internal research programs, in-license needed technology, or enter into strategic partnerships that would help us bring our product candidates to market.

In addition, any future intellectual property litigation, interference or other administrative proceedings will result in additional expense and distraction of our personnel. An adverse outcome in such litigation or proceedings may expose us or any future strategic partners to loss of our proprietary position, expose us to significant liabilities, or require us to seek licenses that may not be available on commercially acceptable terms, if at all, each of which could have a material adverse effect on our business.

Intellectual property litigation may lead to unfavorable publicity that harms our reputation and causes the market price of our common stock to decline.

During the course of any intellectual property litigation, there could be public announcements of the results of hearings, rulings on motions, and other interim proceedings in the litigation. If securities analysts or investors regard these announcements as negative, the perceived value of our products, programs or intellectual property could be diminished. Accordingly, the market price of our common stock may decline. Such announcements could also harm our reputation or the market for our future products, which could have a material adverse effect on our business.

Confidentiality agreements with employees and third parties may not prevent unauthorized disclosure of trade secrets and other proprietary information.

In addition to patents, we rely on trade secrets, technical know-how and proprietary information concerning our business strategy and product candidates in order to protect our competitive position in the field of HCV, other antivirals and liver disease. In the course of our research and development activities and our business activities, we often rely on confidentiality agreements to protect our proprietary information. Such confidentiality agreements are used, for example, when we talk to vendors of laboratory or clinical development services or potential strategic partners. In addition, each of our employees is required to sign a confidentiality agreement and invention assignment agreement upon joining our company. We take steps to protect our proprietary information, and our confidentiality agreements and invention assignment agreements are carefully drafted to protect our proprietary interests. Nevertheless, there can be no guarantee that an employee or an outside party will not make an unauthorized disclosure of our proprietary confidential information. This might happen intentionally or inadvertently. It is possible that a competitor will make use of such information, and that our competitive position will be compromised, in spite of any legal action we might take against persons making such unauthorized disclosures. In addition, to the extent that our

employees, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Table of Contents

Trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, business partners or outside scientific collaborators might intentionally or inadvertently disclose our trade secret information to competitors or our trade secrets may otherwise be misappropriated. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States sometimes are less willing than United States courts to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Our collaborators may have rights to publish data and other information to which we have rights. In addition, we sometimes engage individuals or entities to conduct research relevant to our business. The ability of these individuals or entities to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to certain contractual limitations. These contractual provisions may be insufficient or inadequate to protect our confidential information. If we do not apply for patent protection prior to such publication, or if we cannot otherwise maintain the confidentiality of our proprietary technology and other confidential information, then our ability to obtain patent protection or to protect our trade secret information may be jeopardized, which could adversely affect our business.

Intellectual property rights do not necessarily protect us from all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative:

others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of the patents that we or our collaborators own or have exclusively licensed;

we or our collaborators or any future collaborators might not have been the first to make the inventions covered by the issued patents or pending patent applications that we own or may in the future exclusively license, which could result in the patent applications not issuing or being invalidated after issuing;

we or our collaborators or any future collaborators might not have been the first to file patent applications covering certain of our inventions, which could result in the patent applications not issuing or being invalidated after issuing;

the ownership of the intellectual property arising out of our collaborations is subject to complex legal and factual issues, and in certain circumstances our collaborators may own or jointly own important intellectual property relating to our product candidates. Although we have rights to such intellectual property under our collaboration agreements, such rights could potentially be lost or diminished if the applicable collaboration agreement is terminated, which could affect our ability to commercialize our product candidates;

others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;

it is possible that our pending patent applications will not lead to issued patents;

issued patents that we own or have exclusively licensed may not provide us with any competitive advantages, or may be held invalid or unenforceable, as a result of legal challenges by our competitors; we may obtain patents for certain compounds many years before we obtain marketing approval for products containing such compounds, and because patents have a limited life, which may begin to run prior to the commercial sale of the related product, the commercial value of our patents may be limited;

our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets;

Table of Contents

we may fail to develop additional proprietary technologies that are patentable;

the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States, or we may fail to apply for or obtain adequate intellectual property protection in all the jurisdictions in which we operate; and

the patents of others may have an adverse effect on our business, for example by preventing us from marketing one or more of our product candidates for one or more indications.

Any of the aforementioned threats to our competitive advantage could have a material adverse effect on our business.

Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with many other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining, maintaining and enforcing patents in the biopharmaceutical industry involves both technological complexity and legal complexity. Therefore, obtaining, maintaining and enforcing biopharmaceutical patents is costly, time-consuming and inherently uncertain. In addition, recent legislative and judicial developments in the United States and elsewhere have in some cases narrowed the protection afforded to patent owners, made patents more difficult to obtain, or increased the uncertainty regarding the ability to obtain, maintain and enforce patents. For example, Congress recently passed patent reform legislation, and may pass patent reform legislation in the future. The United States Supreme Court has ruled on several patent cases in recent years, and in certain circumstances has narrowed the scope of patent protection available or otherwise weakened the rights of patent owners. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions and actions by the United States Congress, the federal courts, the United States Patent and Trademark Office, and their respective foreign counterparts, the laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to maintain and enforce our existing patents and patents that we might obtain in the future.

Risks Related to Industry

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.

As has been widely reported, global credit and financial markets have been experiencing extreme disruptions over the past several years, including declines in consumer confidence, declines in economic growth, and uncertainty about economic stability. There can be no assurance that deterioration in credit and financial markets and confidence in economic conditions will not occur. Our general business strategy may be adversely affected by the volatile business environment and continued unpredictable and unstable market conditions, particularly for securities of biotechnology companies such as our common stock. There is a possibility that our stock price may decline, due in part to the volatility of the stock market and any general economic downturn. If the current equity and credit markets become more volatile, deteriorate or do not improve, it may make any debt or equity financing more difficult to secure, more costly and/or more dilutive if our circumstances change and we seek such financing. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon our business and clinical development plans. In addition, there is a risk that one or more of our current service providers, manufacturers and other partners

may not survive these difficult economic times, which could directly affect our ability to attain our operating goals on schedule and on budget.

Table of Contents

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability as a result of the clinical testing of our product candidates, and we will face an even greater risk if we commercialize any product candidates. For example, we may be sued if any of our product candidates, including any that are developed in combination therapies, allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. There is also risk that third parties we have agreed to indemnify could incur liability.

Regardless of the merits or eventual outcome, liability claims may result in:

decreased demand for our product candidates or any resulting products;

injury to our reputation;

withdrawal of clinical trial participants;

costs to defend the related litigation;

a diversion of management's time and our resources;

substantial monetary awards to trial participants or patients;

product recalls, withdrawals or labeling, marketing or promotional restrictions;

loss of revenue;

the inability to commercialize our product candidates; and

a decline in our stock price.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop. We currently carry

product liability insurance covering our clinical studies in the amount of \$5.0 million in the aggregate. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

Our relationships with customers and third-party payors in the United States and elsewhere will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors in the United States and elsewhere play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal, state and foreign healthcare laws and regulations include the following:

the federal healthcare anti-kickback statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in

Table of Contents

kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal and state healthcare programs such as Medicare and Medicaid;

the federal False Claims Act imposes criminal and civil penalties, including civil whistleblower or *qui tam* actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;

the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program and also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;

the federal false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services;

the federal transparency requirements under the Patient Protection and Affordable Care Act of 2010 requires manufacturers of drugs, devices, biologics and medical supplies to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests;

analogous state laws and regulations, such as state anti-kickback and false claims laws, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers, and some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government in addition to requiring drug manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures; and

analogous anti-kickback, fraud and abuse and healthcare laws and regulations in foreign countries.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations, which could have a material adverse effect on our business. If any of the physicians or other providers or entities with whom we expect to do business, including our collaborators, are found not to be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs, which could also

materially affect our business.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials or our or third parties disposal of

Table of Contents

hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

We may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

We maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials. This insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of hazardous or radioactive materials.

Risks Related to Our Common Stock

Our stock price has been, and is likely to continue to be, volatile, and thus our stockholders could incur substantial losses.

Our stock price has been volatile and could be subject to wide fluctuations in response to various factors, many of which are beyond our control. Since our initial public offering in March 2013, the price of our common stock on The NASDAQ Global Select Market has ranged from \$16.49 to \$52.58. The stock market in general and the market for biopharmaceutical companies, and for those developing potential therapies for HCV in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, you may not be able to sell your common stock at or above your purchase price, if at all. The market price for our common stock may be influenced by many factors, including:

actions by AbbVie regarding HCV treatment regimens containing any of our product candidates it is developing, including announcements regarding clinical or regulatory developments or our collaboration;

market expectations about and response to the levels of sales or scripts achieved by, or the announced prices or discounts for, AbbVie's paritaprevir-containing HCV treatment regimens or competitive HCV drugs;

failure of AbbVie's paritaprevir-containing HCV treatment regimens to achieve commercial success;

results from or delays of clinical trials of our product candidates, as well as results of regulatory reviews relating to the approval of our product candidates;

new products, product candidates or new uses for existing products or technologies introduced or announced by our competitors and the timing of these introductions or announcements;

our or our collaborator's decision to initiate a clinical trial, not to initiate a clinical trial or to terminate an existing clinical trial;

the results of our efforts to discover or develop additional product candidates;

our dependence on third parties, including our collaborators, CROs, clinical trial sponsors and clinical investigators;

regulatory or legal developments in the United States or other countries;

developments or disputes concerning patent applications, issued patents or other proprietary rights;

the recruitment or departure of key scientific or management personnel;

our ability to commercialize our future product candidates we develop independently, if approved;

the level of expenses related to any of our product candidates or clinical development programs;

actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;

Table of Contents

period-to-period variations in our financial results or those of companies that are perceived to be similar to us;

sales of common stock by us or our stockholders in the future, as well as the overall trading volume of our common stock;

changes in the structure of healthcare payment systems or other actions that affect the effective reimbursement rates for treatment regimens containing our products or for competitive regimens;

market conditions in the pharmaceutical and biotechnology sectors;

general economic, industry and market conditions and other factors that may be unrelated to our operating performance or the operating performance of our competitors, including changes in market valuations of similar companies; and

the other factors described in this Risk Factors section.

Provisions in our corporate charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our corporate charter and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which they might otherwise receive a premium for their shares.

These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

establish a classified or staggered board of directors such that not all members of the board are elected at one time;

allow the authorized number of our directors to be changed only by resolution of our board of directors;

limit the manner in which stockholders can remove directors from the board;

establish advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;

require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;

limit who may call stockholder meetings;

provide that the state courts or, in certain circumstances, the federal courts, in Delaware shall be the sole and exclusive forum for certain actions involving us, our directors, officers, employees and stockholders;

provide our board of directors with the authority to designate the terms of and issue a new series of preferred stock without stockholder approval, which could be used to institute a poison pill that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and

require the approval of the holders of at least 66 2/3% of the votes that all our stockholders would be entitled to cast to amend or repeal certain provisions of our charter or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibit a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. Any provision in our corporate charter or our bylaws or Delaware law that has the effect

Table of Contents

of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our employment agreements with our named executive officers may require us to pay severance benefits to any of those persons who are terminated in connection with a change of control of us, which could harm our financial condition or results.

Our named executive officers are parties to employment agreements that provide for aggregate cash payments of up to approximately \$3.8 million for severance and other non-equity-based benefits in the event of a termination of employment in connection with a change of control of our company. In addition, based on the September 30, 2015 closing price of our common stock at \$36.14 per share, the aggregate intrinsic value of unvested stock options and other equity awards subject to accelerated vesting upon these events was \$6.4 million as of September 30, 2015. The accelerated vesting of options could result in dilution to our stockholders and harm the market price of our common stock. The payment of these severance benefits could harm our company's financial condition and results. In addition, these potential severance payments may discourage or prevent third parties from seeking a business combination with us.

We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company we are required to report periodic financial results and selected financial data related to two fiscal years compared to three and five years, respectively, for comparable data required to be reported by other public companies in selected SEC reports. We may take advantage of these exemptions until we are no longer an emerging growth company. We could be an emerging growth company until September 30, 2018, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds \$700 million as of any March 31 (the end of our second fiscal quarter) before that time, in which case we would no longer be an emerging growth company as of the following September 30 (our fiscal year end). We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption to delay the adoption of new or revised accounting standards and, therefore, will be subject to adopting new or revised accounting standards at the same time as other public companies that are not emerging growth companies.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us

Table of Contents

to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act of 2002, or any subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We are required to disclose changes made in our internal controls and procedures on a quarterly basis and our management is required to assess the effectiveness of these controls annually. However, for as long as we are an emerging growth company under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an emerging growth company until September 30, 2018. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

Because we do not anticipate paying cash dividends on our common stock for the foreseeable future, investors in our common stock may never receive a return on their investment.

You should not rely on an investment in our common stock to provide dividend income. We do not anticipate that we will pay any cash dividends to holders of our common stock for the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our existing operations.

Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not invest in our common stock.

A sale of a substantial number of shares of our common stock in the public market could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As of September 30, 2015, we had outstanding 18,716,834 shares of common stock. In addition, at that date 1,793,810 shares of common stock that are subject to outstanding options or stock unit awards under our equity plan are eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, and Rules 144 and 701 under the Securities Act. If these additional shares of common stock are sold, or it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If too few securities or industry analysts cover our company, the trading price for our stock would likely be negatively impacted. In the event that one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Watertown, Massachusetts, where we lease approximately 49,000 square feet of office and laboratory space. The term of our current lease expires on September 30, 2022.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market and Stockholder Information**

Our common stock has been listed on The NASDAQ Global Select Market under the symbol ENTA since March 21, 2013. The following table shows the high and low sales price for our common stock as reported by The NASDAQ Global Select Market for the quarterly periods in the years ended September 30, 2015 and 2014:

	2014	
	High	Low
First Quarter	\$ 38.14	\$ 18.94
Second Quarter	\$ 42.77	\$ 28.28
Third Quarter	\$ 46.14	\$ 33.13
Fourth Quarter	\$ 43.86	\$ 37.09
	2015	
	High	Low
First Quarter	\$ 52.58	\$ 39.05
Second Quarter	\$ 51.60	\$ 30.55
Third Quarter	\$ 47.28	\$ 30.13
Fourth Quarter	\$ 51.89	\$ 33.51

As of November 30, 2015, there were 34 stockholders of record of our common stock.

We have never declared or paid cash dividends on our common stock, and we do not expect to declare or pay any cash dividends for the foreseeable future.

In March 2013, we completed our initial public offering of 4,600,000 shares of our common stock at a public offering price of \$14.00 per share. The offer and sale of the shares in the offering were registered pursuant to a registration statement on Form S-1 (File No. 333-184779), which was declared effective by the Securities and Exchange Commission on March 20, 2013.

As of September 30, 2015, we have used approximately \$40.7 million of the net proceeds from the initial public offering to fund our programs for the development of a cyclophilin inhibitor candidate and the development of a

Table of Contents

nucleotide polymerase inhibitor candidate and to fund new research and development activities. None of the net proceeds have been paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates. The balance of the net proceeds from the offering has been invested in cash and cash equivalents and in short-term and long-term marketable securities, consisting of investment grade, interest bearing instruments and U.S. government securities, with maturities of no longer than 38 months. These investments are reflected in cash and cash equivalents, short-term and long-term marketable securities on our balance sheet at September 30, 2015. There has been no material change in the expected use of the net proceeds from our IPO as described in our registration statement on Form S-1.

Performance Graph⁽¹⁾

The following graph shows a comparison from March 21, 2013 through September 30, 2015 of cumulative total return on assumed investments of \$100.00 in cash in each of our common stock, the NASDAQ Composite Index and the NASDAQ Biotechnology Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the NASDAQ Biotechnology Index assume reinvestment of dividends.

COMPARISON OF THIRTY MONTH CUMULATIVE TOTAL RETURN

Among Enanta Pharmaceuticals, Inc., the NASDAQ Composite Index,

and the NASDAQ Biotechnology Index

- (1) This performance graph shall not be deemed to be soliciting material or to be filed with the SEC for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section, and shall not be deemed incorporated by reference into any filing of Enanta Pharmaceuticals, Inc. under the Securities Act of 1933, as amended.

Table of Contents**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

We have derived the consolidated statement of operations data for the years ended September 30, 2015, 2014 and 2013 and the consolidated balance sheet data as of September 30, 2015 and 2014 from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The selected statement of operations data for the years ended September 30, 2012 and 2011 and the balance sheet data as of September 30, 2013, 2012 and 2011 are derived from our audited financial statements not included in this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of any results to be expected for any future period.

	Years Ended September 30,				
	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	\$ 160,880	\$ 47,741	\$ 32,053	\$ 41,706	\$ 41,882
Operating expenses:					
Research and development	23,189	18,740	16,841	15,115	11,547
General and administrative	13,543	10,016	6,183	5,302	5,036
Total operating expenses	36,732	28,756	23,024	20,417	16,583
Income from operations	124,148	18,985	9,029	21,289	25,299
Other income (expense):					
Interest income	968	467	248	118	83
Interest expense	(8)	(18)	(31)		(3,161)
Change in fair value of warrant liability	347	(166)	381	(8)	(686)
Therapeutic tax credit					750
Gain on embedded derivative					670
Other income, net					355
Total other income (expense), net	1,307	283	598	110	(1,989)
Net income before income tax	125,455	19,268	9,627	21,399	23,310
Income tax (expense) benefit	(46,463)	15,170			
Net income	78,992	34,438	9,627	21,399	23,310
Accretion of redeemable convertible preferred stock to redemption value			(2,526)	(5,367)	(5,454)
Net income attributable to participating securities			(13,670)	(14,663)	(16,291)
Net income (loss) attributable to common stockholders	\$ 78,992	\$ 34,438	\$ (6,569)	\$ 1,369	\$ 1,565
Net income (loss) per share attributable to common stockholders:					
Basic	\$ 4.23	\$ 1.88	\$ (0.67)	\$ 1.26	\$ 1.40
Diluted	\$ 4.09	\$ 1.80	\$ (0.67)	\$ 1.13	\$ 1.32
Weighted average common shares outstanding:					

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

Basic	18,673	18,355	9,788	1,089	1,119
Diluted	19,295	19,185	9,788	2,475	1,857

	2015	2014	2013	2012	2011
As of September 30,					
(in thousands)					
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	\$ 209,443	\$ 131,767	\$ 112,183	\$ 45,418	\$ 23,329
Working capital	163,937	103,229	100,187	41,574	22,950
Total assets	246,013	155,415	116,973	52,162	26,096
Warrant liability	1,276	1,584	1,620	2,001	1,993
Series 1 nonconvertible preferred stock	163	202			
Redeemable convertible preferred stock				158,955	153,588
Convertible preferred stock				327	327
Total stockholders equity (deficit)	236,157	148,654	110,468	(115,353)	(131,961)

Table of Contents**ITEM 7. 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 Annual Report on Form 10-K. This discussion and other parts of this Annual Report on Form 10-K 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 Annual Report on Form 10-K.

Overview

We are a research and development-focused biotechnology company that uses its robust chemistry-driven approach and drug discovery capabilities to create small molecule drugs primarily for the treatment of viral infections and liver diseases. Our lead product, paritaprevir, a protease inhibitor designed for use against the hepatitis C virus, referred to as HCV, is a key compound in AbbVie's marketed HCV treatment regimens. We also have a second HCV protease inhibitor in phase 3 development with AbbVie, as well as a wholly-owned HCV program using a different class of molecules known as cyclophilin inhibitors, which we plan to take into clinical trials in the first quarter of calendar 2016. In addition, we have a program in non-alcoholic steatohepatitis, or NASH, which we also plan to take into the clinical trials in calendar 2016, as well as discovery programs in other areas of viral infection and liver disease.

Our HCV protease inhibitors have been discovered and developed through our collaboration with AbbVie (formerly Abbott Laboratories), including:

Paritaprevir: Paritaprevir is the protease inhibitor contained in VIEKIRA PAK[®] and AbbVie's other all-oral, interferon-free HCV treatment regimens currently marketed in the U.S., EU, Japan and other countries around the world. VIEKIRA PAK was approved and first sold in the U.S. in December 2014 for treatment of genotype 1 HCV, the most prevalent genotype of HCV in the U.S., EU and Japan. A regimen containing paritaprevir and only one other direct-acting antiviral, or DAA, is now approved in Japan (VIEKIRAX[®], September 2015) for the treatment of genotype 1 HCV and in the U.S. (TECHNIVIE, July 2015), EU (VIEKIRAX, January 2015) and other countries for the treatment of genotype 4 HCV.

ABT-493: Our next-generation protease inhibitor, ABT-493, is being developed by AbbVie in combination with its next-generation NS5A inhibitor, ABT-530, as a pan-genotypic, once daily, all oral, fixed-dose combination treatment for HCV. AbbVie completed two Phase 2 clinical trials of this investigational 2-DAA treatment and reported results in November 2015:

After 12 weeks of treatment with doses at or closest to the Phase 3 clinical dose, SVR₁₂ rates were 100% in genotype 1 HCV patients, 96% in genotype 2, and 93% in genotype 3.

Data after 8 weeks of treatment in non-cirrhotic genotype 1 chronic HCV patients demonstrated an SVR₁₂ rate of 97%.

In November 2015 AbbVie initiated its ENDURANCE-1 study, the first in a series of phase 3 studies of this next-generation combination treatment. ENDURANCE-1 will study 8-week and 12-week courses of this 2-DAA combination in non-cirrhotic genotype 1 HCV patients. AbbVie is planning for the first approval of this treatment in the U.S. in 2017.

In our fiscal 2015, we received \$125 million in milestone payments for commercialization regulatory approvals of paritaprevir, and we earned \$34.1 million in royalties on its allocated portion of AbbVie's net sales of paritaprevir-containing HCV regimens. We had \$209.4 million in cash and marketable securities at

Table of Contents

September 30, 2015, exclusive of the \$14.3 million in royalty receivables due us from AbbVie at that date and exclusive of the \$30 million milestone payment we earned in November 2015 upon reimbursement approval of VIEKIRAX in Japan. These existing resources will allow us to continue to invest for the foreseeable future in our current research and development programs:

We have a cyclophilin inhibitor, EDP-494, which we are preparing for clinical trials in HCV in the first quarter of calendar 2016 to demonstrate its potential benefit as a host targeted antiviral, or HTA. Cyclophilin is a protein in the human body that has been shown to be involved in HCV replication. By focusing on this human, or host, target rather than a viral target, we have selected a mechanism shown to be less susceptible to the HCV resistance that can occur due to viral mutation in response to therapy. We believe that cyclophilin inhibitors will be particularly valuable in the setting of resistance associated variants, or RAVs, of HCV. The presence of pre-treatment, or baseline, RAVs in treatment-naïve patients, and the emergence of treatment emergent RAVs in treatment-experienced patients, can result in reduced ability to eradicate the HCV virus. Since cyclophilin is a human host target, and not a viral target, cyclophilin inhibitors are not affected by changes in the virus and, therefore, use of this class of inhibitor may provide a unique solution for a subset of hard-to-treat HCV patients. We plan to develop EDP-494 for use in combination with one or more DAAs for the treatment of any emerging HCV resistance to currently approved therapies and other therapies under development for HCV that use DAAs. It is also possible that an EDP-494-containing regimen may find utility in other hard-to-treat subpopulations of HCV patients.

We are also working on several compounds that selectively bind to and activate the farnesoid X receptor, referred to as FXR agonists, which we plan to develop for use in the treatment of non-alcoholic steatohepatitis, or NASH, and possibly primary biliary cholangitis, or PBC, both of which are liver diseases with very few therapeutic options. We plan to initiate clinical trials of an FXR agonist candidate in 2016.

We also have other early stage programs to discover new chemical entities for the treatment of other diseases with significant unmet medical need.

We have utilized our internal chemistry and drug discovery capabilities to generate all of our development-stage programs.

Table of Contents

The following table summarizes our product development pipeline in HCV antivirals and liver disease:

We are currently funding all research and development for our internal programs. We have prioritized our cyclophilin program because we believe that high-barrier-to-resistance mechanisms are going to be increasingly important for the treatment of HCV patients, including those that have failed on current DAA therapies. We expect to incur substantially greater expenses as we advance our cyclophilin inhibitor into Phase 1 clinical development in the first quarter of calendar 2016. We are also funding our FXR agonist program, including substantial preclinical development work, which we expect will enable us to initiate clinical development in 2016. In addition, we expect additional increases in expenses in 2016 as we advance any of our other programs into substantial preclinical development.

Since commencing our operations in 1995, we have devoted substantially all of our resources to the discovery and development of novel inhibitors for the treatment of infectious diseases and liver diseases. For the periods included in this report we have funded our operations primarily through payments received under our collaborations and a NIAID government contract, as well as net proceeds of approximately \$59.9 million that we received from our March 2013 IPO, after deducting underwriting discounts and commissions.

Our revenue from our collaboration agreements has resulted in our reporting net income in each of our past five fiscal years, including the year ended September 30, 2015. We expect that our revenue in the near term will continue to be dependent on our collaboration with AbbVie, including royalties from sales of paritaprevir-containing regimens and potential milestone payments and royalties from the development program for AbbVie s

Table of Contents

next-generation HCV product containing ABT-493. Given the schedule of potential milestone payments and the uncertainties due to the nature and timing of clinical development and regulatory approval and market acceptance of any AbbVie regimen containing ABT-493, as well as uncertainty regarding the extent of royalty payments related to paritaprevir, we cannot be certain as to when or whether we will receive further milestone payments or the extent of our royalty revenues under this collaboration or whether we will report continuing net income in future periods.

Financial Operations Overview**Revenue**

Since our inception, our revenue has been derived from two primary sources: collaboration agreements with pharmaceutical companies and one government research and development contract. We have entered into three significant collaboration agreements and contracts since 2006, the most significant of which is our collaboration agreement with AbbVie. Our second collaboration was with Novartis, from February 2012 through September 2014. In addition, from September 2011 through August 2015, we had a contract with NIAID, which funded the preclinical and early clinical development of an antibiotic product candidate for potential use in biodefense.

Beginning in our fiscal year ended September 30, 2015, we generated royalty revenue from AbbVie's net sales allocable to paritaprevir, which is part of AbbVie's treatment regimens for HCV approved in the U.S. in December 2014, in the EU in January 2015 and in dozens of other countries since then, including Japan in September 2015. The following table is a summary of revenue recognized from our collaboration agreements and our government contract for the years ended September 30, 2015, 2014 and 2013:

	Years Ended September 30,		
	2015	2014	2013
	(in thousands)		
AbbVie agreement:			
Milestone payments	\$ 125,000	\$ 40,000	\$ 15,000
Royalties	34,077		
Novartis agreement:			
Upfront license payment and research funding			1,675
Milestone payments			11,000
NIAID contract	1,803	7,741	4,378
Total revenue	\$ 160,880	\$ 47,741	\$ 32,053

AbbVie Agreement

We concluded our research obligations under the AbbVie agreement in June 2011 and as such, each of the four milestone payments received after June 2011 has been recognized as revenue upon achievement of the milestone by AbbVie. Under the terms of the AbbVie agreement, we earned a \$30 million milestone payment upon AbbVie's achievement of commercialization regulatory approval of paritaprevir-containing regimen in Japan in November 2015, which will be reflected in the results of the first quarter of fiscal 2016. This is the final milestone payment for which we are eligible for the successful development and commercialization of paritaprevir.

We also receive annually tiered, double-digit royalties per product on AbbVie's net sales allocable to any one of our collaboration's protease inhibitors. Under the terms of our agreement, as amended in October 2014, 30% of net sales of 3-DAA regimens containing paritaprevir and 45% of net sales of 2-DAA regimens containing paritaprevir are allocated to paritaprevir for purposes of calculating our annually tiered royalties.

We expect our revenue in 2016 to be derived primarily from our annually tiered royalties on AbbVie's net sales of its paritaprevir-containing HCV regimens, as well as the \$30 million milestone payment earned in November 2015.

Table of Contents***Novartis Agreement***

Under the terms of the Novartis agreement, we received an upfront payment of \$34.4 million in fiscal 2012 and a commitment to fund research at an agreed amount for one year. We recognized the upfront license payment upon receipt. During the year ended September 30, 2013, we recognized \$12.7 million of revenue under the Novartis agreement, of which \$11.0 million was a milestone payment attributed to license fees and \$1.7 million was attributed to the performance of research services. In September 2014 we entered into an agreement with Novartis to return to us full rights to EDP-239 and our NS5A program. Since then we have not been eligible to receive any further milestone payments or any other payments from Novartis, nor have we owed Novartis any further payments or obligations for future payments.

NIAID Contract

Under our NIAID contract, NIAID paid us research and development funding of approximately \$18.7 million through August 2015 when the contract was completed.

We recognized revenue under this contract as research and development services were performed. We recognized revenue of \$1.8 million, \$7.7 million and \$4.4 million under this agreement during the years ended September 30, 2015, 2014 and 2013, respectively.

Internal Programs

As our internal product candidates are currently in preclinical or early clinical development, we have not generated any revenue from product sales and do not expect to generate any revenue from product sales derived from these product candidates for at least the next several years. We expect that our revenue for the next several years will be derived from milestone payments and royalties under our current collaboration agreement with AbbVie, as well as any additional collaborations that we may enter into in the future.

Operating Expenses

The following table summarizes our operating expenses for the years ended September 30, 2015, 2014 and 2013:

	Years Ended September 30,		
	2015	2014	2013
	(in thousands)		
Research and development	\$ 23,189	\$ 18,740	\$ 16,841
General and administrative	13,543	10,016	6,183
Total operating expenses	\$ 36,732	\$ 28,756	\$ 23,024

Research and Development Expenses

Research and development expenses consist of costs incurred to conduct basic research, such as the discovery and development of novel small molecules as therapeutics, as well as any expenses of preclinical and clinical development activities. We expense all costs of research and development as incurred. These expenses consist primarily of:

personnel costs, including salaries, related benefits and stock-based compensation for employees engaged in scientific research and development functions;

third-party contract costs relating to research, formulation, manufacturing, preclinical study and clinical trial activities;

third-party license fees;

Table of Contents

laboratory consumables; and

allocated facility-related costs.

Project-specific expenses reflect costs directly attributable to our clinical development candidates and preclinical candidates nominated and selected for further development. Remaining research and development expenses are reflected in research and drug discovery, which represents early-stage drug discovery programs. At any given time, we typically have several active early stage research and drug discovery projects. Our internal resources, employees and infrastructure are not directly tied to any individual research or drug discovery project and are typically deployed across multiple projects.

We expect that our research and development expenses will increase in the future as we advance our independent HCV and NASH programs into clinical development and expand our research and development efforts in other areas.

Our research and drug discovery programs are at an early stage; therefore, the successful development of our product candidates is highly uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each product candidate and are difficult to predict. Given the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of the current or future clinical trials of our product candidates or if, or to what extent, we will generate revenue from the commercialization and sale of any of our product candidates. We anticipate that we will make determinations as to which development programs to pursue and how much funding to direct to each program on an ongoing basis in response to the preclinical and clinical potential of each product candidate, as well as ongoing assessments of the commercial potential of each product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, consisting of salaries, related benefits and stock-based compensation, of our executive, finance, business and corporate development and other administrative functions. General and administrative expenses also include travel expenses, allocated facility-related costs not otherwise included in research and development expenses, directors and officers liability insurance premiums, professional fees for auditing, tax and legal services, and patent expenses.

We expect that general and administrative expenses will increase in the future primarily due to ongoing expansion of our operating activities in support of our own research and development programs, as well as potential additional costs associated with our operating as a growing public company.

Other Income (Expense)

Interest income. Interest income consists of interest earned on our cash and investment balances.

Interest expense. Interest expense consists of non-cash interest expense which was being accreted to the value of accrued third-party license fees over the term of the obligation.

Change in fair value of warrant liability and Series 1 nonconvertible preferred stock. We have issued warrants for the purchase of our nonconvertible preferred stock and we have issued Series 1 nonconvertible preferred stock that are financial instruments that may require a transfer of assets because of the liquidation features of the underlying stock. Therefore, we have classified these warrants and Series 1 nonconvertible preferred stock as liabilities that we remeasure to fair value at each reporting period and we record the changes in the fair value of the warrants and the

Series 1 nonconvertible preferred stock as a component of other income (expense).

Table of Contents

Income Tax (Expense) Benefit

Income tax expense is based on our best estimate of applicable rates applied to pre-tax profit reported during the period. The income tax expense for the year ended September 30, 2015 resulted from federal and state taxes attributable to our operating income. The income tax benefit for the year ended September 30, 2014 resulted from a reversal of our valuation allowance related to our deferred tax assets consisting of research tax credits and net operating loss carryforwards. There was no income tax expense for the year ended September 30, 2013 due to the use of net operating loss carryforwards to offset all taxable income and the full valuation allowance against our deferred tax assets.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our 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 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. See also Note 2 of our financial statements included elsewhere in this Annual Report on Form 10-K for information about these critical accounting policies as well as a description of our other significant accounting policies.

JOBS Act

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an emerging growth company. As an emerging growth company, we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable. Subject to certain conditions set forth in the JOBS Act, as an emerging growth company, we are not required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply until the fifth anniversary of the completion of our initial public offering in March 2013 or until we no longer meet the requirements for being an emerging growth company, whichever occurs first.

Revenue Recognition

Our revenue has been generated primarily through collaborative research and license agreements. The terms of these agreements contain multiple deliverables which may include (i) licenses, (ii) research and development activities, and (iii) participation in joint research and development steering committees. The terms of these agreements may include nonrefundable upfront license fees, payments for research and development activities, payments based upon the

achievement of certain milestones, and royalty payments based on product sales derived from the collaboration. In all instances, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, collectibility of the resulting receivable is reasonably assured, and we have fulfilled our performance obligations under the contract.

Table of Contents

We apply Accounting Standards Codification No. 605-25, *Revenue Recognition Multiple-Deliverable Revenue Arrangements*, or ASC 605-25 for multiple element arrangements entered into or materially modified on or after October 1, 2011. This guidance amends the criteria for separating and allocating consideration in a multiple-element arrangement by modifying the fair value requirements for revenue recognition and eliminating the use of residual value method. The selling prices of deliverables under the arrangement may be derived using third-party evidence, or TPE, or a best estimate of selling price, or BESP, if vendor-specific objective evidence of fair value, or VSOE, is not available. The objective of BESP is to determine the price at which we would transact a sale if the element within the license agreement was sold on a standalone basis. Establishing BESP involves management's judgment and considers multiple factors, including market conditions and company-specific factors including those factors contemplated in negotiating the agreements as well as internally developed models that include assumptions related to market opportunity, discounted cash flows, estimated development costs, probability of success, and the time needed to commercialize a product candidate pursuant to the license. In validating our BESP, we consider whether changes in key assumptions used to determine the BESP will have a significant effect on the allocation of the arrangement consideration between the multiple deliverables. Deliverables under the arrangement are separate units of accounting if (i) the delivered item has value to the customer on a standalone basis and (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially within our control. The arrangement consideration that is fixed or determinable at the inception of the arrangement is allocated to the separate units of accounting based on their relative selling prices. The appropriate revenue recognition model is applied to each element and revenue is accordingly recognized as each element is delivered. We may exercise significant judgment in determining whether a deliverable is a separate unit of accounting.

Royalty revenue is recognized based on contractual terms when reported sales are reliably measurable and collectibility is reasonably assured, provided that there are no performance obligations then remaining.

During the years ended September 30, 2015, 2014 and 2013, we also generated revenue from a government contract under which we were reimbursed for certain allowable costs incurred for the funded project. Revenue from the government contract is recognized when the related service is performed. The related costs incurred by us under the government contract are included in research and development expense in the statements of operations.

Amounts received prior to satisfying all revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets. Amounts not expected to be recognized as revenue within the next twelve months of the consolidated balance sheet date are classified as long-term deferred revenue.

In the event that a collaborative research and license agreement is terminated and we then have no further performance obligations, we recognize as revenue any amounts that had not previously been recorded as revenue but were classified as deferred revenue at the date of such termination.

Stock-Based Compensation

We measure stock options granted to employees and directors at 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 with service-based vesting conditions and record the expense for these options using the straight-line method. We also issue performance-based and equity-market-based awards. We have historically granted stock options with exercise prices equivalent to the fair value of our common stock as of the date of grant.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. We have estimated our expected volatility based on the historical volatility of our publicly traded peer

companies and we expect to continue to do so until such time as we have adequate historical data regarding the volatility of our traded stock price following our March 2013 IPO. The expected term of our options has been

Table of Contents

determined utilizing the simplified method for awards that qualify as plain-vanilla options. The risk-free interest rate is determined by reference to the U.S. 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. The assumptions we used to determine the fair value of stock options granted in each period were as follows, presented on a weighted average basis:

	Years Ended September 30,		
	2015	2014	2013
Risk-free interest rate	1.85%	1.89%	1.05%
Expected term (in years)	6.03	6.06	6.09
Expected volatility	74%	75%	73%
Expected dividends	0%	0%	0%

These assumptions represent 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, we have considered our historical experience to estimate pre-vesting forfeitures. If our actual forfeiture rate is materially different from the estimate, our stock-based compensation expense could be different from what we have recorded in the current period. In the case of performance-based awards, we recognize compensation expense related to these awards when performance-based targets are deemed probable of being achieved.

Market and Performance-based Stock Unit Awards

In February 2015, we awarded our executive officers a total of 41,800 share units consisting of 20,900 performance share units, or PSUs, and 20,900 relative total shareholder return units, or rTSRUs. The number of units represents the target number of shares of common stock that may be earned; however, the actual number of shares that may be earned ranges from 0% to 200% of the target number.

The PSUs will vest and result in issuance, or settlement, of common shares, based upon continued employment and achievement of specified research and development milestones on or before December 31, 2016. The aggregate grant date fair value of the 20,900 PSUs ranges between \$0 and \$1.5 million. During the year ended September 30, 2015, we recorded no compensation expense related to the PSU awards as none of the performance-based targets were probable of being achieved during this period.

The rTSRUs will vest and result in the issuance of common stock based on continuing employment and the relative ranking of the total shareholder return, or TSR, of our common stock in relation to the TSR of the component companies in the NASDAQ Biotech Index over a two-year period based on a comparison of average closing stock prices in December 2014 and December 2016. The number of market-based rTSRUs awarded represents the target number of shares of common stock that may be earned; however, the actual number of shares that may be earned ranges from 0% to 200% of the target number.

We used a Monte Carlo simulation model to estimate that the total grant-date fair value of the rTSRUs was \$0.6 million. The table below sets forth the assumptions used to value the awards and the estimated grant-date fair value:

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

Risk-free interest rate	0.61%
Dividend yield	0%
Expected volatility	55.66%
Remaining performance period (years)	1.86
Estimated fair value per share of rTSRUs granted	\$ 26.51

Table of Contents

The fair value related to the rTSRUs will be recorded as compensation expense over the period from date of grant to December 2016 regardless of whether the target relative total shareholder returns are reached. During the year ended September 30, 2015, we recorded \$0.2 million in expense related to the rTSRUs.

Valuation of Warrants to Purchase Series 1 Nonconvertible Preferred Stock and Series 1 Nonconvertible Preferred Stock

In October and November 2010, the Company issued warrants to purchase up to a total of 1,999,989 shares of Series 1 nonconvertible preferred stock, which expire on October 4, 2017. As these warrants are free-standing financial instruments that may require the Company to transfer assets upon exercise, these warrants are classified as liabilities. The Company is required to remeasure the fair value of these preferred stock warrants at each reporting date, with any adjustments recorded within the change in fair value of warrant liability included in other income (expense) in the consolidated statement of operations. On February 5, 2014, 225,408 warrants were exercised resulting in the net issuance of 223,153 shares of Series 1 nonconvertible preferred stock.

Income Taxes

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of income taxes currently due plus deferred income taxes related to timing differences between the basis of certain assets and liabilities for financial statement purposes and for income tax reporting purposes. Deferred taxes are determined based on the difference between the financial statement value and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. At each balance sheet date, we assess the likelihood that deferred tax assets will be realized, and recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income.

As of September 30, 2013 based on our analysis of both positive and negative factors, we had determined that it was more likely than not that we would not be able to realize our deferred tax assets, and therefore we had recorded a full valuation allowance against our deferred tax assets. Our analysis included an assessment of our past profitability and our future projections of forecasted revenue and expense levels.

However, during 2014, we reassessed the need for a valuation allowance against our deferred tax assets and concluded that it was more likely than not that we would be able to realize our deferred tax assets primarily as a result of recent profitability and forecasted future profits resulting from future expected milestone payments and on-going royalty payments from AbbVie. Accordingly, we released our valuation allowance related to our deferred tax assets and recorded a net income tax benefit of approximately \$15.2 million during the year ended September 30, 2014. As of September 30, 2015, we continue to believe it is more likely than not that we will be able to realize our deferred tax assets and therefore no valuation allowance has been recorded.

Results of Operations***Comparison of Years Ended September 30, 2015, 2014 and 2013***

Years Ended September 30,		
2015	2014	2013

	(in thousands)		
Revenue	\$ 160,880	\$ 47,741	\$ 32,053
Research and development expenses	23,189	18,740	16,841
General and administrative expenses	13,543	10,016	6,183
Other income (expense):			
Interest income	968	467	248
Interest expense	(8)	(18)	(31)
Change in fair value of warrant liability	347	(166)	381

Table of Contents

Revenue. We recognized revenue of \$160.9 million in the year ended September 30, 2015, as compared to \$47.7 million in the year ended September 30, 2014. During fiscal 2015, we received and recognized as revenue \$125.0 million in milestone payments under our collaboration with AbbVie as a result of U.S. and EU regulatory approvals for AbbVie's paritaprevir-containing regimens, as well as royalties of \$34.1 million on the portion of AbbVie's net sales of its HCV treatment regimen allocable to paritaprevir. During fiscal 2014, we received and recognized as revenue a total of \$40.0 million in milestone payments from AbbVie as a result of its regulatory filings with the FDA and the EMA for the same regimens. Government contract revenue was \$1.8 million and \$7.7 million during the years ended September 30, 2015 and 2014, respectively, related to our contract with NIAID for the antibiotic program.

We recognized revenue of \$47.7 million in the year ended September 30, 2014, as compared to \$32.1 million in the year ended September 30, 2013. During fiscal 2014, we received and recognized as revenue a total of \$40.0 million in milestone payments from AbbVie as a result of its regulatory filings with the FDA and the EMA for the first regimen containing paritaprevir. During fiscal 2013, we received and recognized as revenue a \$15.0 million milestone payment under our collaboration with AbbVie based on AbbVie's initiation of dosing in a Phase 3 clinical trial that included a collaboration compound. During the same period we also recognized revenue of \$12.7 million under our collaboration with Novartis, as a result of an \$11.0 million milestone payment we received in January 2013 based on Novartis initiation of dosing in a Phase 1 clinical trial that included EDP-239, and \$1.7 million related to research services we provided. Government contract revenue was \$7.7 million and \$4.4 million during the years ended September 30, 2014 and 2013, respectively, related to our contract with NIAID for the antibiotic program.

Research and development expenses.

	Years Ended September 30,		
	2015	2014	2013
	(in thousands)		
R&D programs:			
NASH	\$ 9,096	\$	\$
Cyclophilin	3,441		
NS5A inhibitor	1,532		1,717
Antibiotic	1,364	5,430	3,186
Research and drug discovery	7,756	13,310	11,938
Total research and development expenses	\$ 23,189	\$ 18,740	\$ 16,841

Research and development expenses were \$23.2 million in the year ended September 30, 2015, as compared to \$18.7 million for the comparable period in 2014. The increase of \$4.5 million year over year was due primarily to expenses related to our new NASH program, partially offset by a decrease of \$4.0 million in expenses related to our antibiotic program. During fiscal 2014 we incurred preclinical and clinical expenses under our contract with NIAID, which funded our preclinical and early clinical development of an antibiotic candidate. In fiscal 2015 we incurred higher research and development expenses due to additional headcount, expansion of our research facilities and additional preclinical activities.

Research and development expenses were \$18.7 million in the year ended September 30, 2014, as compared to \$16.8 million for 2013. The increase of \$1.9 million year over year was due primarily to an increase of \$2.2 million in expenses for our antibiotic program and \$1.4 million for our early stage drug discovery programs, partially offset by a

decrease of \$1.7 million in expenses related to our HCV program with Novartis, which had also generated research funding and revenue for us. We incurred preclinical and clinical expenses for the development of our lead antibiotic candidate as a result of the contract we entered into in September 2011 with NIAID, which had funded our preclinical and early clinical development of this candidate.

Table of Contents

In fiscal 2014 we incurred higher research expenses in our early stage drug discovery programs due to an increase in both the number of preclinical studies and the related costs. Our research costs related to our Novartis-funded program decreased as a result of our completing our research for Novartis in August 2013.

From inception of each development program through September 30, 2015, we incurred cumulative expenses of \$9.1 million for our NASH program, \$3.4 million for our cyclophilin program, \$14.1 million for our antibiotic program and \$14.7 million for our NS5A inhibitor program.

General and administrative expenses. General and administrative expenses increased by \$3.5 million from \$10.0 million in fiscal 2014 to \$13.5 million in fiscal 2015. The increase was primarily due to an increase in stock-based compensation expense of \$2.3 million related to additional stock option grants to employees and a greater Black-Scholes value for these options granted in the later period due to the higher value of our common stock, as well as to an increase in insurance expense and additional expense to support our expanding operations.

General and administrative expenses increased by \$3.8 million from \$6.2 million in fiscal 2013 to \$10.0 million in fiscal 2014. The increase was primarily due to increased stock-based compensation expense of \$1.6 million related to additional employee stock options and a higher value of our common stock, as well as additional expenses incurred as a result of operating as a publicly traded company.

Other income (expense). Changes in components of other income (expense) were as follows:

Interest income. The increase of \$0.5 million in interest income to \$1.0 million for the year ended September 30, 2015, as compared to \$0.5 million for the year ended September 30, 2014, was due to higher average investment balances in the fiscal 2015 as compared to 2014.

The increase in interest income for the year ended September 30, 2014, as compared to the year ended September 30, 2013, was due to our higher marketable securities balances due to the \$40.0 million of milestone payments from AbbVie in the third fiscal quarter of 2014.

Interest expense. Interest expense represented immaterial interest expense which was being accreted to the value of accrued third-party license fees over the term of the obligation.

Change in fair value of warrant liability and Series 1 nonconvertible preferred stock. We account for our outstanding warrants and our Series 1 nonconvertible preferred stock as liabilities held at fair value, with changes in fair value recorded as a component of other income (expense). In February 2014, 225,408 warrants were exercised resulting in net issuance of 223,153 shares of Series 1 nonconvertible preferred stock. During the year ended September 30, 2015, we recorded a \$0.3 million income as a result of a decrease in the fair value of our warrant liability due to the remeasurement of the fair value of the Series 1 nonconvertible preferred stock and related warrants.

During the year ended September 30, 2014, we recorded a \$0.2 million expense as a result of an increase in the fair value of our warrant liability due to the remeasurement of the fair value of the Series 1 nonconvertible preferred stock and related warrants.

During the year ended September 30, 2013, we recorded a \$0.4 million gain as a result of a decrease in the fair value of our warrant liability due to the remeasurement of the fair value of the outstanding warrants for Series 1 nonconvertible preferred stock.

Income tax (expense) benefit. We recorded income tax expense of \$46.5 million for the year ended September 30, 2015 and income tax benefit of \$15.2 million for the year ended September 30, 2014. Income tax

Table of Contents

expense for the year ended September 30, 2015, was primarily attributable to the tax provision on the earnings of our operations, all of which are domestic. During the year ended September 30, 2015, we performed a research and development tax credit study and recognized an incremental tax benefit of \$1.3 million upon completion of that study in June 2015.

The net income tax benefit during the 2014 period was due to our release of our valuation allowance which we maintained against our deferred tax assets. During the year ended September 30, 2014 we released the net deferred tax asset valuation allowance, which resulted in a net income tax benefit of \$15.1 million. The total amount of the valuation allowance released was approximately \$22.9 million. As of September 30, 2013, we maintained full valuation allowance, therefore no tax expense or benefit was recorded for the year ended September 30, 2013.

Liquidity and Capital Resources

From our inception through September 30, 2015, we have financed our operations primarily through contract payments under our collaborations, private placements of our equity, a government research and development contract and government grants and our IPO which was completed in March 2013. As of September 30, 2015, we had \$209.4 million in cash, cash equivalents and short-term and long-term marketable securities.

The following table shows a summary of our cash flows for each of the years ended September 30, 2015, 2014 and 2013.

	Years Ended September 30,		
	2015	2014	2013
	(in thousands)		
Cash provided by (used in):			
Operating activities	\$ 76,673	\$ 20,179	\$ 10,653
Investing activities	\$ (88,186)	\$ 497	\$ (69,216)
Financing activities	\$ 2,540	\$ 1,164	\$ 56,911

Net cash provided by operating activities

During the year ended September 30, 2015, operating activities provided \$76.7 million of cash primarily from our net income of \$79.0 million after adjusting for net non-cash items of \$14.5 million, partially offset by cash used by net changes in our operating assets and liabilities of \$16.8 million. Our net non-cash items in the period consisted primarily of the change in deferred taxes of \$11.0 million, stock-based compensation of \$5.8 million and amortization of premium on marketable securities of \$2.2 million offset by purchased premium on marketable securities of \$3.0 million. Net uses of cash from changes in our operating assets and liabilities during the year ended September 30, 2015 consisted primarily of an \$11.2 million increase in accounts receivable and unbilled receivables, a \$6.7 million increase in prepaid expenses and other current assets partially offset by a decrease of \$0.8 million in accounts payable and accrued expenses, and an increase of \$1.2 million in income taxes payable. The increase in accounts receivable and unbilled receivables was primarily due to the timing of the receipt of our royalties earned in the fourth fiscal quarter of 2015. The increase in accounts payable and accrued expenses was primarily due to the timing of payments made by us to vendors.

During the year ended September 30, 2014, operating activities provided \$20.2 million of cash primarily from our net income of \$34.4 million, partially offset by net non-cash items of \$12.0 million and net changes in our assets and liabilities of \$2.3 million. Our net non-cash items in the period consisted primarily of a benefit from deferred income

taxes of \$15.3 million and purchased premium on marketable securities of \$2.0 million, partially offset by stock-based compensation of \$2.7 million and amortization of premium on marketable securities of \$2.1 million. Net sources of cash from changes in our operating assets and liabilities during the year ended

Table of Contents

September 30, 2014 consisted primarily of a \$2.9 million increase in accounts receivable and unbilled receivables, partially offset by a decrease of \$0.6 million in prepaid expenses and a \$0.4 increase in accounts payable. The increase in accounts receivable and unbilled receivables was primarily due to the timing of our billings and collections under the NIAID contract and royalties receivable as of September 30, 2015, which we had none as of the end of prior fiscal year. The \$0.2 million net source of cash from changes in accounts payable and accrued expenses was primarily due to the timing of payments made by us to vendors.

During the year ended September 30, 2013, operating activities provided \$10.7 million of cash primarily from our net income of \$9.6 million, after adjusting for net non-cash charges of \$0.3 million and cash provided by changes in our operating assets and liabilities. Our net non-cash charges in the period primarily consisted of \$1.1 million of stock-based compensation expense and \$1.3 million related to amortization of the premium on our marketable securities, offset in part by \$1.8 million of purchased premium on marketable securities. Net sources of cash from changes in our operating assets and liabilities during the year ended September 30, 2013 consisted primarily of a \$1.4 million decrease in accounts receivable and unbilled receivables and \$0.1 million increase in accounts payable, which were offset in part by a \$0.3 million increase in prepaid expenses and other current assets and a \$0.3 decrease in accrued expenses. The \$1.4 million decrease in accounts receivable was primarily due to the timing of our billings and collections under the NIAID contract. The \$0.2 million net use of cash from changes in accounts payable and accrued expenses was primarily due to the timing of payments made by us to vendors.

Net cash provided by (used in) investing activities

During the year ended September 30, 2015, net cash used in investing activities was \$88.2 million. Net cash used in investing activities during this period consisted primarily of cash used for purchases of marketable securities of \$196.3 million and fixed assets of \$2.3 million, partially offset by cash received from the sales and maturities of marketable securities of \$110.6 million.

During the year ended September 30, 2014, net cash provided by investing activities was \$0.5 million. Net cash provided by investing activities during this period consisted primarily of cash received from the sales and maturities of marketable securities of \$99.9 million, substantially offset by the purchases of marketable securities of \$98.4 million and purchases of fixed assets of \$1.0 million.

During the year ended September 30, 2013, net cash used by investing activities was \$69.2 million. Net cash used by investing activities during this period consisted primarily of cash paid for the purchases of marketable securities of \$115.9 million and purchases of laboratory equipment of \$0.6 million, which was partially offset by cash received from the sales and maturities of marketable securities of \$47.3 million.

Net cash provided by financing activities

Net cash provided by financing activities during the year ended September 30, 2015 was \$2.5 million and consisted of proceeds of \$0.7 million from the exercise of stock options and a \$1.8 million income tax benefit from exercises of stock options.

Net cash provided by financing activities during the year ended September 30, 2014 was \$1.2 million and consisted of proceeds of \$1.1 million from the exercise of stock options and a \$0.1 million income tax benefit from exercises of stock options.

Net cash provided by financing activities during the year ended September 30, 2013 was \$56.9 million and consisted of \$59.9 million of proceeds from our IPO, net of underwriting discounts and commissions, and proceeds of \$0.6

million from the exercise of stock options, offset by \$3.5 million of expenses related to our IPO and paid during the period.

Table of Contents

As of September 30, 2015, we had \$209.4 million in cash, cash equivalents and marketable securities. We believe that our existing cash, cash equivalents and marketable securities as of September 30, 2015, will be sufficient to meet our anticipated cash requirements for the foreseeable future. However, our forecast of the use of our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

Our future capital requirements are difficult to forecast and will depend on many factors, including:

the number and characteristics of the future product candidates we pursue;

the scope, progress, results and costs of researching and developing any of our future product candidates on our own, and conducting preclinical research and clinical trials;

whether we in-license or otherwise acquire additional assets for development;

whether our existing AbbVie collaboration continues to generate significant royalties from sales allocated to paritaprevir, as well as potential milestone payments to us and royalties related to AbbVie's next generation HCV drug candidate containing ABT-493;

the timing, receipt and amount of sales of, or royalties, on paritaprevir, ABT-493 and our future product candidates, if any;

the timing of, and the costs involved in, obtaining regulatory approvals for any future product candidates we develop independently;

the cost of commercialization activities, if any, of any future product candidates we develop independently that are approved for sale, including marketing, sales and distribution costs;

the cost of manufacturing our future product candidates and any products we successfully commercialize independently;

our ability to maintain existing collaborations and to establish new collaborations, licensing or other arrangements and the financial terms of such agreements; and

the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patents, including litigation costs and the outcome of such litigation.

We do not believe that inflation had a material effect on our business, financial condition or results of operations in the last three fiscal years. If our costs were to become subject to significant inflationary pressures, we could not offset such higher costs through revenue increases because our revenues are substantially outside of our control. Our inability to do so could harm our business, financial condition and results of operations.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities. We do not have any interest in entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

Recently Issued Accounting Pronouncements

In May, 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In August 2015, the FASB deferred the effective date of the standard by an additional year. Accordingly, the standard will be effective for us on October 1, 2018. We are currently evaluating the potential impact that Topic 606 may have on our financial position and results of operations.

In November 2015, FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred income taxes by eliminating the need for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. This amendment is effective for us in the fiscal year beginning October 1, 2017. We are currently evaluating the potential impact that ASU 2015-17 may have on our financial position and results of operations.

Table of Contents**Contractual Obligations and Commitments**

We lease office space in Watertown, Massachusetts under a lease that commenced on October 1, 2011 and was amended in 2015 to expand the rented space and extend the lease term through September 2022. In conjunction with the amendment of the lease, the Company entered into a capital lease agreement to fund certain leasehold improvements and the purchase of lab equipment. The following table summarizes our contractual obligations at September 30, 2015 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

Years Ended September 30,	Operating Leases	Capital Leases	Total
2016	\$ 1,958	\$ 68	\$ 2,026
2017	2,010	73	2,083
2018	2,062	79	2,141
2019	2,117	85	2,202
2020	2,172	93	2,265
Thereafter	4,322	200	4,522
Total	\$ 14,641	\$ 598	\$ 15,239

As of September 30, 2015, we had outstanding warrants for the purchase 1,774,581 shares of our Series 1 nonconvertible preferred stock and 223,153 outstanding shares of Series 1 nonconvertible preferred stock that we classified as a long-term liability on our balance sheet, recorded at fair value of \$1.4 million. If all of the outstanding warrants are exercised, the Series 1 nonconvertible preferred stock issued upon exercise combined with the currently outstanding shares of Series 1 nonconvertible preferred stock would require the payment of \$2.0 million upon a qualifying merger or sale of this company. The table above does not include this liability because we are unable to estimate the timing of this required payment, or if it will be required at all.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Interest Rate Sensitivity***

We had cash, cash equivalents and marketable securities of \$209.4 million at September 30, 2015, which consisted of cash, agency securities and corporate bonds. Interest income is sensitive to changes in the general level of interest rates; however, due to the nature of these investments, we do not believe that we have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. We had no debt outstanding as of September 30, 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, together with the report of our independent registered public accounting firm, appear on pages F-1 through F-29 of this Annual Report on Form 10-K.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating the risk related to controls and procedures.

In connection with the preparation of this Form 10-K, as of September 30, 2015, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our management concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2015. These conclusions were communicated to the Audit Committee.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management has assessed the effectiveness of our internal control over financial reporting as of September 30, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 2013 *Internal Control - Integrated Framework*. Based on this assessment, our management has concluded that as of September 30, 2015 our internal control over financial reporting is effective.

As an Emerging Growth Company, as defined under the terms of the Jobs Act of 2012, the Company's independent registered accounting firm is not required to issue an attestation report on the internal control over financial reporting.

Change in Internal Control over Financial Reporting There were no changes in our internal control over financial reporting that occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Portions of the response to this item are incorporated herein by reference from the discussion responsive thereto under the captions Election of Directors Nominees for Director and Current Directors , Section 16(a) Beneficial Ownership Reporting Compliance , Executive Officers and Corporate Governance Board and Committee Matters in the Company Definitive Proxy Statement relating to the 2016 Annual Meeting of Stockholders (the 2016 Proxy Statement).

We have adopted a Code of Business Conduct and Ethics (the code of ethics) that applies to all of our directors, officers and employees. The code of ethics is available on our website at www.enanta.com. In addition, if we make any substantive amendments to the code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to any of our executive officers or directors, we will disclose the nature of such amendment or waiver as required by applicable law.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is incorporated herein by reference from the discussion responsive thereto under the following captions in the 2016 Proxy Statement: Executive Compensation and Corporate Governance Compensation Committee Interlocks and Insider Participation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The response to this item is incorporated herein by reference in part from the discussion responsive thereto under the caption Beneficial Ownership of Common Stock in the 2016 Proxy Statement.

The following table provides information about the securities authorized for issuance under the Company's equity compensation plans as of September 30, 2015:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
	1,793,810 ⁽²⁾	\$ 23.76	629,787 ⁽³⁾

Equity compensation plans approved by security holders ⁽¹⁾			
Equity compensation plans not approved by security holders			
Totals	1,793,810 ⁽²⁾	\$ 23.76	629,787 ⁽³⁾

- (1) Consists of the Company's Amended and Restated 1995 Equity Incentive Plan, as amended, the Company's 2012 Equity Incentive Plan, as amended, and the Company's Employee Stock Purchase Plan.
- (2) Consists of shares of the Company's common stock issuable upon exercise of outstanding options issued under the Company's Amended and Restated 1995 Equity Incentive Plan and the Company's 2012 Equity Incentive Plan.
- (3) Consists of shares of the Company's common stock reserved for future issuance under the Company's 2012 Equity Incentive Plan and the Company's Employee Stock Purchase Plan. Does not include 561,505 shares that were automatically added to the Company's 2012 Equity Incentive Plan by its terms as of October 1, 2015.

Table of Contents**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption Corporate Governance Certain Relationships and Related Transactions and Corporate Governance Board and Committee Matters in the 2016 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The response to this item is incorporated herein by reference from the discussion responsive thereto under the captions Corporate Governance Board and Committee Matters and Audit Committee Report Audit Fees in the 2016 Proxy Statement.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES****(a) 1. FINANCIAL STATEMENTS**

The financial statements are included under Part II, Item 8 of this Report.

2. FINANCIAL STATEMENTS SCHEDULE

Schedules are omitted because they are not applicable, or are not required, or because the information is included in the consolidated financial statements and notes thereto.

3. EXHIBITS

The exhibits are listed below under Part IV, Item 15(b) of this Report.

(b) EXHIBITS

3.1	Restated Certificate of Incorporation of Enanta Pharmaceuticals, Inc.	8-K	03/28/2013	3.1	001-35839
3.2	Amended and Restated Bylaws of Enanta Pharmaceuticals, Inc. (as amended and restated in August 2015)	8-K	08/18/2015	3.2	001-35839
4.1	Specimen certificate evidencing shares of common stock.	S-1/A	02/05/2013	4.1	333-184779
4.2	Form of Series 1 Non-Convertible Preferred Stock Warrant	S-1	11/06/2012	4.2	333-184779
10.1#	Form of Indemnification Agreement for directors and officers.	S-1/A	02/05/2013	10.7	333-184779
10.2#	Amended and Restated Employment Agreement between the Company and Jay R. Luly, Ph.D., dated as of March 4, 2013.	S-1/A	03/05/2013	10.5	333-184779
10.3#	Form of Amended and Restated Employment Agreement for Executive Officers other than Chief Executive Officer.	S-1/A	03/05/2013	10.17	333-184779

Table of Contents

10.4	Collaborative Development and License Agreement between the Company and Abbott Laboratories, dated November 27, 2006; as amended by a First Amendment to Collaborative Development and License Agreement dated January 27, 2009 and a Second Amendment to Collaborative Development and License Agreement dated December 9, 2009 (assigned to AbbVie Inc. as of January 1, 2013).	S-1/A	02/05/2013	10.1	333-184779	
10.5	Third Amendment to Collaborative Development and License Agreement between the Company and AbbVie dated October 20, 2014.	10-K	12/11/2014	10.5	001-35839	
10.6	Fourth Amendment to Collaborative Development and License Agreement between the Company and AbbVie dated as of March 3, 2015.	10-Q	05/08/2015	10.1	001-35839	
10.7	Lease Agreement between Company and ARE-500 Arsenal Street LLC, dated as of April 15, 2011.	S-1	11/06/2012	10.6	333-184779	
10.8	First Amendment to Lease Agreement made as of March 5, 2015 between the Company and ARE-500 Arsenal Street LLC.	10-Q	05/08/2015	10.2	001-35839	
10.9	Third Amended and Restated Registration Rights Agreement, dated as of August 23, 2012.	S-1/A	11/06/2012	10.4	333-184779	
10.10#	Amended and Restated 1995 Equity Incentive Plan.	S-1/A	03/05/2013	10.8	333-184779	
10.11#	Form of Incentive Stock Option Certificate under Amended and Restated 1995 Equity Incentive Plan.	S-1/A	03/05/2013	10.9	333-184779	
10.12#	Form of Non-Statutory Stock Option Certificate under Amended and Restated 1995 Equity Incentive Plan.	S-1/A	03/05/2013	10.10	333-184779	
10.13#	Form of Non-Statutory Stock Option Certificate for directors under Amended and Restated 1995 Equity Incentive Plan.	S-1/A	03/05/2013	10.11	333-184779	
10.14#	2012 Equity Incentive Plan (As adjusted to reflect the application of the 1-for-4.31 reverse stock split of the Company's common stock effected on March 1, 2013).	10-K	12/18/2013	10.16	001-35839	
10.15#	Form of Incentive Stock Option Agreement under 2012 Equity Incentive Plan.	S-1/A	03/05/2013	10.13	333-184779	
10.16#	Form of Non-Statutory Stock Option Agreement under 2012 Equity Incentive Plan.	S-1/A	03/05/2013	10.14	333-184779	
10.17#	Form of Non-Statutory Stock Option Certificate for directors under 2012 Equity Incentive Plan.	S-1/A	03/05/2013	10.15	333-184779	
10.18#	Form of Performance Share Unit Certificate under 2012 Equity Incentive Plan.	10-Q	08/10/2015	10.1	001-35839	
10.19#	Form of Relative Total Stockholder Return Unit Certificate under 2012 Equity Incentive Plan.	10-Q	08/10/2015	10.2	001-35839	
10.20#	Employee Stock Purchase Plan.	S-1/A	02/05/2013	10.16	333-184779	
21.1	Subsidiaries of the Company.					X
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.					X

Table of Contents

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.	X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.	X
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101	The following materials from the Annual Report of Enanta Pharmaceuticals, Inc. on Form 10-K for the year ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Balance Sheets as of September 30, 2015 and September 30, 2014 of Enanta Pharmaceuticals, Inc., (ii) Statements of Operations for the years ended September 30, 2015, 2014 and 2013 of Enanta Pharmaceuticals, Inc., (iii) Statements of Cash Flows for the years ended September 30, 2015, 2014 and 2013 of Enanta Pharmaceuticals, Inc., and (iv) Notes to Financial Statements of Enanta Pharmaceuticals, Inc.	X

Management contract or compensatory plan, contract or agreement. Confidential treatment granted as to portions of this Exhibit. The confidential portions of this Exhibit have been omitted and are marked by asterisks. This Exhibit has been filed separately with the commission pursuant to an application for confidentiality treatment. The confidential portions of this Exhibit have been omitted and are marked by asterisks.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 11th day of December, 2015.

ENANTA PHARMACEUTICALS, INC.

By: /s/ Jay R. Luly, Ph.D.
Jay R. Luly, Ph.D.
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jay R. Luly, Ph.D.	President and Chief Executive	December 11, 2015
Jay R. Luly, Ph.D.	Officer and Director (Principal Executive Officer)	
/s/ Paul J. Mellett	Chief Financial Officer	December 11, 2015
Paul J. Mellett	(Principal Financial and Accounting Officer)	
/s/ Ernst-Günter Afting, M.D., Ph.D.	Director	December 11, 2015
Ernst-Günter Afting, M.D., Ph.D.		
/s/ Stephen Buckley, Jr.	Director	December 11, 2015
Stephen Buckley, Jr.		
/s/ Bruce L.A. Carter, Ph.D.	Director	December 11, 2015
Bruce L.A. Carter, Ph.D.		
/s/ George S. Golumbeski, Ph.D.	Director	December 11, 2015
George S. Golumbeski, Ph.D.		
/s/ Terry Vance	Director	December 11, 2015
Terry Vance		

Table of Contents

ENANTA PHARMACEUTICALS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Comprehensive Income</u>	F-5
<u>Consolidated Statements of Changes in Redeemable and Convertible Preferred Stock and Stockholders Equity (Deficit)</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8

F-1

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Enanta Pharmaceuticals, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in redeemable and convertible preferred stock and stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Enanta Pharmaceuticals, Inc. and its subsidiary at September 30, 2015 and 2014 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

December 11, 2015

F-2

Table of Contents**ENANTA PHARMACEUTICALS, INC.****CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share amounts)**

	September 30,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,726	\$ 30,699
Short-term marketable securities	123,479	60,065
Accounts receivable	15,289	1,724
Unbilled receivables	433	2,770
Deferred tax assets	1,447	11,123
Prepaid expenses and other current assets	8,267	1,594
Total current assets	170,641	107,975
Property and equipment, net	5,886	1,803
Long-term marketable securities	64,238	41,003
Deferred tax assets	4,640	4,198
Restricted cash	608	436
Total assets	\$ 246,013	\$ 155,415
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,543	\$ 1,874
Accrued expenses and other current liabilities	3,962	2,872
Income taxes payable	1,199	
Total current liabilities	6,704	4,746
Warrant liability	1,276	1,584
Series 1 nonconvertible preferred stock	163	202
Other long-term liabilities	1,713	229
Total liabilities	9,856	6,761
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock; \$0.01 par value; 100,000,000 shares authorized; 18,716,834 and 18,803,390 shares issued and 18,716,834 and 18,594,574 shares outstanding at September 30, 2015 and 2014, respectively	187	188
Additional paid-in capital	229,957	221,580
Treasury stock, at par value; no shares at September 30, 2015 and 208,816 shares at September 30, 2014		(2)
Accumulated other comprehensive income (loss)	33	(100)

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

Retained earnings (accumulated deficit)	5,980	(73,012)
Total stockholders' equity	236,157	148,654
Total liabilities and stockholders' equity	\$ 246,013	\$ 155,415

The accompanying notes are an integral part of these consolidated financial statements.

F-3

Table of Contents

ENANTA PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

	Years Ended September 30,		
	2015	2014	2013
Revenue:			
Milestone payments	\$ 125,000	\$ 40,000	\$ 26,000
Royalties	34,077		
Other	1,803	7,741	6,053
Total revenue	160,880	47,741	32,053
Operating expenses:			
Research and development	23,189	18,740	16,841
General and administrative	13,543	10,016	6,183
Total operating expenses	36,732	28,756	23,024
Income from operations	124,148	18,985	9,029
Other income:			
Interest income	968	467	248
Interest expense	(8)	(18)	(31)
Change in fair value of warrant liability and Series 1 nonconvertible preferred stock, net	347	(166)	381
Total other income (expense), net	1,307	283	598
Income before income taxes	125,455	19,268	9,627
Income tax (expense) benefit	(46,463)	15,170	
Net income	78,992	34,438	9,627
Accretion of redeemable convertible preferred stock to redemption value			(2,526)
Net income attributable to participating securities			(13,670)
Net income (loss) attributable to common stockholders	\$ 78,992	\$ 34,438	\$ (6,569)
Net income (loss) per share attributable to common stockholders:			
Basic	\$ 4.23	\$ 1.88	\$ (0.67)
Diluted	\$ 4.09	\$ 1.80	\$ (0.67)
Weighted average common shares outstanding:			
Basic	18,673,484	18,354,791	9,788,039
Diluted	19,294,634	19,185,228	9,788,039

The accompanying notes are an integral part of these consolidated financial statements.

F-4

Table of Contents

ENANTA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years Ended September 30,		
	2015	2014	2013
Net income	\$ 78,992	\$ 34,438	\$ 9,627
Other comprehensive income (loss):			
Net unrealized gains (losses) on marketable securities, net of tax of \$20, \$0 and \$0	133	(98)	(12)
Total other comprehensive income (loss)	133	(98)	(12)
Comprehensive income	\$ 79,125	\$ 34,340	\$ 9,615

The accompanying notes are an integral part of these consolidated financial statements.

F-5

Table of Contents

ENANTA PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE AND CONVERTIBLE PREFERRED

STOCK AND STOCKHOLDERS EQUITY (DEFICIT)

(in thousands, except share amounts)

	Series C, D, E, F and G Redeemable Convertible Preferred Stock		Series A and B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Compre- hensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount			
At December 31, 2018	43,115,343	\$ 158,955	566,450	\$ 327	1,343,147	\$ 13	\$	(208,816)	\$ (2)	\$ 10	\$ (115,374)	\$
Issuance of Common Stock					538,575	5	554					
Issuance of Preferred Stock							1,063					
Repurchase of Common Stock		2,526					(823)				(1,703)	
Issuance of Common Stock	(43,115,343)	(161,481)	(566,450)	(327)	11,656,875	117	161,691					
Issuance of Common Stock					4,600,000	46	59,846					
Issuance of Common Stock							(4,590)					
Issuance of Common Stock										(12)		
At December 31, 2019					18,138,597	181	217,741	(208,816)	(2)	(2)	(107,450)	
Issuance of Common Stock					664,793	7	1,047					

tion lated tions				2,682				
m n				110				
sive							(98)	34,438
t c 30,	18,803,390	188	221,580	(208,816)	(2)	(100)	(73,012)	
ns	122,260	1	725					
tion lated tions				5,838				
m n				1,814				
sive							133	
of ock	(208,816)	(2)		208,816	2			78,992
t c 30,	\$	\$	18,716,834	\$ 187	\$ 229,957	\$	\$ 33	\$ 5,980

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ENANTA PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended September 30,		
	2015	2014	2013
Cash flows from operating activities			
Net income	\$ 78,992	\$ 34,438	\$ 9,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	639	352	221
Non-cash interest expense		8	31
Change in fair value of warrant liability and Series 1 nonconvertible preferred stock	(347)	166	(381)
Stock-based compensation expense	5,838	2,682	1,063
Gain on sale of marketable securities	(4)	(3)	
Gain on disposal of property and equipment	(31)	(3)	(100)
Premium on marketable securities	(3,042)	(2,002)	(1,811)
Amortization of premium on marketable securities	2,244	2,120	1,262
Deferred income taxes	11,028	(15,211)	
Income tax benefit from exercise of stock options	(1,814)	(110)	
Change in operating assets and liabilities:			
Accounts receivable	(13,565)	(916)	241
Unbilled receivables	2,337	(1,986)	1,109
Prepaid expenses and other current assets	(6,680)	568	(307)
Other assets			22
Accounts payable	(543)	399	115
Accrued expenses	(227)	(183)	(285)
Income taxes payable	1,199		
Deferred revenue		(10)	(7)
Other long-term liabilities	649	(130)	(147)
Net cash provided by operating activities	76,673	20,179	10,653
Cash flows from investing activities			
Purchases of property and equipment	(2,336)	(1,028)	(606)
Proceeds from sales of property and equipment	9	3	
Purchases of marketable securities	(196,304)	(98,405)	(115,888)
Sales of marketable securities	2,210	8,421	5,453
Maturities of marketable securities	108,407	91,506	41,825
Change in restricted cash	(172)		
Net cash provided by (used in) investing activities	(88,186)	497	(69,216)

Cash flows from financing activities

Proceeds from initial public offering, net of underwriting discounts and commissions			59,892
Proceeds from exercise of stock options	726	1,054	559
Payments of initial public offering costs			(3,540)
Income tax benefit from exercise of stock options	1,814	110	
Net cash provided by financing activities	2,540	1,164	56,911
Net increase (decrease) in cash and cash equivalents	(8,973)	21,840	(1,652)
Cash and cash equivalents at beginning of period	30,699	8,859	10,511
Cash and cash equivalents at end of period	\$ 21,726	\$ 30,699	\$ 8,859

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$ 40,072	\$ 148	\$
----------------------------	-----------	--------	----

Supplemental disclosure of noncash financing activities:

Accretion of redeemable convertible preferred stock to redemption value	\$	\$	\$ 2,526
Conversion of preferred stock into common stock	\$	\$	\$ 161,808
Exercise of Series 1 warrants into Series 1 nonconvertible preferred stock	\$	\$ 206	\$

Non-cash items:

Fixed assets financed through capital lease	\$ 598	\$	\$
Fixed assets financed by landlord	\$ 239	\$	\$
Purchases of fixed assets included in accounts payable and accrued expenses	\$ 1,562	\$	\$

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ENANTA PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

1. Nature of the Business

Enanta Pharmaceuticals, Inc. (the Company), incorporated in Delaware in 1995, is a research and development-focused biotechnology company that uses its robust chemistry-driven approach and drug discovery capabilities to create small molecule drugs primarily for the treatment of viral infections and liver diseases. The Company has developed novel protease and NS5A inhibitors for treatment of hepatitis C virus (HCV) infection. The Company also has programs to develop cyclophilin and nucleotide polymerase inhibitors targeted against HCV and also has a focus area in non-alcoholic steatohepatitis (NASH). Additionally, the Company has programs to discover new chemical entities, or compounds, for the treatment of other diseases.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, the uncertainties of research and development, competition from technological innovations of others, dependence on collaborative arrangements, protection of proprietary technology, dependence on key personnel, compliance with government regulations and the need to obtain additional financing. Product candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure, and extensive compliance reporting capabilities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include those of the Company and its subsidiary, Enanta Pharmaceuticals Security Corporation, after elimination of all intercompany accounts and transactions. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, management's judgments of separate units of accounting and best estimate of selling price of those units of accounting within its revenue arrangements; valuation of warrants, Series 1 nonconvertible preferred stock and stock-based awards; the useful lives of property and equipment; and the accounting for income taxes, including uncertain tax positions and the valuation of net deferred tax assets. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from the Company's estimates.

Cash Equivalents and Marketable Securities

The Company considers all short-term, highly liquid investments with original maturities of ninety days or less at acquisition date to be cash equivalents. Marketable securities with original maturities of greater than 90 days and remaining maturities of less than one year from the balance sheet date are classified as short-term marketable securities. Marketable securities with remaining maturities of greater than one year from the balance sheet date are classified as long-term marketable securities.

Table of Contents

The Company classifies all of its marketable securities as available-for-sale. All marketable securities are held with one investment manager. The Company continually evaluates the credit ratings of its investment portfolio and underlying securities. The Company invests in accordance with its investment policy and invests at the date of purchase in securities with a rating of A3 or higher and A or higher according to Moody's and S&P, respectively. The Company reports available-for-sale investments at fair value as of each balance sheet date and records any unrealized gains and losses as a component of stockholders' equity. The cost of securities sold is determined on a specific identification basis, and realized gains and losses are included in other income (expense) within the consolidated statement of operations. If any adjustment to fair value reflects a decline in the value of the investment, the Company considers available evidence to evaluate the extent to which the decline is other than temporary and reduces the investment to fair value through a charge to the statement of operations. There were no such adjustments necessary during the years ended September 30, 2015, 2014 or 2013.

Restricted Cash

As of September 30, 2015 and 2014, the Company had outstanding a letter of credit collateralized by a money market account of \$608 and \$436, respectively, to the benefit of the landlord of the Company's current building lease. This amount was classified as long-term restricted cash as of September 30, 2015 and 2014.

Concentration of Credit Risk and of Significant Customers and Suppliers

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities, accounts receivable and unbilled receivables. The Company has all cash and investment balances at one accredited financial institution, in amounts that exceed federally insured limits. The Company does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships.

The Company has historically generated all of its revenue from its collaborative research and license agreements and a U.S. government contract (see Note 7). As of September 30, 2015, accounts receivable and unbilled receivables consisted of amounts due from the Company's collaborators and under the U.S. government contract (see Note 7). As of September 30, 2014, accounts receivable and unbilled receivables consisted solely of amounts due under the U.S. government contract.

The Company is completely dependent on third-party manufacturers for product supply for preclinical research activities in its non-partnered programs. In particular, the Company relies and expects to continue to rely exclusively on several manufacturers to supply it with its requirements for the active pharmaceutical ingredients related to these programs. These research programs would be adversely affected by a significant interruption in the supply of its active pharmaceutical ingredients.

Fair Value Measurements

Certain assets and liabilities are carried at fair value under GAAP. 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, is used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

F-9

Table of Contents

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company's cash equivalents and marketable securities assets and its warrant and Series 1 nonconvertible preferred stock liabilities are carried at fair value determined according to the fair value hierarchy described above (see Note 3).

The carrying values of accounts receivable and unbilled receivables, accounts payable and accrued expenses approximate their fair value due to the short-term nature of these assets and liabilities.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation or amortization. Depreciation and amortization expense is recognized using the straight-line method over the following estimated useful lives:

Laboratory and office equipment	5 years
Leasehold improvements	Shorter of life of lease or estimated useful life
Purchased software	3 years
Computer equipment	3 years
Furniture	7 years

Expenditures for repairs and maintenance of assets are charged to expense as incurred. Costs of major additions and betterments are capitalized and depreciated on a straight-line basis over their useful lives. Upon retirement or sale, the cost and related accumulated depreciation or amortization of assets disposed of are removed from the accounts and any resulting gain or loss is included in income from operations.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets. If an impairment review is performed to evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its fair value, determined based on discounted cash flows. To date, the Company has not recorded any impairment losses on long-lived assets.

Revenue Recognition

The Company's revenue has been generated primarily through collaborative research and license agreements. The terms of these agreements contain multiple deliverables, which may include (i) licenses, (ii) research and development activities, and (iii) participation in joint research and development steering committees. The terms of these agreements may include nonrefundable upfront license fees, payments for research and development activities, payments based upon the achievement of certain milestones, and royalty payments based on product sales derived from the collaboration. In all instances, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, collectibility of the resulting

receivable is reasonably assured, and the Company has fulfilled its performance obligations under the contract.

F-10

Table of Contents

On October 1, 2011, the Company adopted Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). This guidance, which applies to multiple-element arrangements entered into or materially modified on or after October 1, 2011, amends the criteria for separating and allocating consideration in a multiple-element arrangement by modifying the fair value requirements for revenue recognition and eliminating the use of the residual value method. The selling prices of deliverables under the arrangement may be derived using third-party evidence (TPE) or a best estimate of selling price (BESP), if VSOE is not available. The objective of BESP is to determine the price at which the Company would transact a sale if the element within the license agreement was sold on a standalone basis. Establishing BESP involves management's judgment and considers multiple factors, including market conditions and company-specific factors including those factors contemplated in negotiating the agreements as well as internally developed models that include assumptions related to market opportunity, discounted cash flows, estimated development costs, probability of success, and the time needed to commercialize a product candidate pursuant to the license. In validating the Company's BESP, the Company considers whether changes in key assumptions used to determine the BESP will have a significant effect on the allocation of the arrangement consideration between the multiple deliverables. Deliverables under the arrangement are separate units of accounting if (i) the delivered item has value to the customer on a standalone basis, and (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially within the control of the Company. The arrangement consideration that is fixed or determinable at the inception of the arrangement is allocated to the separate units of accounting based on their relative selling prices. The appropriate revenue recognition model is applied to each element, and revenue is accordingly recognized as each element is delivered. The Company may exercise significant judgment in determining whether a deliverable is a separate unit of accounting. The Company elected to adopt ASU 2009-13 prospectively as of October 1, 2011.

In determining the separate units of accounting, the Company evaluates whether the license has standalone value to the collaborator based on consideration of the relevant facts and circumstances for each arrangement. Factors considered in this determination include the research and development capabilities of the collaborator and the availability of relevant research expertise in the marketplace. In addition, the Company considers whether or not (i) the collaborator can use the license for its intended purpose without the receipt of the remaining deliverables, (ii) the value of the license is dependent on the undelivered items, and (iii) the collaborator or other vendors can provide the undelivered items.

For all periods presented, whenever the Company determines that an element is delivered over a period of time, revenue is recognized using either a proportional performance model or a straight-line model over the period of performance, which is typically the research and development term. Full-time equivalents (FTEs) are typically used as the measure of performance. At each reporting period, the Company reassesses its cumulative measure of performance and makes appropriate adjustments, if necessary. The Company recognizes revenue using the proportional performance model whenever the Company can make reasonably reliable estimates of the level of effort required to complete its performance obligations under an arrangement. Revenue recognized under the proportional performance model at each reporting period is determined by multiplying the total expected payments under the contract (excluding royalties and payments contingent upon achievement of milestones) by the ratio of the level of effort incurred to date to the estimated total level of effort required to complete the performance obligations under the arrangement. Revenue is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the proportional performance model as of each reporting period. Alternatively, if the Company cannot make reasonably reliable estimates of the level of effort required to complete its performance obligations under an arrangement, then revenue under the arrangement is recognized on a straight-line basis over the period expected to complete the Company's performance obligations. If and when a contingent milestone payment is earned, the additional consideration to be received is allocated to the separate units of accounting in the arrangement based on their relative selling prices at the inception of the arrangement. Revenue is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined on a straight-line basis as of

the period end date. If the Company cannot reasonably estimate when its performance obligation period

F-11

Table of Contents

ends, then revenue is deferred until the Company can reasonably estimate when the performance obligation period ends.

Royalty revenue is recognized based on contractual terms when reported sales are reliably measurable and collectability is reasonably assured, provided that there are no performance obligations then remaining.

During the years ended September 30, 2015, 2014 and 2013, the Company also generated revenue from a government contract, under which the Company is reimbursed for certain allowable costs for the funded project. Revenue from the government contract is recognized when the related service is performed. The related costs incurred by the Company under the government contract are included in research and development expenses in the statements of operations. This contract was completed in August 2015.

Amounts received prior to satisfying all revenue recognition criteria are recorded as deferred revenue in the accompanying consolidated balance sheets. Amounts not expected to be recognized as revenue within the next twelve months of the consolidated balance sheet date are classified as long-term deferred revenue.

In the event that a collaborative research and license agreement is terminated and the Company then has no further performance obligations, the Company recognizes as revenue any amounts that had not previously been recorded as revenue but were classified as deferred revenue at the date of such termination.

Research and Development Costs

Research and development costs are expensed as incurred. Included in research and development costs are wages, stock-based compensation and benefits of employees, third-party license fees and other operational costs related to the Company's research and development activities, including facility-related expenses and external costs of outside contractors engaged to conduct both preclinical and clinical studies. The Company also includes in research and development expense the costs to complete the Company's obligations under research collaborations.

Patent Costs

All patent-related costs incurred in connection with filing and prosecuting patent applications are recorded as general and administrative expenses as incurred, as recoverability of such expenditures is uncertain.

Accounting for Stock-Based Compensation

The Company measures all stock options and other stock-based awards granted to employees at the fair value on the date of the grant. The Company uses the Black-Scholes option-pricing model in the valuation of its stock options. The Company uses Monte-Carlo simulation in order to calculate fair value of market-based awards. The fair value of the awards is recognized as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The straight-line method of expense recognition is applied to all awards with service-only conditions. The Company records compensation expense related to performance-based awards when performance-based targets are deemed to be probable of being achieved. The Company classifies stock-based compensation expense in the statements of operations in the same manner in which the award recipient's payroll costs are classified.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or in the Company's tax returns. Deferred taxes are determined based on the difference between the financial reporting and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in the provision for income taxes. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes, based upon the weight of available evidence, that it is

F-12

Table of Contents

more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is established through a charge to income tax expense. Potential for recovery of deferred tax assets is evaluated by estimating the future taxable profits expected and considering prudent and feasible tax planning strategies.

The Company accounts for uncertainty in income taxes recognized in the financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

Net Income per Share

The Company followed the two-class method when computing net income (loss) per share during periods prior to the IPO when the Company had outstanding shares that met the definition of participating securities. The two-class method was used to determine net income (loss) per share for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method required income available to common stockholders for the period to be allocated between common and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

The Company's redeemable convertible preferred shares and convertible preferred shares contractually entitled the holders of such shares to participate in dividends, but did not contractually require the holders of such shares to participate in losses of the Company. Accordingly, in periods in which the Company had participating securities and reported a net loss or a net loss attributable to common stockholders resulting from preferred stock dividends or accretion, net losses were not allocated to participating securities.

Basic net income (loss) per share attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) attributable to common stockholders is computed by adjusting net income (loss) attributable to common stockholders to reallocate undistributed earnings based on the potential impact of dilutive securities, including outstanding stock options and outstanding warrants. Diluted net income (loss) per share attributable to common stockholders is computed by dividing the diluted net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period, including potential dilutive common shares assuming the dilutive effect of outstanding stock options and outstanding warrants. Market-based awards are included in diluted EPS to the extent they would have vested if the period end date was the market criteria measurement date.

Segment Data

The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions. The Company is a biotechnology company focused on discovering and developing small molecule drugs for the treatment of viral infections and liver diseases. Revenue is generated exclusively from transactions occurring in the United States, and all assets are held in the United States.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) as well as other changes in stockholders' equity (deficit) that result from transactions and economic events other than those with stockholders. The Company's only element of other comprehensive income (loss) is unrealized gains and losses on available-for-sale marketable securities.

Table of Contents**Recently Issued and Adopted Accounting Pronouncements**

In May, 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In August 2015, the FASB deferred the effective date of the standard by an additional year. Accordingly, the standard will be effective for the Company on October 1, 2018. The Company is currently evaluating the potential impact that Topic 606 may have on its financial position and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred income taxes by eliminating the need for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. This amendment is effective for the Company in the fiscal year beginning October 1, 2017. The Company is currently evaluating the potential impact that ASU 2015-17 may have on its financial position and results of operations.

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 the Company's financial statements upon adoption.

3. Fair Value of Financial Assets and Liabilities

The following tables present information about the Company's financial assets and liabilities that were subject to fair value measurement on a recurring basis as of September 30, 2015 and 2014 and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value:

Fair Value Measurements as of September 30, 2015 Using:				
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 21,327	\$	\$	\$ 21,327
Corporate bonds		151,020		151,020
U.S. Agency bonds		36,697		36,697
	\$ 21,327	\$ 187,717	\$	\$ 209,044
Liabilities:				
Warrant liability	\$	\$	\$ 1,276	\$ 1,276
Series 1 nonconvertible preferred stock			163	163
	\$	\$	\$ 1,439	\$ 1,439

Fair Value Measurements as of September 30, 2014 Using:				
	Level 1	Level 2	Level 3	Total

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

Assets:				
Cash equivalents	\$ 30,239	\$	\$	\$ 30,239
Commercial paper			7,499	7,499
Corporate bonds			88,056	88,056
U.S. Agency bonds			5,513	5,513
	\$ 30,239	\$ 101,068	\$	\$ 131,307
Liabilities:				
Warrant liability	\$	\$	\$ 1,584	\$ 1,584
Series 1 nonconvertible preferred stock			202	202
	\$	\$	\$ 1,786	\$ 1,786

F-14

Table of Contents

Cash equivalents at September 30, 2015 and 2014 consist of money market funds.

During the years ended September 30, 2015, 2014 and 2013, there were no transfers between Level 1, Level 2 and Level 3.

As of September 30, 2015 and 2014, respectively, the warrant liability was comprised of the value of the warrants for the purchase of Series 1 nonconvertible preferred stock measured at fair value. As of September 30, 2015 the outstanding Series 1 nonconvertible preferred stock was also measured at fair value. The fair value of both of these instruments was based on significant inputs not observable in the market, which represented Level 3 measurement within the fair value hierarchy. The Company utilized a probability weighted valuation model which takes into consideration various outcomes that may require the Company to transfer assets upon exercise. The fair value of outstanding warrants to purchase our Series 1 nonconvertible preferred stock was \$1,276 and \$1,584 at September 30, 2015 and 2014, respectively. The fair value of Series 1 nonconvertible preferred stock was \$163 and \$202 as of September 30, 2015 and 2014, respectively. Changes in the fair value of the warrant liability and Series 1 nonconvertible preferred stock are recognized in the consolidated statements of operations.

The recurring Level 3 fair value measurements of the Company's warrant liability and Series 1 nonconvertible preferred stock using probability-weighted discounted cash flow include the following significant unobservable inputs:

September 30, 2015

	Unobservable Input	Range (Weighted Average)
Warrant liability and Series 1 nonconvertible preferred stock	Probabilities of payout	5% - 60%
	Periods in which payout is expected to occur	2016 - 2017
	Discount rate	4.25%

September 30, 2014

	Unobservable Input	Range (Weighted Average)
Warrant liability and Series 1 nonconvertible preferred stock	Probabilities of payout	10% - 90%
	Periods in which payout is expected to occur	2015 - 2016
	Discount rate	4.25%

Table of Contents

The following table provides a rollforward of the aggregate fair values of the Company's warrants for the purchase of Series 1 nonconvertible preferred stock and the outstanding Series 1 nonconvertible preferred stock for which fair value is determined by Level 3 inputs:

Balance, September 30, 2012	\$ 2,001
Decrease in fair value	(381)
Balance, September 30, 2013	1,620
Warrants exercised	(206)
Series 1 nonconvertible preferred stock issued	206
Increase in fair value	166
Balance, September 30, 2014	1,786
Decrease in fair value	(347)
Balance, September 30, 2015	\$ 1,439

4. Marketable Securities

As of September 30, 2015 and 2014, the fair value of available-for-sale marketable securities by type of security was as follows:

	September 30, 2015			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Corporate bonds	\$ 151,012	\$ 77	\$ (69)	\$ 151,020
U.S. Agency bonds	36,652	45		36,697
	\$ 187,664	\$ 122	\$ (69)	\$ 187,717

	September 30, 2014			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Commercial paper	\$ 7,499	\$	\$	\$ 7,499
Corporate bonds	88,156	14	(114)	88,056
U.S. Agency bonds	5,513			5,513
	\$ 101,168	\$ 14	\$ (114)	\$ 101,068

At September 30, 2015, marketable securities consisted of investments that mature within one year, with the exception of certain corporate and U.S. Agency bonds, which have maturities between one and three years and an aggregate fair value of \$64,238.

Table of Contents**5. Property and Equipment**

Property and equipment consisted of the following as of September 30, 2015 and 2014:

	September 30,	
	2015	2014
Laboratory and office equipment	\$ 5,907	\$ 4,829
Leasehold improvements	1,290	300
Purchased software	443	414
Computer equipment	137	111
Furniture	496	284
Construction in progress	1,889	
	10,162	5,938
Less: Accumulated depreciation and amortization	(4,276)	(4,135)
	\$ 5,886	\$ 1,803

Depreciation and amortization expense was \$639, \$352 and \$221 for the years ended September 30, 2015, 2014 and 2013, respectively. During the years ended September 30, 2015, 2014 and 2013, assets with a cost of \$518, \$554 and \$420, respectively, were sold or disposed of, resulting in gains of \$31, \$3 and \$100, respectively.

6. Accrued Expenses, Other Current Liabilities and Other Long-Term Liabilities

Accrued expenses, other current liabilities and other long-term liabilities consisted of the following as of September 30, 2015 and 2014:

	September 30,	
	2015	2014
Accrued expenses and other current liabilities:		
Accrued payroll and related expenses	\$ 1,622	\$ 1,275
Accrued fixed asset purchases	1,307	
Accrued professional fees	338	436
Accrued preclinical and clinical expenses	237	493
Capital lease obligation	69	
Accrued vendor manufacturing	18	116
Accrued third-party license fee		240
Accrued other	371	312
	\$ 3,962	\$ 2,872
Other long-term liabilities:		
Accrued rent expense	\$ 628	\$ 153
Capital lease obligation	529	

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

Uncertain tax positions	448	
Asset retirement obligation	108	76
	\$ 1,713	\$ 229

In connection with the current lease, as amended, the Company spent \$598 of tenant improvement allowance provided by the landlord and accounted for as a capital lease obligation.

F-17

Table of Contents**7. Collaboration Agreements****AbbVie Collaboration**

On November 27, 2006, the Company entered into a Collaborative Development and License Agreement (the AbbVie Agreement) with Abbott Laboratories to identify, develop and commercialize HCV NS3 and NS3/4A protease inhibitor compounds, including paritaprevir (also known as ABT-450). The agreement was assigned by Abbott to AbbVie Inc. on January 1, 2013 in connection with Abbott's transfer of its research-based pharmaceuticals business to AbbVie.

Under the terms of the AbbVie Agreement, as amended, AbbVie paid to the Company upfront license payments and FTE reimbursements to fund research activities. The Company is also eligible to receive milestone payments for the successful development by AbbVie of one or more HCV compounds as well as annually, tiered per product, royalties ranging from the low double digits up to twenty percent, or on a blended basis from the low double digits up to the high teens, on net sales by AbbVie allocated to the collaboration's protease inhibitors.

The Company determined that the deliverables under the AbbVie Agreement included (i) the non-exclusive, royalty-free, worldwide research license and the exclusive, royalty-bearing development and commercialization license, (ii) the research services, and (iii) a commitment to participate on a steering committee, all of which were to be delivered over a three-year period. The Company concluded that the license did not have standalone value as it was dependent, in part, upon the Company's continuing involvement in the HCV protease inhibitor research and its involvement in the joint steering committee. Additionally, the undelivered items, including the Company's participation in the joint steering committee, which was considered participatory due to its decision making responsibilities, and the research services, did not have VSOE or VOE of fair value. Therefore, the license, the research services, and the joint steering committee participation were treated as a single unit of accounting. Accordingly, all amounts received were deferred, and revenue was recognized using the proportional performance model over the period during which the Company performed research services in connection with the AbbVie Agreement, as amended.

Subsequent to the research and evaluation period which ended in June 2011, all decisions related to the development, commercialization and marketing have been made by AbbVie. The Company has the right to continue to attend the joint steering committee meetings to monitor the development and marketing plans; however, the Company has no decision making rights. As such, the joint steering committee commitment became protective in nature as of June 16, 2011.

During the years ended September 30, 2015, 2014 and 2013, the Company received \$125,000, \$40,000 and \$15,000 in milestone payments under the AbbVie Agreement as a result of AbbVie's development and commercialization of a regimen that included paritaprevir. From commencement of the collaboration, through September 30, 2015, the Company has received a total of \$319,000 under the AbbVie Agreement consisting of an upfront license payment, research funding, milestone payments, royalties and preferred stock financing. As of September 30, 2015, the Company was eligible to receive an additional milestone payment of \$30,000 upon AbbVie's achievement of commercialization regulatory approval of a paritaprevir-containing regimen in Japan, which was earned in November 2015. The Company is also eligible to receive additional milestone payments totaling up to \$80,000 upon AbbVie's achievement of similar commercialization regulatory approval milestones in the U.S. and other selected world markets for each additional protease inhibitor commercialized by AbbVie. The Company is also eligible to receive annually tiered royalties per product ranging from the low double digits up to twenty percent, or on a blended basis from the low double digits up to the high teens, on net sales by AbbVie allocated to the collaboration's protease inhibitors separately. Under the terms of the agreement, as amended in October 2014, 30% of net sales of a 3-DAA regimen

containing paritaprevir will be allocated to paritaprevir, and 45% of net sales of a 2-DAA regimen containing paritaprevir will be allocated to paritaprevir. For ABT-493, the next generation protease inhibitor currently being developed by AbbVie, 50% of net sales of a 2-DAA regimen containing ABT-493 will be allocated to ABT-493, and 33 1/3% of net sales of a 3-DAA regimen containing ABT-493 will be allocated to ABT-493. If there is any active ingredient other than DAA s in

F-18

Table of Contents

any ABT-493-containing regimen sold by AbbVie, there will be a further adjustment to net sales based on the relative value of the non-DAA ingredient. The Company began earning and receiving royalty payments on net sales of regimens containing paritaprevir during the year ended September 30, 2015.

Since the Company completed all its performance obligations under the AbbVie Agreement by the end of fiscal 2011, any milestone payments received since then have been and will be recognized as revenue when achieved by AbbVie.

The Company had the option, but not the obligation, to co-develop and share in the profit of any product in the United States that is developed as a result of the AbbVie Agreement. This option for the first compound (paritaprevir) expired in 2011 and the option for the second compound (ABT-493) expired in 2014 without the Company choosing to exercise either option. The Company has no further obligations in regard to the AbbVie Agreement and will evaluate future options as they arise.

Royalties owed to the Company under the agreement can be reduced by AbbVie in certain circumstances, including (i) if AbbVie exercises its right to license or otherwise acquire rights to intellectual property controlled by a third party where a product could not be legally developed or commercialized in a country without the third-party intellectual property right, (ii) where a product developed under the collaboration agreement is sold in a country and not covered by a valid patent claim in such country, and (iii) where sales of a generic product are equal to at least a specified percentage of AbbVie's market share of a product in a country.

AbbVie's obligation to pay royalties on a product developed under the agreement expires on a country-by-country basis upon the later of (i) the date of expiration of the last of the licensed patents with a valid claim covering the product in the applicable country, or (ii) ten years after the first commercial sale of the product in the applicable country.

Subject to certain exceptions, a party's rights and obligations under the agreement continues until (i) such time as AbbVie is no longer developing a product candidate or (ii) if, as of the time AbbVie is no longer developing any product candidates, AbbVie is commercializing any other protease inhibitor product, such time as all royalty terms for all covered products and all co-development terms for all co-developed products have ended. Accordingly, the final expiration date of the agreement is currently indeterminable.

Either party may terminate the agreement for cause in the event of a material breach, subject to prior notice and the opportunity to cure, or in the event of the other party's bankruptcy. Additionally, AbbVie may terminate the agreement for any reason upon specified prior notice.

If the Company terminates the agreement for cause or AbbVie terminates without cause, any licenses and other rights granted to AbbVie will terminate and AbbVie will be deemed to have granted the Company (i) a non-exclusive, perpetual, fully paid, worldwide, royalty-free license, with the right to sublicense, under AbbVie's intellectual property used in any product candidate, and (ii) an exclusive (even as to AbbVie), perpetual, fully paid, worldwide, royalty-free license, with the right to sublicense, under AbbVie's interest in any joint intellectual property rights to develop product candidates resulting from covered compounds and to commercialize any products derived from such compounds. Upon the Company's request, AbbVie will also transfer to the Company all right, title and interest in any related product trademarks, regulatory filings and clinical trials.

If AbbVie terminates the agreement for the Company's uncured breach, the milestone and royalty payments payable by AbbVie may be reduced, the licenses granted to AbbVie will remain in place, the Company will be deemed to have granted AbbVie an exclusive license under the Company's interest in joint intellectual property, AbbVie will continue to have the right to commercialize any covered products, and all rights and licenses granted to the Company by

AbbVie will terminate.

F-19

Table of Contents

Novartis Collaboration

Under the terms of a 2012 license and collaboration agreement to develop an NS5A inhibitor with Novartis (the Novartis Agreement), the Company received an upfront payment of \$34,442 million in fiscal 2012 and a commitment to fund research at an agreed amount for one year. The Company recognized the upfront license payment upon receipt.

During the year ended September 30, 2013, the Company recognized total revenue of \$12,675 under the Novartis Agreement, of which \$10,894 was attributable to license fees and \$1,781 was attributable to the performance of research services. No revenue was recognized under the agreement in fiscal 2014 or 2015.

On September 30, 2014 the Company and Novartis entered into an amendment to the Novartis Agreement to return to the Company full rights to its NS5A inhibitor program, including EDP-239, and to transition the proof-of-concept study of EDP-239 to the Company. The Company owes no future payments to Novartis in connection with this transfer.

NIAID Contract

On September 30, 2011, the Company entered into a contract with the National Institute of Allergy and Infectious Diseases (NIAID), a division of the National Institutes of Health (NIH), providing development funding to the Company for the preclinical and clinical development of a bridged bicyclic antibiotic to be used as a medical countermeasure against multiple biodefense Category A and B bacteria. In February 2015, NIAID and the Company amended the contract to provide for completion in August 2015 and to decrease the total committed contract funding. The Company has received payments of \$18,672 under the NIAID contract through September 30, 2015.

The Company recognized revenue under this contract as development services were performed in accordance with the funding agreement. During the year ended September 30, 2015, the Company recognized revenue of \$1,803, under this contract. As of September 30, 2015, \$955 was invoiced but unpaid and included in accounts receivable, \$433 was unbilled and included in unbilled receivables. During the year ended September 30, 2014, the Company recognized revenue of \$7,741, under this contract, of which \$1,724 was invoiced but unpaid and included in accounts receivable and \$2,770 was unpaid and included in unbilled receivables at September 30, 2014. During the year ended September 30, 2013, the Company recognized revenue of \$4,378, under this contract.

The contract was completed in August 2015 upon the Company s delivery of the study report for the Phase 1 clinical study.

8. Stockholders Equity

On March 1, 2013, the Company effected an increase in the number of authorized shares of its common stock from 70,000,000 to 100,000,000 shares. On March 1, 2013, the Company effected a 1-for-4.31 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratio for each series of redeemable convertible preferred stock and convertible preferred stock. Accordingly, all share and per share amounts for all periods presented in these financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the reverse stock split and adjustment of the preferred share conversion ratios.

On March 26, 2013 the Company completed an initial public offering of its common stock, which resulted in the sale of 4,600,000 shares. The Company received net proceeds from the IPO of \$59,892 based upon the price of \$14.00 per share and after deducting underwriting discounts and commissions paid by the Company.

Table of Contents

Upon the closing of the initial public offering, all outstanding shares of the Company's redeemable convertible preferred stock and convertible preferred stock were converted into 11,656,875 shares of common stock.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive such dividends as may be declared by the board of directors, if any.

The Company retired all 208,186 shares of treasury stock effective September 30, 2015 which resulted in a decrease in the same number of issued shares of common stock.

9. Series 1 Nonconvertible Preferred Stock

The Company's Certificate of Incorporation authorizes the issuance of up to 1,999,989 shares of Series 1 nonconvertible preferred Stock (the Series 1 nonconvertible preferred) at a par value of \$0.01 per share. Holders of Series 1 nonconvertible preferred stock are not entitled to receive dividends. In the event of any liquidation, deemed liquidation, dissolution or winding up of the Company, the Series 1 nonconvertible preferred stockholders are entitled to receive in preference to all other stockholders, an amount equal to \$1.00 per share, adjusted for any stock dividends, stock splits or reclassifications. Series 1 nonconvertible preferred holders will not be entitled to vote unless required by the Company pursuant to the laws of the State of Delaware. The Company may redeem the Series 1 nonconvertible preferred stock with the approval of the holders of a majority of the outstanding shares of Series 1 nonconvertible preferred at a redemption price of \$1.00 per share. The Company must redeem the stock within 60 days of such election. Shares that are redeemed will be retired or canceled and not reissued by the Company.

In October and November 2010, a total of 1,999,989 warrants to purchase Series 1 nonconvertible preferred stock were issued. These warrants expire on October 4, 2017. As these warrants are free-standing financial instruments that may require the Company to transfer assets upon exercise, up to a maximum of \$2,000, these warrants are classified as liabilities. The warrants had a fair value upon issuance of \$1,280. The Company is required to remeasure the fair value of these preferred stock warrants at each reporting date, with any adjustments recorded within the change in fair value of warrant liability included in other income (expense) in the statement of operations. On February 5, 2014, 225,408 warrants were exercised resulting in the net issuance of 223,153 shares of Series 1 nonconvertible preferred stock, which were outstanding at September 30, 2015 and 2014. The remeasurement of the warrants and Series 1 nonconvertible preferred stock resulted in income of \$347, expense of \$166 and income of \$361 for the years ended September 30, 2015, 2014 and 2013, respectively. As of September 30, 2015 and 2014, the total fair value of the Series 1 nonconvertible preferred stock was \$163 and \$202, respectively. As of September 30, 2015 and September 30, 2014, the total fair value of the Series 1 nonconvertible preferred stock warrants was \$1,276 and \$1,584, respectively.

If all outstanding warrants to purchase the Series 1 nonconvertible preferred stock are exercised, the resulting outstanding shares of Series 1 nonconvertible preferred stock will carry an aggregate \$2,000 liquidation preference that is superior to the common stock and any other classes of preferred stock then outstanding.

Table of Contents

The following table summarizes the Company's warrant activity since October 1, 2012:

	Series 1 Nonconvertible Preferred Stock Warrants Exercisable	Weighted Average Exercise Price
Outstanding, as of September 30, 2012	1,999,989	\$ 0.01
Granted		
Expired		
Exercised		
Outstanding, as of September 30, 2013	1,999,989	\$ 0.01
Granted		
Expired		
Exercised	(225,408)	
Outstanding, as of September 30, 2014	1,774,581	\$ 0.01
Granted		
Expired		
Exercised		
Outstanding, as of September 30, 2015	1,774,581	\$ 0.01

10. Stock-Based Awards

The Company's 2012 Equity Incentive Plan (the "2012 Plan") permits the Company to sell or issue common stock or restricted common stock or to grant incentive stock options or nonqualified stock options for the purchase of common stock, restricted stock units, performance units, stock appreciation rights or other cash incentive awards, to employees, members of the board of directors and consultants of the Company. The number of shares of common stock that may be issued under the 2012 Plan is subject to increase by the number of shares forfeited under any options terminated and not exercised under the previous plan, known as the 1995 Equity Incentive Plan as well as by a number of additional shares on the first day of each fiscal year by the lowest amount among the following: (i) 3% of the Company's outstanding shares of common stock as of that date, (ii) 2,088,167 shares of common stock, or (iii) an amount determined by the board of directors. On October 1, 2014, the number of shares of common stock that might be issued under the 2012 Plan was increased by 557,863 shares. As of September 30, 2015, 444,173 shares remained available for future grant.

Options granted under the 2012 Plan to non-executive employees generally vest quarterly over four years and expire after ten years; options granted to executive employees generally vest over one to four years; and options granted to the board of directors vest over two to three years.

The 2012 Plan replaces and is the successor to the 1995 Equity Incentive Plan (the "1995 Plan"). The 1995 Plan provided for the Company to sell or issue common stock or restricted common stock, or to grant incentive stock options or nonqualified stock options for the purchase of common stock, to employees, members of the board of directors and consultants of the Company. Sales, issuances or grants of shares entitle the holder to purchase common

stock from the Company, for a specified exercise price, during a period specified by the applicable equity award agreement. Upon the closing of the Company's initial public offering, all remaining shares reserved for issuance under the 1995 Plan were transferred to the 2012 Plan and no further awards will be made under the 1995 Plan.

Under the Company's Employee Stock Purchase Plan (ESPP) a total of 185,614 shares of common stock are reserved for issuance. As of September 30, 2015, the Company had not commenced any offering under the ESPP and no plan shares have been issued.

Table of Contents

The Company applies the fair value recognition provisions for all stock-based awards granted or modified. In the case of service-based awards, the compensation cost is recorded over the requisite service period of the award on the straight-line method based on the grant-date fair value. The requisite service period for service-based awards is generally four years, with restrictions lapsing evenly over the period.

In March 2013, the Company granted to certain executives 167,052 options that vest upon the achievement of certain performance-based targets. The grant date fair value of these options was \$2,479. During the year ended September 30, 2014, one performance-based target was achieved and the Company recorded compensation expense of \$206 related to that target. No compensation expense related to these options was recognized during the years ended September 30, 2015 and 2013 as none of the performance-based targets was deemed to be probable of being achieved.

Stock Option Valuation

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. To date the Company lacks sufficient company-specific historical volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a selected group of publicly traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The expected term of the Company's stock options has been determined utilizing the simplified method for awards that qualify as plain-vanilla options. The risk-free interest rate is determined by reference to the U.S. 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 the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. The relevant data used to determine the value of the stock option grants is as follows, presented on a weighted average basis:

	Years Ended September 30,		
	2015	2014	2013
Risk-free interest rate	1.85%	1.89%	1.05%
Expected term (in years)	6.03	6.06	6.09
Expected volatility	74%	75%	73%
Expected dividend yield	0%	0%	0%

The Company recognizes compensation expense for only the portion of awards that are expected to vest. In developing a forfeiture rate estimate, the Company has considered its historical experience to estimate pre-vesting forfeitures for service-based awards. The impact of a forfeiture rate adjustment will be recognized in full in the period of adjustment, and if the actual forfeiture rate is materially different from the Company's estimate, the Company may be required to record adjustments to stock-based compensation expense in future periods.

As required by the 1995 Plan and 2012 Plan, the exercise price for awards granted is not to be less than the fair value of common shares as estimated by the Company as of the date of grant. For the periods prior to the March 2013 IPO, the Company valued its common stock by taking into consideration its most recently available valuation of common shares performed by management and the board of directors as well as additional factors which may have changed since the date of the most recent contemporaneous valuation through the date of grant. For the periods after the IPO, the Company based fair value of its common stock on the quoted market price.

Table of Contents

The following table summarizes stock option activity for the year ended September 30, 2015:

	Shares Issuable Under Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2014	1,389,437	\$ 15.39	7.2	\$ 33,573
Granted	526,755	42.36		
Exercised	(122,260)	5.94		
Forfeited	(41,922)	32.24		
Outstanding as of September 30, 2015	1,752,010	\$ 23.76	7.2	\$ 25,093
Options vested and expected to vest as of September 30, 2015	1,576,413	\$ 24.71	7.1	\$ 21,369
Options exercisable as of September 30, 2015	854,183	\$ 14.58	5.7	\$ 18,852

The aggregate intrinsic value of options is calculated as the difference between the exercise price of the options and the fair value of the Company's common stock for those shares that had exercise prices lower than the fair value of the Company's common stock. The aggregate intrinsic value of stock options exercised was \$4,827, \$3,219 and \$7,574 during the years ended September 30, 2015, 2014 and 2013, respectively.

The Company received cash proceeds from the exercise of stock options of \$726, \$1,054 and \$559 during the years ended September 30, 2015, 2014 and 2013, respectively. The weighted average grant date fair value of options granted during the years ended September 30, 2015, 2014 and 2013 was \$27.77, \$19.98 and \$9.16, respectively.

The Company recorded stock-based compensation expense for the years ended September 30, 2015, 2014 and 2013 in the following expense categories:

	Years Ended September 30,		
	2015	2014	2013
Research and development	\$ 1,644	\$ 762	\$ 393
General and administrative	4,194	1,920	670
	\$ 5,838	\$ 2,682	\$ 1,063

As of September 30, 2015, the Company had an aggregate of \$18,399 of unrecognized stock-based compensation cost, which is expected to be recognized over a weighted average period of 2.8 years.

Market and Performance-based Stock Unit Awards

In February 2015, the Company awarded certain executive officers a total of 41,800 share units consisting of 20,900 performance share units, or PSUs, and 20,900 relative total shareholder return units, or rTSRUs. The number of units represents the target number of shares of common stock that may be earned; however, the actual number of shares that may be earned ranges from 0% to 200% of the target number.

The PSUs will vest and result in issuance, or settlement, of common shares for each recipient, based upon the recipient's continued employment with the Company and the Company's achievement of specified research and development milestones on or before December 31, 2016. The aggregate grant date fair value of the 20,900 PSUs ranges between \$0 and \$1,501. During the year ended September 30, 2015, the Company recorded no compensation expense related to the PSU awards as none of the performance-based targets were probable of being achieved during this period.

Table of Contents

The rTSRUs will vest and result in the issuance of common stock for each recipient based upon the recipient's continuing employment with the Company and the relative ranking of the total shareholder return, or TSR, of the Company's common stock in relation to the TSR of the component companies in the NASDAQ Biotech Index over a two-year period based on a comparison of average closing stock prices in December 2014 and December 2016. The number of market-based rTSRUs awarded represents the target number of shares of common stock that may be earned; however, the actual number of shares that may be earned ranges from 0% to 200% of the target number.

The Company used a Monte Carlo simulation model to estimate that the grant-date fair value of the rTSRUs was \$554. The table below sets forth the assumptions used to value the awards and the estimated grant-date fair value:

Risk-free interest rate	0.61%
Dividend yield	0%
Expected volatility	55.66%
Remaining performance period (years)	1.86
Estimated fair value per share of rTSRUs granted	\$ 26.51

The fair value related to the rTSRUs will be recorded as compensation expense over the period from date of grant to December 2016 regardless of whether the target relative total shareholder returns are reached. During the year ended September 30, 2015, the Company recorded \$181 in expense related to rTSRUs.

11. Net Income (Loss) Per Share

Basic and diluted net income (loss) per share attributable to common stockholders was calculated as follows for the years ended September 30, 2015, 2014 and 2013:

	Years Ended September 30,		
	2015	2014	2013
Basic net income (loss) per share attributable to common stockholders:			
Numerator:			
Net income	\$ 78,992	\$ 34,438	\$ 9,627
Accretion of redeemable convertible preferred stock to redemption value			(2,526)
Net income attributable to participating securities			(13,670)
Net income (loss) attributable to common stockholders	\$ 78,992	\$ 34,438	\$ (6,569)
Denominator:			
Weighted average common shares outstanding basic	18,673,484	18,354,791	9,788,039
Net income (loss) per share attributable to common	\$ 4.23	\$ 1.88	\$ (0.67)

Table of Contents

	Years Ended September 30,		
	2015	2014	2013
Diluted net income (loss) per share attributable to common stockholders:			
Numerator:			
Net income	\$ 78,992	\$ 34,438	\$ 9,627
Accretion of redeemable convertible preferred stock to redemption value			(2,526)
Net income attributable to participating securities			(13,670)
Net income (loss) attributable to common stockholders diluted	\$ 78,992	\$ 34,438	\$ (6,569)
Denominator:			
Weighted average common shares outstanding basic	18,673,484	18,354,791	9,788,039
Dilutive effect of common stock equivalents	621,150	830,437	
Weighted average common shares outstanding diluted	19,294,634	19,185,228	9,788,039
Net income (loss) per share attributable to common stockholders diluted	\$ 4.09	\$ 1.80	\$ (0.67)

Stock options and awards for the purchase of 604,632, 330,430 and 1,713,313 weighted average shares were excluded from the computation of diluted net income per share attributable to common stockholders for the years ended September 30, 2015, 2014 and 2013, respectively, because those options had an anti-dilutive impact due to either the net loss attributable to common stockholders incurred for the period or to the assumed proceeds per share using the treasury stock method being greater than the average fair value of the Company's common shares for those periods.

12. Commitments and Contingencies**Leases**

The Company had an office and laboratory lease that was effective from fiscal 2011 to 2018. During the year ended September 30, 2015, the Company amended the lease to expand the rented space and extend the lease term through September 2022. Payment escalations specified in the lease agreement, as amended, are accrued such that rent expense is recognized on a straight-line basis over the term of occupancy. The Company incurred rent expense of \$1,326 for the year ended September 30, 2015 and \$948, for each of the years ended September 30, 2014 and 2013.

Table of Contents

Future minimum lease payments as of September 30, 2015 are as follows:

Years Ended September 30,	Operating Leases	Capital Leases	Total
2016	\$ 1,958	\$ 68	\$ 2,026
2017	2,010	73	2,083
2018	2,062	79	2,141
2019	2,117	85	2,202
2020	2,172	93	2,265
Thereafter	4,322	200	4,522
Total	\$ 14,641	\$ 598	\$ 15,239

In connection with the current lease, the Company had an outstanding letter of credit in the amounts of \$608 and \$436 as of September 30, 2015 and 2014, respectively, collateralized by a money market account. As of September 30, 2015 and 2014, the Company classified these amounts as restricted cash.

Additionally the amended lease included a \$598 tenant improvement allowance from the landlord, which allowance is accounted for as a capital lease obligation.

Intellectual Property Licenses

The Company has a non-exclusive intellectual property license agreement with a licensor of research technology. Under the 2012 agreement, the Company is required to pay the third party licensor an upfront license fee of \$350 and additional license fees of \$250 on the first anniversary, \$250 on the second anniversary and \$200 on the third anniversary of the agreement. In addition, the Company is required to pay (1) annual maintenance fees of \$105 for each year that the agreement remains in effect, commencing on the first anniversary of the agreement, in order to maintain the right to use the license, and (2) a one-time fee of \$50 in each circumstance in which the Company provides the licensed intellectual property to one of its collaborators with the prior consent of the licensor. As of October 1, 2012, the Company had recorded liabilities totaling \$995 related to the agreement. During the years ended September 30, 2015, 2014 and 2013, the Company paid \$200, \$250 and \$350, respectively, under the agreement.

During the year ended September 30, 2013, the Company obtained an amendment to an existing license agreement to extend rights to patents previously licensed for one of its programs for use in its other HCV research. Under the amended agreement, the Company is obligated to pay milestones totaling up to \$5,000, plus low single digit royalties, for each HCV product it develops and for which it obtains regulatory approval outside of its collaboration with AbbVie or any other collaboration it may enter into in the future with a partner that has already licensed these patents. In the same period, the Company paid a milestone payment of \$500 under this amended agreement.

Litigation and Contingencies Related to Use of Intellectual Property

From time to time, the Company may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. The Company currently is not a party to any threatened or pending litigation. However, third parties might allege that the Company or its collaborators are infringing their patent rights or that the Company is otherwise violating their intellectual property rights. Such third parties may resort to litigation against the Company or its collaborators, which the Company has agreed to indemnify. With respect to some of these patents, the Company

expects that it may be required to obtain licenses and could be required to pay license fees or royalties, or both. These licenses may not be available on acceptable terms, or at all. A costly license, or inability to obtain a necessary license, could have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

F-27

Table of Contents**Indemnification Agreements**

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements, from services to be provided by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. In addition, the Company maintains officers and directors insurance coverage. The Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on its financial position, results of operations or cash flows, and it has not accrued any liabilities related to such obligations in its financial statements as of September 30, 2015 or 2014.

13. Income Taxes

Income before income taxes for all periods presented is from domestic operations, which are the Company's only operations. During the years ended September 30, 2015, 2014 and 2013, the Company recorded a provision or a benefit for income taxes as follows:

	Years Ended September 30,		
	2015	2014	2013
Current income tax expense:			
Federal	\$ 35,040	\$	\$
State	2,172	151	
Deferred income tax expense (benefit):			
Federal	7,371	(13,048)	
State	1,880	(2,273)	
	\$ 46,463	\$(15,170)	\$

For the years ended September 30, 2015 and 2014, the Company recorded an income tax provision of \$46,463 and an income tax benefit of \$15,170, respectively. During the year ended September 30, 2013 no provision for income taxes was recorded due primarily to the Company's use of net operating loss carryforwards to offset the income before income taxes of \$9,627 generated in that period. As the deferred tax assets for those utilized net operating loss carryforwards had previously been recorded with a full valuation allowance, the use of the net operating loss carryforwards in the period resulted in an income tax benefit being recognized, which offset the tax provision recorded as a result of the income before income taxes generated.

During fiscal 2014, the Company reassessed the need for a valuation allowance against its deferred tax assets. The Company concluded from the reassessment that it was more likely than not that the Company would be able to realize its deferred tax assets primarily as a result of recent profitability and forecasted future profits resulting from future expected milestone payments and on-going royalty payments from its AbbVie collaboration. Accordingly, the Company released its valuation allowance of \$22,892 in fiscal 2014.

Edgar Filing: ENANTA PHARMACEUTICALS INC - Form 10-K

The effective tax rate for the year ended September 30, 2015 was 37.0% and differs from the federal statutory rate of 35% primarily due to state income taxes, changes in estimates related to research and development tax credits for fiscal years prior to 2015 and certain expenditures which are permanently not deductible for tax purposes.

The effective tax rate for the year ended September 30, 2014 was (78.7)% and differs from the federal statutory rate of 35% primarily due to a change in estimate as to the Company's ability to realize the benefits of its net

F-28

Table of Contents

operating loss carry-forwards and research and development tax credits resulting in a reduction of the Company's valuation allowance against deferred tax assets in the amount of \$22,892, as well as changes in estimates related to the fiscal 2014 research and development tax credits, and certain expenditures which are permanently not deductible for tax purposes.

The effective tax rate benefit for the fiscal year ended September 30, 2013 was 0% and differs from the federal statutory tax rate of 34% primarily because the Company had available tax loss carryforwards and other deferred tax assets to offset its taxable income in that period.

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Years Ended September 30,		
	2015	2014	2013
Federal statutory income tax rate	35.0%	35.0%	34.0%
State taxes, net of federal benefit	2.6	5.5	5.5
Federal research and development tax credit	(0.1)	(0.5)	(2.5)
Change in deferred tax asset valuation allowance		(118.8)	(51.0)
Change in statutory rate	0.3	(2.1)	
Other	(0.8)	2.2	14.0
Effective income tax rate	37.0%	(78.7)%	0.0%

Net deferred tax assets as of September 30, 2015 and 2014 consisted of the following:

	September 30,	
	2015	2014
Net operating loss carryforwards	\$	\$ 2,952
Tax credit carryforwards		5,920
Capitalized research and development expenses	2,903	4,756
Other temporary differences	3,204	1,693
Gross deferred tax assets	6,107	15,321
Valuation allowance		
Deferred tax assets	\$ 6,107	\$ 15,321

As of September 30, 2014, the Company had net operating loss carryforwards for federal and state income tax purposes of \$0 and \$8,433, respectively, which were utilized entirely in fiscal 2015. The Company also had available research and development tax credit and other credit carryforwards for federal and state income tax purposes of \$4,481 and \$2,214, respectively, which were similarly entirely utilized in fiscal 2015.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. There are currently no pending income tax examinations. The Company's tax years are still open under statute from 2008 to

the present. Earlier years may be examined to the extent that tax credit or net operating loss carryforwards are used in future periods.

The Company had an unrecognized tax benefit of \$448 and \$0 as of September 30, 2015 and 2014, respectively. Unrecognized tax benefits represent tax positions for which reserves have been established. The Company's policy is to record interest and penalties related to uncertain tax positions as part of its income tax provision.

Table of Contents**14. 401(k) Plan**

The Company has a 401(k) plan. This plan covers substantially all employees who meet minimum age and service requirements. Under the terms of the plan, the Company contributed on an annual basis up to 2% of an employee base salary up to a maximum of \$4 per employee. During the year ended September 30, 2014, the plan was amended to allow the Company to contribute on an annual basis up to 3% of an employee's base salary up to a maximum of \$8 per employee.

During the years ended September 30, 2015, 2014 and 2013, the Company recognized \$382, \$180 and \$90, respectively, of expense related to its contributions to this plan.

15. Selected Quarterly Financial Data (unaudited)

Quarterly financial information for fiscal 2015, 2014 and 2013 is presented in the following table, in thousands, except per share data:

	2015 Quarter Ended			
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
Revenue	\$ 77,498	\$ 57,367	\$ 11,599	\$ 14,416
Operating expenses	7,288	8,806	9,896	10,742
Other income, net	301	210	287	509
Income tax (expense) benefit	(28,502)	(20,018)	428	1,629
Net income	42,009	28,753	2,418	5,812
Net income per share attributable to common shareholders basic	\$ 2.26	\$ 1.54	\$ 0.13	\$ 0.30
Net income per share attributable to common shareholders diluted	\$ 2.18	\$ 1.49	\$ 0.13	\$ 0.29

	2014 Quarter Ended			
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
Revenue	\$ 893	\$ 2,160	\$ 42,051	\$ 2,637
Operating expenses	6,350	7,287	7,156	7,963
Other income (expense), net	87	(76)	36	236
Income tax benefit			15,122	48
Net income (loss)	(5,370)	(5,203)	50,053	(5,042)
Net income (loss) per share attributable to common shareholders basic	\$ (0.30)	\$ (0.28)	\$ 2.70	\$ (0.27)
Net income (loss) per share attributable to common shareholders diluted	\$ (0.30)	\$ (0.28)	\$ 2.61	\$ (0.27)