SENOMYX INC
Form 10-Q
November 08, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number: 000-50791

SENOMYX, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0843840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4767 Nexus Centre Drive **San Diego, California**	**92121**
(Address of principal executive offices)	(Zip code)

(858) 646-8300

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Total shares of common stock outstanding as of the close of business on October 31, 2012: 40,100,483

Table of Contents

SENOMYX, INC.

FORM 10-Q

TABLE OF CONTENTS

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

SENOMYX, INC.

BALANCE SHEETS

(In thousands, except for share and per share data)

(Unaudited)

	September 30, 2012 (Unaudited)	December 31, 2011 [Note]
Assets		
Current assets:		
Cash and cash equivalents	$ 15,435	$ 15,964
Short-term investments available-for-sale	29,284	37,142
Accounts receivable	2,047	2,434
Other current assets	818	706
Total current assets	47,584	56,246
Long-term investments available-for-sale		2,000
Property and equipment, net	8,571	9,400
Total assets	$ 56,155	$ 67,646
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 5,458	$ 6,117
Deferred rent	164	105
Leasehold incentive obligation	987	987
Deferred revenue	11,346	12,782
Total current liabilities	17,955	19,991
Deferred rent	1,188	1,321
Leasehold incentive obligation	3,373	4,113
Deferred revenue	6,875	12,500
Commitments		
Stockholders equity:		
Preferred stock, $.001 par value; 7,500,000 shares authorized; no shares issued or outstanding at September 30, 2012 (unaudited) and December 31, 2011		
Common stock, $.001 par value; 120,000,000 shares authorized at September 30, 2012 (unaudited) and December 31, 2011; 40,100,483 and 39,759,137 shares issued and outstanding at September 30, 2012 (unaudited) and December 31, 2011, respectively	40	40
Additional paid-in capital	255,294	251,254

Accumulated other comprehensive gain		6		30
Accumulated deficit		(228,576)		(221,603)
Total stockholders equity		26,764		29,721
Total liabilities and stockholders equity	$	56,155	$	67,646

[NOTE: The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.]

See accompanying notes to condensed financial statements.

Table of Contents

SENOMYX, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Development revenues	$ 7,007	$ 6,423	$ 20,247	$ 20,513
Commercial revenues	845	688	2,679	2,279
Total revenues	7,852	7,111	22,926	22,792
Operating expenses:				
Research and development	7,152	6,964	21,458	21,629
General and administrative	2,739	2,801	8,498	8,329
Total operating expenses	9,891	9,765	29,956	29,958
Loss from operations	(2,039)	(2,654)	(7,030)	(7,166)
Other income	12	30	57	99
Net loss	$ (2,027)	$ (2,624)	$ (6,973)	$ (7,067)
Net loss per share, basic and diluted	$ (0.05)	$ (0.07)	$ (0.17)	$ (0.18)
Comprehensive loss	$ (2,017)	$ (2,634)	$ (6,997)	$ (7,027)
Shares used in calculating net loss per share, basic and diluted	39,981,991	39,668,458	39,907,866	39,510,086

See accompanying notes to condensed financial statements.

Table of Contents

SENOMYX, INC.

STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	**2011**
Operating activities		
Net loss	$ (6,973)	$ (7,067)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,066	1,970
Accretion of premium on available-for-sale securities	137	453
Amortization of leasehold incentive obligation	(740)	(740)
Stock-based compensation for non-employees	2	111
Stock-based compensation for employees and non-employee directors	3,292	3,562
Change in operating assets and liabilities:		
Accounts receivable	387	742
Other assets	(162)	825
Accounts payable, accrued expenses and other current liabilities	(455)	(1,328)
Deferred revenue	(7,061)	(9,455)
Deferred rent	(74)	(15)
Net cash used in operating activities	(9,581)	(10,942)
Investing activities		
Purchases of property and equipment	(1,441)	(2,555)
Purchases of available-for-sale securities	(25,388)	(30,227)
Maturities of available-for-sale securities	35,135	36,904
Net cash provided by investing activities	8,306	4,122
Financing activities		
Proceeds from issuance of common stock	746	1,381
Net cash provided by financing activities	746	1,381
Net change in cash and cash equivalents	(529)	(5,439)
Cash and cash equivalents at beginning of period	15,964	21,258
Cash and cash equivalents at end of period	$ 15,435	$ 15,819
Supplemental disclosure of cash flow information:		
Purchases of property and equipment included in accounts payable, accrued expenses and other current liabilities	$	$ 511

See accompanying notes to condensed financial statements.

Table of Contents

SENOMYX, INC.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The financial statements of Senomyx, Inc. (Senomyx or the Company) at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 are unaudited. The unaudited financial statements have been prepared on the same basis as the Company s audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial information therein. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be reported for the year ending December 31, 2012. For more complete financial information, these financial statements, and the notes thereto, should be read in conjunction with the audited financial statements for the year ended December 31, 2011, including the notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (the SEC).

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a remaining maturity of three months or less when purchased to be cash equivalents. Cash equivalents are recorded at cost, which approximates market value.

Investments Available-for-Sale

The Company s surplus cash is invested in United States Treasuries, United States government agency bonds and corporate bonds with maturity dates of two years or less from the settlement date. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity with all amortization and accretion included in interest income. The Company s investments are classified as available-for-sale and carried at estimated fair value with unrealized gains and losses reported in a separate component of accumulated other comprehensive loss. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income.

Fair Value of Financial Instruments other than Investments Available-for-Sale

The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses are considered to be representative of their respective fair value because of the short-term nature of those items.

Revenue Recognition

The Company s revenue recognition policies are in compliance with the Revenue Recognition Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Some of the Company s agreements contain multiple elements, including technological and territorial licenses and research and development services. In accordance with these agreements, the Company may be eligible for upfront fees, research and development funding, cost reimbursements, development milestones, commercial milestones, minimum periodic royalty payments and royalty payments. Development revenues include revenues from license fees, research and development funding, development milestones and cost reimbursements. Commercial revenues include revenues from commercial milestones, royalties on sales made by the Company s collaborators of products incorporating the Company s flavor ingredients and minimum periodic royalty payments.

In October 2009, the FASB issued an accounting standard which amends the guidance on the accounting for arrangements involving the delivery of more than one element. This standard addresses the determination of the unit(s) of accounting for multiple-element arrangements and how the arrangement s consideration should be allocated to each unit of accounting. The Company adopted this new accounting standard on a prospective basis for all multiple-element arrangements entered into on or after January 1, 2011 and for any multiple-element arrangements that were entered into prior to January 1, 2011 but materially modified on or after January 1, 2011. The adoption of this standard did not have a material impact on the Company s financial statements.

Table of Contents

Pursuant to the new standard, each required deliverable is evaluated to determine if it qualifies as a separate unit of accounting. For the Company this determination is generally based on whether the deliverable has stand-alone value to the customer. The arrangement s consideration is then allocated to each separate unit of accounting based on the relative selling price of each deliverable. The estimated selling price of each deliverable is determined using the following hierarchy of values: (i) vendor-specific objective evidence of fair value; (ii) third-party evidence of selling price; and (iii) best estimate of selling price (BESP). The BESP reflects the Company s best estimate of what the selling price would be if the deliverable was regularly sold by the Company on a stand-alone basis. The Company expects, in general, to use the BESP for allocating consideration to each deliverable. In general, the consideration allocated to each unit of accounting is then recognized as the related goods or services are delivered limited to the consideration that is not contingent upon future deliverables. For multiple-element arrangements entered into prior to January 1, 2011 and not materially modified thereafter, the Company continues to apply the Company s prior accounting policy with respect to such arrangements.

Non-refundable license fees, if not associated with future Company performance, are recognized when received. Non-refundable license fees, if associated with future Company performance obligations, are attributed to a specific program or collaboration and recognized over the period of service for that specific program or collaboration. Amounts received for research funding are recognized as revenue as the services are performed. Revenue is deferred for fees received before earned. Revenue from development milestones is accounted for in accordance with ASC 605-28, *Revenue Recognition Milestone Method.* Milestones are recognized when earned, as evidenced by written acknowledgment from the collaborator or other persuasive evidence that the milestone has been achieved, provided that the milestone event is substantive. A milestone event is considered to be substantive if its achievability was not reasonably assured at the inception of the agreement and the Company s efforts led to the achievement of the milestone or the milestone was due upon the occurrence of a specific outcome resulting from the Company s performance. If both of these criteria are not met, the milestone payment is recognized over the remaining minimum period of the Company s performance obligations under the agreement, if any. The Company assesses whether a milestone is substantive at the inception of each agreement. Revenue from cost reimbursement is recognized when earned, as evidenced by written acknowledgment from the collaborator or other persuasive evidence.

Revenue from commercial milestones is recognized when earned, as evidenced by written acknowledgment from the collaborator or other persuasive evidence that the milestone has been achieved, as these milestone payments do not require the Company s efforts, but result from the efforts of the collaborator. Royalties on sales made by the Company s collaborators of products incorporating the Company s flavor ingredients are recognized when a royalty report or other persuasive evidence is received, which is generally one quarter in arrears. Non-refundable minimum periodic royalty payments are recognized as revenues over the related royalty periods. Royalty terms are specific to each collaboration and collaborator and can vary from year to year. These terms vary based on factors such as the characteristics of the flavor ingredient and the product categories and geographies licensed by the collaborator. Periodically, as contractually specified, the Company s collaborators are required to provide a report detailing all sales of products containing the Company s flavor ingredients. To the extent that calculated royalties on sales of such products exceed the minimum periodic royalty payments made to date, the collaborators are required to remit to the Company the difference between royalties calculated and minimum periodic royalty payments made to date. The Company recognizes this difference as royalties on product sales at the time the report is received. To the extent that minimum periodic royalty payments through the end of any applicable period exceed calculated royalties, the Company is not required to refund the difference. Although the Company currently does not have any collaborations that include refundable minimum periodic royalty payments, in such a case, revenue would be deferred for refundable minimum periodic royalty payments received before earned. As applicable, commercial revenues are reported net of royalties payable under the Company s third-party licensing agreements. To date, the majority of the Company s commercial revenues have been related to minimum periodic royalty payments.

Table of Contents

Stock-Based Compensation

Total estimated stock-based compensation expenses related to all of the Company s stock-based awards granted to employees and non-employee directors recognized for the three and nine months ended September 30, 2012 and 2011 was comprised as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Research and development	$ (437)	$ (432)	$ (1,360)	$ (1,565)
General and administrative	(641)	(696)	(1,932)	(1,997)
Employee and non-employee director stock-based compensation expenses	$ (1,078)	$ (1,128)	$ (3,292)	$ (3,562)

In addition, estimated stock-based compensation expenses related to the Company s stock-based awards granted to non-employee research and development consultants totaled $1,000 and $5,000 for the three months ended September 30, 2012 and 2011, respectively, and $2,000 and $111,000 for the nine months ended September 30, 2012 and 2011, respectively.

At September 30, 2012, total unrecognized estimated compensation expenses related to non-vested stock options granted prior to that date was $7.7 million, which is expected to be recognized over a weighted average period of 1.9 years.

Net Loss Per Share

The Company calculated net loss per share in accordance with the Earnings Per Share Topic of the FASB s ASC. Basic earnings per share (EPS) is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income or loss by the weighted average number of common share equivalents outstanding for the period determined using the treasury-stock method. Dilutive common share equivalents include the dilutive effect of in-the-money shares, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a share, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in paid-in capital, if any, when the share is exercised are assumed to be used to repurchase shares in the current period. For purposes of this calculation, common stock subject to repurchase by the Company, convertible preferred stock, options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

The following table sets forth the computation of basic and diluted net loss per share for the respective periods.

	Three Months Ended September 30,	Nine Months Ended September 30,

	2012	2011	2012	2011
Historical:				
Numerator:				
Net loss (in thousands)	$ (2,027)	$ (2,624)	$ (6,973)	$ (7,067)
Denominator:				
Weighted average common shares	39,981,991	39,668,458	39,907,866	39,510,086
Basic and diluted net loss per share	$ (0.05)	$ (0.07)	$ (0.17)	$ (0.18)

Comprehensive Loss

Comprehensive loss represents net loss adjusted for the change during the periods presented in unrealized gains and losses on available-for-sale securities less reclassification adjustments for realized gains or losses included in net loss. The accumulated unrealized gains or losses are reported as accumulated other comprehensive gain or loss as a separate component of stockholders equity.

Table of Contents

2. Balance Sheet Details

Investments Available-for-Sale

The following is a summary of investments available-for-sale at September 30, 2012 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
United States Treasuries	$ 2,507	$	$	$ 2,507
United States government agency securities	22,756	6		22,762
Corporate notes	4,014	1		4,015
Total	$ 29,277	$ 7	$	$ 29,284

The following is a summary of investments available-for-sale at December 31, 2011 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
United States Treasuries	$ 11,516	$ 13	$	$ 11,529
United States government agency securities	22,548	9		22,557
Corporate notes	5,048	8		5,056
Total	$ 39,112	$ 30	$	$ 39,142

Gross realized gains and losses on available-for-sale securities were immaterial during the three and nine months ended September 30, 2012 and 2011. As of September 30, 2012, the Company held $29.3 million of available-for-sale securities with maturity dates within one year.

3. Fair Value Disclosures

The following table presents information about the Company s financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. The Company classifies money market funds and United States Treasuries as Level 1 assets.

Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The Company obtains the fair value of Level 2 financial instruments from a third-party professional pricing service using quoted market prices for identical or comparable instruments. The Company s professional pricing service gathers market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources. The service uses these multiple prices as inputs into a distribution-curve based algorithm to determine a fair value. The Company then validates the quoted fair values provided by the professional pricing service by comparing the service s assessment of the fair values of the Company s Level 2 investment portfolio balance against the fair values of the Company s Level 2 investment portfolio balance provided by the Company s investment managers. The Company classifies United States government agency securities and corporate note holdings as Level 2 assets.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company does not hold any Level 3 assets. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Table of Contents

Assets that have recurring measurements are shown below (in thousands):

Description	Balance as of September 30, 2012	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial instruments owned:				
Money market funds	$ 14,741	$ 14,741	$	$
United States Treasuries	2,507	2,507		
United States government agency securities	22,762		22,762	
Corporate notes	4,015		4,015	
Total financial instruments owned	$ 44,025	$ 17,248	$ 26,777	$

4. Product Discovery and Development Collaborations

In August 2012, the Company entered into an amendment of its collaboration agreement with PepsiCo. Under the terms of the amendment, the Company reacquired the rights related to the use of its S9632 flavor ingredient in non-alcoholic beverages, including a co-exclusive right in the category of powdered non-alcoholic beverages. S9632 is a flavor ingredient with modifying properties that restores the taste profile in products that have reduced amounts of sucrose. In consideration for reacquiring the rights to S9632, the Company agreed that it would not receive certain potential minimum annual royalty payments and a potential future milestone related to S9632 that might have otherwise been payable under the terms of the collaboration agreement. The amendment relates only to S9632 and does not impact either party s rights or obligations related to any other flavor ingredients discovered and developed under the collaboration.

In May 2012, the Company entered into an amendment of its collaboration agreement with Nestec, Ltd. (Nestlé) dated as of October 26, 2004, as previously amended in May 2009. Under this most recent amendment of the Nestlé collaboration agreement, in lieu of a royalty based on sales of Nestlé products, the Company agreed with Nestlé that for all periods through December 31, 2013 royalty payments from Nestlé to Senomyx would be based on the amount of the Company s flavor ingredient manufactured by or on behalf of Nestlé, measured in kilograms, during the applicable royalty period. If the parties do not mutually agree to an alternative royalty arrangement prior to January 1, 2014, this method for calculating royalty payments, based on the kilograms of the Company s flavor ingredient manufactured by or on behalf of Nestlé, will also apply for future royalty periods.

During the nine months ended September 30, 2012, the Company earned development milestones totaling $1.3 million under the Sweet Taste Program collaborations with PepsiCo and Firmenich and $500,000 under the Cool Taste Program collaboration with Firmenich.

During the nine months ended September 30, 2011, the Company earned a commercial milestone of $250,000 under its collaboration with Ajinomoto.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this quarterly report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2011 included with our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission, or SEC. Operating results are not necessarily indicative of results that may occur in future periods.

Certain statements contained in this quarterly report on Form 10-Q, including statements regarding the development, growth and expansion of our business, our intent, belief or current expectations, primarily with respect to our future operating performance, and the products we expect to offer and other statements regarding matters that are not historical facts, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, and are subject to the safe harbor created by these sections. Future filings with the SEC, future press releases and future oral or written statements made by us or with our approval, which are not statements of historical fact, may also contain forward-looking statements. Because such statements include risks and uncertainties, many of which are beyond our control, actual results may differ materially from those expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements can be found under the caption Risk Factors, and elsewhere in this quarterly report on Form 10-Q. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

Overview and Recent Developments

We are a leading company using proprietary taste receptor technologies to discover and develop innovative flavor ingredients for the packaged food, beverage and ingredient supply industries. We consider flavor ingredients to include flavors, such as savory flavors and cooling flavors, and flavor modulators, such as sweet and salt flavor modifiers and bitter blockers. We also have an ongoing effort to discover and develop natural high intensity sweeteners. We believe our flavor ingredients will enable packaged food, beverage and ingredient companies to improve the nutritional profile of their products while maintaining or enhancing taste and generating cost of goods savings. We license our flavor ingredients to our collaborators on an exclusive or co-exclusive basis, which we believe will provide these companies with a competitive advantage. We currently have product discovery and development collaborations with several of the world s leading packaged food, beverage and ingredient companies: Ajinomoto Co., Inc., or Ajinomoto, Firmenich SA, or Firmenich, Nestlé SA, or Nestlé, and PepsiCo, Inc. or PepsiCo. We currently anticipate that we will derive all of our revenues from existing and future collaborations. Depending upon the collaboration, our collaboration agreements provide for upfront fees, research and development funding, reimbursement of certain costs, development milestones based upon our achievement of research or development goals and, in the event of commercialization, commercial milestones, minimum periodic royalties and royalties on sales of products incorporating our flavor ingredients. Senomyx s principal current programs focus on the development of savory flavors, sweet and salt flavor modifiers, bitter blockers and cooling agents.

In August 2012, we announced that we have discovered S617, a new flavor ingredient with modifying properties intended to be used to restore the desired taste profile in products in which either high fructose corn syrup (HCFS) or sucrose have been reduced. Based on preliminary taste tests, we have demonstrated that the use of S617 at low concentrations allows for a meaningful reduction of HFCS and sucrose while maintaining the desired sweet taste. During the third quarter of 2012, we agreed with PepsiCo to advance S617 into the preliminary development phase, which includes safety studies and other activities conducted to support regulatory filings in the U.S. and elsewhere. Initial safety studies have been completed and further activities related to S617 are ongoing.

In August 2012, we entered into an amendment of our collaboration agreement with PepsiCo. Under the terms of the amendment, we reacquired the rights related to the use of our S9632 flavor ingredient in non-alcoholic beverages, including a co-exclusive right in the category of powdered non-alcoholic beverages. S9632 is a flavor ingredient with modifying properties that restores the taste profile in products that have reduced amounts of sucrose. In consideration for reacquiring the rights to S9632 we agreed that we would not receive certain potential minimum annual royalty payments and a potential future milestone related to S9632 that might have otherwise been payable under the terms of our collaboration agreement. The amendment relates only to S9632 and does not impact either party s rights or obligations related to any other flavor ingredients discovered and developed under the collaboration, including S617.

Table of Contents

In September 2012, S9632 was determined to be Generally Recognized As Safe, or GRAS, under the provisions of the Federal Food, Drug and Cosmetic Act, administered by the United States Food and Drug Administration, or FDA. S9632 can be used in a wide variety of foods and selected beverages in which sucrose (common table sugar) has been reduced. The GRAS determination allows S9632 to be incorporated into specified products in the U.S. and in numerous other countries.

In October 2012, our four initial Savory Flavors and our S2383 flavor ingredient received regulatory approval in the European Union, or EU. The four Savory Flavor ingredients may be used to create new savory flavor blends. S2383 is a flavor ingredient with modifying properties that restores the taste profile in products that have reduced amounts of sucralose, a high-intensity sweetener. The Savory Flavors and S2383 have been evaluated by the European Food Safety Authority, or EFSA, and the European Commission published a regulation that permits usage of the flavor ingredients in the EU beginning in late April 2013.

We have incurred significant losses since our inception in 1998 and, as of September 30, 2012 our accumulated deficit was $228.6 million. Our results of operations have fluctuated from period to period and likely will continue to fluctuate substantially in the future based upon:

- termination of any of our product discovery and development collaboration agreements;
- our ability to discover and develop flavor ingredients or the ability of our product discovery and development collaborators to incorporate them into packaged food, beverage and ingredient products;
- our receipt of milestone payments in any particular period;
- the ability and willingness of food and beverage companies to commercialize products incorporating our flavor ingredients on expected timelines, or at all;
- our ability to enter into new product discovery and development collaborations and technology collaborations or to extend the terms of our existing collaboration agreements;
- our ability, or our collaborators ability, to successfully satisfy all pertinent regulatory requirements;
- the demand for our collaborators products containing our flavor ingredients; and
- general and industry specific economic conditions, including the current economic and credit crisis, which may affect our collaborators research and development expenditures and commercialization efforts.

Results of Operations

Three Months Ended September 30, 2012 and 2011

Revenue Under Collaboration Agreements

We recorded revenues of $7.9 million and $7.1 million during the three months ended September 30, 2012 and 2011, respectively. The increase of $0.8 million was primarily due to an increase in revenues associated with our Sweet Taste Program collaboration with PepsiCo. Our Sweet Taste Program collaboration with PepsiCo contributed approximately $4.8 million to development revenues for the three months ended September 30, 2012, as compared to approximately $3.9 million for the three months ended September 30, 2011. The increase from 2011 to 2012 was primarily due to revenues from a development milestone earned in the third quarter of 2012 and an increase in research and development funding commencing in the fourth quarter of 2011.

This increase was partially offset by a decrease in development revenues associated with our Sweet Taste Program collaboration with Firmenich. Our Sweet Taste Program collaboration with Firmenich contributed approximately $1.7 million to development revenues for the three months ended September 30, 2012, compared to approximately $1.9 million for the three months ended September 30, 2011. The reduction in revenues from 2011 to 2012 was primarily due to a change in the service period over which the upfront license fee related to this collaboration is being recognized. In the second quarter of 2012, Firmenich elected in accordance with our agreement to extend the service period of the collaboration an additional year, through July 2013. This decrease was partially offset by revenues from a development milestone earned in the third quarter of 2012.

Research and development payments, upfront fees, royalty revenues and cost reimbursements under our material collaborations with Firmenich and PepsiCo accounted for approximately 85% of total revenues for the three months ended September 30, 2012. Research and development payments, upfront fees, royalty revenues and cost reimbursements under our material collaborations with Firmenich and PepsiCo accounted for approximately 84% of total revenues for the three months ended September 30, 2011.

Table of Contents

Research and Development Expenses

Our research and development expenses (including stock-based compensation expenses charged to research and development) were $7.2 million and $7.0 million for the three months ended September 30, 2012 and 2011, respectively. A comparison of research and development expenses by category is as follows (in thousands):

	Three Months Ended September 30,	
	2012	**2011**
Salaries and personnel	$ 3,239	$ 3,148
Facilities and depreciation	1,369	1,347
Research and development supplies	707	914
Outside services	643	387
Patent and licensing	553	552
Stock-based compensation	438	437
Miscellaneous	203	179
Total research and development expenses	$ 7,152	$ 6,964

Research and Development Supplies. Our research and development supplies expenses were $707,000 and $914,000 for the three months ended September 30, 2012 and 2011, respectively. The decrease of $207,000 in research and development supplies expenses was primarily attributable to decreased expenditures for compound screening-related supplies and other supplies used in research and development activities, as product candidates progressed from the screening and identification phase of our development process into the safety assessment and regulatory approval phase.

Outside Services. Our outside services expenses were $643,000 and $387,000 for the three months ended September 30, 2012 and 2011, respectively. The increase of $256,000 in outside services expenses was primarily attributable to higher costs for outsourced activities in support of product candidate regulatory filings, as product candidates progressed from the screening and identification phase of our development process into the safety assessment and regulatory approval phase.

General and Administrative Expenses

Our general and administrative expenses (including stock-based compensation expenses charged to general and administrative) were $2.7 million and $2.8 million for the three months ended September 30, 2012 and 2011, respectively.

Nine Months Ended September 30, 2012 and 2011

Revenue Under Collaboration Agreements

We recorded revenues of $22.9 million and $22.8 million during the nine months ended September 30, 2012 and 2011, respectively. The $134,000 increase in revenues reflects a $400,000 increase in commercial revenues primarily from increased royalties on sales of products incorporating our flavor ingredients, partially offset by a $266,000 decrease in development revenues.

Development revenues from our Sweet Taste Program collaboration with Firmenich decreased $1.7 million to $5.2 million for the nine months ended September 30, 2012, from $6.9 million for the nine months ended September 30, 2011. The reduction in revenues from 2011 to 2012 was primarily due to a change in the service period over which the upfront license fee related to this collaboration is being recognized. In the second quarter of 2012, Firmenich elected in accordance with our agreement to extend the service period of the collaboration an additional year, through July 2013.

This decrease in development revenues was partially offset by a $1.3 million increase in development revenues from our Sweet Taste Program collaboration with PepsiCo, contributing $13.0 million for the nine months ended September 30, 2012, compared to $11.7 million for the nine months ended September 30, 2011. The increase in revenues under our collaboration with PepsiCo from 2011 to 2012 was primarily due to revenues from a development milestone earned in the third quarter of 2012 and an increase in research and development funding commencing in the fourth quarter of 2011.

Research and development payments, upfront fees, royalty revenues and cost reimbursements under our material collaborations with Firmenich and PepsiCo accounted for approximately 81% of total revenues for the nine months ended September 30, 2012. Research and development payments, upfront fees, royalty revenues and cost reimbursements under our material collaborations with Firmenich and PepsiCo accounted for approximately 83% of total revenues for the nine months ended September 30, 2011.

Table of Contents

Research and Development Expenses

Our research and development expenses (including stock-based compensation expenses charged to research and development) were $21.5 million and $21.6 million for the nine months ended September 30, 2012 and 2011, respectively. A comparison of research and development expenses by category is as follows (in thousands):

	Nine Months Ended September 30,	
	2012	**2011**
Salaries and personnel	$ 9,774	$ 9,705
Facilities and depreciation	4,062	3,934
Research and development supplies	2,198	2,637
Outside services	1,926	1,410
Patent and licensing	1,496	1,669
Stock-based compensation	1,362	1,676
Miscellaneous	640	598
Total research and development expenses	$ 21,458	$ 21,629

Research and Development Supplies. Our expenses for supplies used in research and development were $2.2 million and $2.6 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease of $439,000 was primarily attributable to decreased expenditures for compound screening-related supplies and other supplies used in research and development activities, as product candidates progressed from the screening and identification phase of our development process into the safety assessment and regulatory approval phase.

Outside Services. Our outside services expenses were $1.9 million and $1.4 million for the nine months ended September 30, 2012 and 2011, respectively. The increase of $516,000 was primarily attributable to higher costs for outsourced activities in support of product candidate regulatory filings, as product candidates progressed from the screening and identification phase of our development process into the safety assessment and regulatory approval phase.

Stock-based Compensation. Our stock-based compensation expenses were $1.4 million and $1.7 million for the nine months ended September 30, 2012 and 2011, respectively. The decrease of $314,000 was primarily attributable to decreases in both the valuation of options granted to employees and the valuation of shares purchased through our Employee Stock Purchase Plan.

General and Administrative Expenses

Our general and administrative expenses (including stock-based compensation expenses charged to general and administrative) were $8.5 million and $8.3 million for the nine months ended September 30, 2012 and 2011, respectively.

Liquidity and Capital Resources

Since our inception, we have financed our business primarily through private and public placements of stock, research and development payments under our product discovery and development collaborations and interest income. As of September 30, 2012 we had received in excess of $193.8 million in proceeds from the sales of common and preferred stock. In addition, we had received $190.6 million in non-refundable license fees, research and development payments, cost reimbursements and development milestone payments from our collaboration agreements, and $12.4 million in interest income. Commencing October 1, 2012, over the remaining life of our current collaboration agreements, excluding any payments due upon the election of any extension options unexercised as of the date of the publication of these statements, we are entitled to receive an additional $16.0 million in non-refundable research and development payments from our collaborators. If our collaborators elect to utilize their extension options, over the remaining life of our current collaboration agreements we would be entitled to receive an additional $21.7 million related to extension options, for a total of $37.7 million in non-refundable research and development payments. We may not receive these payments if the collaborations are terminated or amended. In addition, we may receive payments in the event we achieve research or development milestones and royalty payments in the event our collaborators commercialize products incorporating our flavor ingredients.

At September 30, 2012, we had $44.7 million in cash, cash equivalents and investments available-for-sale as compared to $55.1 million at December 31, 2011, a decrease of $10.4 million. This overall decrease resulted from the use of cash to fund our operations.

Table of Contents

Operating Activities

Operating activities used cash of $9.6 million and $10.9 million for the nine months ended September 30, 2012 and 2011, respectively. The use of cash in the nine months ended September 30, 2012 and 2011 was driven by net losses and decreases in deferred revenues. Our net loss decreased $94,000 to $7.0 million for the nine months ended September 30, 2012 compared to $7.1 million for the nine months ended September 30, 2011. The decrease in our deferred revenues used cash of $7.1 million for the nine months ended September 30, 2012, as compared to $9.5 million in 2011. The decreases in deferred revenues in both 2012 and 2011 were due to the recognition of revenue from upfront payments from PepsiCo and Firmenich.

Other factors affecting cash from operating activities include non-cash net expenses which decreased $599,000 to $4.8 million for the nine months ended September 30, 2012 from $5.4 million for the nine months ended September 30, 2011. Decreases in accounts receivable provided cash of $387,000 and $742,000 during the nine months ended September 30, 2012 and 2011, respectively. Changes in other assets used cash of $162,000 during the nine months ended September 30, 2102 and provided cash of $825,000 during the nine months ended September 30, 2011. Additionally, net changes in operating liabilities other than deferred revenue used cash of $529,000 and $1.3 million during the nine months ended September 30, 2012 and 2011, respectively.

Investing Activities

Investing activities provided cash of $8.3 million and $4.1 million for the nine months ended September 30, 2012 and 2011, respectively. Cash provided by investing activities reflects the maturities of available-for-sale securities, offset by purchases of available-for-sale securities to obtain higher rates of interest income and the purchases of property and equipment.

Financing Activities

Financing activities provided cash of $746,000 and $1.4 million for the nine months ended September 30, 2012 and 2011, respectively. Cash provided by financing activities in the nine months ended September 30, 2012 and 2011 reflects net proceeds from the issuance or sale of common stock from the employee stock purchase program and the exercise of employee stock options.

As of September 30, 2012 future minimum payments due under our contractual obligations are as follows (in thousands):

			Payments Due by Period		
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases	$ 13,116	$ 2,842	$ 5,904	$ 4,370	$
License payments	75	75			
Total	$ 13,191	$ 2,917	$ 5,904	$ 4,370	$

As of September 30, 2012, we had no long-term debt obligations.

Our license agreement with the University of California calls for either annual maintenance fees, which commenced in 2006, or royalties or service revenues on sales of any products developed using technologies licensed under the agreement. Royalties are calculated as a percentage of covered sales. The agreement specifies minimum periodic royalty payments commencing in 2014 and continuing through the expiration of the last to expire patent licensed under the agreement.

Our future capital uses and requirements depend on numerous forward-looking factors. These factors may include, but are not limited to, the following:

- the rate of progress and cost of research and development activities;
- our ability to establish and maintain product discovery and development collaborations;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the number and scope of our research activities;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the effect of competing technological and market developments; and
- the extent to which we acquire or in-license new products, technologies or businesses.

Table of Contents

We believe our available cash, cash equivalents, investments and existing sources of funding will be sufficient to satisfy our anticipated operating and capital requirements through at least the next 12 months.

Until we can generate significant cash from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from the proceeds of offerings of our equity securities and upfront payments, research and development payments and milestone payments under our product discovery and development collaborations. From time to time we may also consider raising additional cash from the sale of equity or other securities. Commencing October 1, 2012, over the remaining life of our current collaboration agreements, excluding any payments due upon the election of any extension options unexercised as of the date of the publication of these statements, we are entitled to receive an additional $16.0 million in research and development payments from our collaborators. If our collaborators elect to utilize their extension options, over the remaining life of our current collaboration agreements we would be entitled to receive an additional $21.7 million related to extension options, for a total of $37.7 million in non-refundable research and development payments. Commencing October 1, 2012, assuming all milestones are achieved for all program goals for all collaborations and we receive all research and development funding, including any amounts due upon the election of extension options, we may be entitled to up to $62.7 million. In the next three months (through December 31, 2012), we anticipate receiving $3.0 million in research and development funding and $1.3 million in development milestone payments earned in the third quarter of 2012. This does not include any additional payments we may receive related to the following events:

- the achievement of additional milestones;
- the signing of new collaborations or extensions of existing collaborations not currently contemplated under existing extension options;
- the earning of any minimum periodic royalty payments;
- the earning of royalties from the sale of products containing our flavor ingredients; and
- the earning of any cost reimbursements.

We may not receive the payments if the collaborations are terminated, amended or not renewed, or if we do not achieve the milestones set forth in the collaboration agreements. In addition, the timing of the receipt of milestone payments in particular is uncertain, as we may achieve milestones significantly earlier or later than we currently expect. We cannot predict at this time the level of our collaborators royalty-generating sales, as these sales to date have been based on launches of new products without established sales histories.

We continue to pursue additional collaborations and/or modifications to existing collaborations which could result in additional revenue. We may not recognize revenues for research and development funding, milestones, minimum periodic royalties or royalties if the collaborations are terminated or amended, or if we do not achieve the milestones set forth in the collaboration agreements. Our expenses will vary based upon the forward-looking factors listed above.

Off-Balance Sheet Arrangements

As of September 30, 2012 and 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or structured finance entities, which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to revenue recognition, long-lived assets, accrued liabilities, stock-based compensation and income taxes. These estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the recognition of revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

Except as set forth below, there have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Stock-based Compensation Expense

We grant options to purchase our common stock to our employees and directors under our equity incentive plan. Eligible employees can also purchase shares of our common stock under our employee stock purchase plan at the lower of: (i) 85% of the fair market value on the first day of a two-year offering period; or (ii) 85% of the fair market value on the last date of each six-month purchase period within the two-year offering period. In addition, we grant options to purchase our common stock to non-employees under our equity incentive plan.

Employee and non-employee director stock-based compensation expenses for the nine months ended September 30, 2012 and 2011 was $3.3 million and $3.6 million, respectively. At September 30, 2012, total unrecognized estimated compensation expenses related to non-vested stock options granted prior to that date was $7.7 million, which is expected to be recognized over a weighted average period of 1.9 years.

We estimate the value of stock-based awards on the date of grant using the Black-Scholes option pricing model. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2012 was $2.01 per option. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, risk-free interest rate and the expected term of the awards.

For purposes of estimating the fair value of stock options granted during the nine months ended September 30, 2012 using the Black-Scholes model, we have made a subjective estimate regarding our stock price volatility (weighted average of 69.6%). We used the historical volatility of our stock for the period our stock has been publicly traded, consistent with the guidance in the Compensation Stock Compensation Topic of the FASB s ASC. If our stock price volatility assumption were increased to 75.0%, the weighted average estimated fair value of stock options granted during the nine months ended September 30, 2012 would increase by $0.11 per share, or 5.6%.

The expected term of options granted is derived from the average midpoint between vesting and the contractual term, as described in the Compensation Stock Compensation Topic of the FASB s ASC. We used this simplified method for determining term as we currently do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time our equity shares have been publicly traded. For options granted during the nine months ended September 30, 2012, we have calculated a weighted average expected term of 6.0 years. If the expected term of the options granted was increased to 8.0 years, the weighted average estimated fair value of stock options granted during the nine months ended September 30, 2012 would increase by $0.22 per share, or 11.0%.

The risk-free interest rate for the expected term of the option is based on the average U.S. Treasury yield curve at the balance sheet date for the expected term (weighted average of 1.2% for the nine months ended September 30, 2012) which, if increased to 5.0%, would increase the weighted average estimated fair value of stock options granted during the nine months ended September 30, 2012 by $0.14 per share, or 6.9%.

For the nine months ended September 30, 2012 and 2011, we have reduced stock-based compensation expenses recognized in the Statement of Operations to reflect for estimated forfeitures. The Compensation Stock Compensation Topic of the FASB s ASC requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 6.3% and 6.7% for the nine months ended September 30, 2012 and 2011, respectively, based on historical experience. To date, we have not required any material adjustments to our expected forfeitures.

Income Taxes

We follow the provisions of FASB ASC 740-10, Income Taxes, that defines a recognition threshold and measurement attributes for financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return. The topic also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under the topic, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of United States interest rates. Due to the nature of our short-term investments, we believe that we are not subject to any material market risk exposure. We do not have any foreign currency or other derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Prior to the filing of this quarterly report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Senior Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a - 15(e) or 15d -15(e) of the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Based upon that evaluation, our Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report on Form 10-Q.

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Senior Vice President and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and our Senior Vice President and Chief Financial Officer, does not expect that our disclosure controls will prevent all errors or potential fraud. A control system, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

The following sets forth risk factors associated with our business. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors associated with our business previously disclosed in Item 1A. of our annual report on Form 10-K for the year ended December 31, 2011. Additional risks and uncertainties that we are unaware of may also become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In these circumstances, the market price of our common stock could decline.

Risks Related To Our Business

We are dependent on our current and any future product discovery and development collaborators for our research and development funding.*

A key element of our current strategy is to commercialize our flavor ingredients through collaborative agreements. To date, substantially all of our research and development funding has been derived solely from research and development payments, upfront fees, milestone payments and cost reimbursement payments received under our collaborations. Substantially all of our research and development funding in the foreseeable future will result from these types of payments from these collaborations until such time, if ever, that we earn more significant royalties on future sales of consumer products incorporating our flavor ingredients or adopt an alternative business model where we receive revenues from other sources.

Our current collaborators may amend or not renew their agreements with us or, if they do, they may not be on terms that are as favorable to us as our current agreements. If any or all of our current material agreements with our collaborators are amended, expire or are terminated, or if we are unable to, or elect not to, renew or enter into new collaborative agreements, our research and development funding could significantly decline or be substantially eliminated, which would have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our current and any future product discovery and development collaborators to develop and commercialize any flavor ingredients we may discover.*

Under our current business model, we are substantially dependent on our current and any other possible future collaborators to commercialize any flavor ingredients that we successfully develop and to provide the sales, marketing and distribution capabilities required for the success of our business. We have limited or no control over the amount and timing of resources that our current or any future collaborators may devote to our programs or potential products. Our collaborators may decide not to devote the necessary resources to the commercialization of our flavor ingredients, may choose not to incorporate our flavor ingredients into any or all of their products within their exclusive or co-exclusive product fields on a timely basis or at all, or may pursue a competitor s product as a result of unfavorable publicity regarding our flavor ingredients or our research methods, or if our flavor ingredients do not have the characteristics desired by the collaborator. These characteristics include, among

other things, enhancement properties, stability under various manufacturing and use conditions, solubility, taste, cost and an adequate safety profile. If these collaborators fail to conduct their commercialization, sales and marketing or distribution activities successfully and in a timely manner, or if our existing collaborators terminate their collaboration agreements with us prior to the expiration of the agreements, we will earn little or no royalty revenues from our flavor ingredients and we will not be able to achieve our objectives or build a sustainable or profitable business.

We may not be able to commercialize the flavor ingredients in our portfolio that we currently control, which could negatively impact our results of operations and market share.*

We have several flavor ingredients in our portfolio that we have discovered and developed but that are not currently licensed to a third party collaborator for one or more product categories and/or geographies, including our S9632 flavor ingredient for which we have recently regained rights for use in non-alcoholic beverages. S9632 is a flavor ingredient with modifying properties that restores the taste profile in products that have reduced amounts of sucrose. We may elect to license the rights to S9632 to one or more third parties or we may pursue business arrangements that are complementary to our current business model and in which we could have greater ability to influence the commercialization of our flavor ingredients and also potentially share in a larger portion of the financial return from the commercialization activities. We may also consider similar business arrangements for one or more other flavor ingredients in our portfolio that are not currently licensed to a third party collaborator.

Table of Contents

There can be no assurance that we will implement any significant changes to our business strategy or enter into any new business arrangements for any of our flavor ingredients that are not currently licensed to a third party collaborator. We may encounter difficulties or delays to implement any changes to our business strategy or enter into any new business arrangements that we elect to pursue. Any of these events could also delay our anticipated timelines, prevent the successful commercialization of our flavor ingredients, negatively impact our financial results, and delay or prevent us from ever achieving or sustaining profitability.

Our business and operating results may be adversely affected by unfavorable economic and market conditions.*

Our current business model depends on our ability to maintain and enter into new collaborative research, development and commercialization agreements with leading food, beverage and ingredient companies. Our arrangements typically require our collaborators to make a significant commitment of capital and other resources. In most instances these investments are discretionary on the part of our collaborators. The current weak global economic conditions may reduce the amount of discretionary investment that our current and prospective collaborators may be willing to make in our programs as well as the demand for our flavor ingredients in general. In some instances the result may be that companies elect to defer or delay entering into a collaborative agreement with us, or existing collaborators may amend, terminate or not renew an existing program when it expires. Therefore, weak economic conditions, or a reduction in research and development funding, even if economic conditions improve, would likely adversely impact our business, operating results and financial condition in a number of ways, including longer business development cycles, unfavorable financial or other commercial terms, and longer development timelines.

We may not be able to negotiate additional collaboration agreements having terms satisfactory to us or at all.*

We may not be able to enter into additional collaborative agreements due to the exclusive nature of our current product discovery and development collaborations. Each of our current collaboration agreements provides for the use of flavor ingredients within one or more defined food, beverage and ingredient product fields on an exclusive or co-exclusive basis for the respective collaborator during the collaborative period specified in the agreement. In the case of exclusive agreements, or co-exclusive agreements where all fields and geographies are granted, we will not be able to enter into additional collaborations with any other food, beverage and ingredient company covering the same product field during the applicable collaborative period. In addition, our collaborators competitors may not wish to do business with us at all due to our relationship with our collaborators and under some agreements we have agreed to arrangements where we would not launch competing products or collaborate with a collaborator s competitor for a limited period of time even after the conclusion of the applicable collaborative period. Consolidation in our target markets may also limit the number of potential collaborators. Further, if we do not achieve our research and development objectives under our existing collaboration agreements prior to the expiration of the collaborative period, our collaborators may elect not to renew these agreements on terms that are acceptable to us. If we are unable to enter into additional product discovery and development collaborations on satisfactory terms, our ability to sustain or expand our business may be significantly diminished.

Disagreements or disputes with a collaborator could adversely impact our business operations and prospects.

From time to time we have disagreements or disputes with our collaborators regarding various subject matters, such as the interpretation of contractual rights and obligations under our agreements, the design of development studies for our flavor ingredients and intellectual property matters. Because we depend on our collaborators to fund our research and development programs and commercialize our flavor ingredients, any disputes or disagreements with our collaborators could disrupt our business operations and adversely impact our ability to maintain existing collaborations or secure new collaborations. Whenever we become involved in a dispute or litigation with any collaborator, we might have to spend significant amounts of money, time and effort to defend our position and we may not be successful. Even if we are successful, any dispute could divert management attention and resources from other strategic and research priorities.

We may not be successful in developing flavor ingredients useful for formulation into products.*

In order to develop flavor ingredients, we must have first identified the correct taste receptor for the taste of interest and develop high-throughput assays to test for compounds that affect the taste of interest. If we are not able to identify the correct taste receptor for the taste of interest, our assays may not successfully identify compounds that affect the taste of interest. For example, if we are not able to identify the protein or proteins that function as the salt taste receptor, we may not be able to develop an effective salt flavor modifier. In addition, we may not be successful in the development of a high-throughput assay to each taste receptor of interest to us. Even if we succeed in the identification of a taste receptor of interest to us and develop an appropriate high-throughput assay, we may not succeed in developing flavor ingredients with the appropriate attributes required for use in successful commercial products. Successful flavor ingredients require, among other

Table of Contents

things, appropriate biological activity, including the correct taste property for the product application, an acceptable safety profile, including lack of toxicity or allergenicity, and appropriate physical or chemical properties, including relative levels of solubility, stability, volatility and resistance to heat. Our development programs are intended to evaluate these characteristics of novel flavor ingredients. Therefore, until we complete our development of a given novel flavor ingredient we will not be able to determine whether that flavor ingredient will possess all of the appropriate attributes necessary for commercialization. Successful flavor ingredients must also be cost-efficient, which includes, among other things, the cost to manufacture a flavor ingredient at commercial scale as well as other costs associated with the reformulation of products that include our flavor ingredients. We have only limited experience in evaluating these costs and we may not be able to accurately predict whether our flavor ingredients will be cost-efficient for use in commercial applications. We may not be able to develop flavor ingredients that meet all of these criteria and possess the appropriate attributes necessary for commercialization. It is possible that flavor ingredients that initially appear to meet these criteria are later found to fail these criteria or other criteria that we later deem important. In that case, we may not commercialize such an ingredient when anticipated, or at all, or the potential commercial utility for such an ingredient may be more limited than we expected.

If we or our collaborators are unable to obtain and maintain the Generally Recognized as Safe, or GRAS, determination or other regulatory approval required before certain of our flavor ingredients can be incorporated into products that are sold, we would be unable to commercialize our flavor ingredients and our business would be adversely affected.*

In the United States, the development, sale and incorporation of our flavor ingredients into products are subject to regulation by the Food and Drug Administration, or FDA, and in some instances other government bodies. Obtaining and maintaining a GRAS determination or other regulatory approval can be costly and take many years.

Depending on the amount or intended use of a particular flavor ingredient added to a product and the number of product categories in which the flavor ingredient will be incorporated, specific safety assessment protocols and regulatory processes must be satisfied before we or our collaborators can commercially market and sell products containing any flavor ingredients that we may discover. A key element of our strategy is to develop flavor ingredients that may be subject to review under the Flavor and Extract Manufacturers Association, or FEMA, GRAS process. In our experiences with the savory, sweet and bitter programs, safety studies, preparation and FEMA GRAS review has ranged from 12 to 18 months and cost up to approximately $1 million per flavor ingredient. This experience may not be representative of the timing and cost for current and future programs. This approach is less expensive than the alternative of filing a food additive petition with the FDA, approval of which can take up to four years. The FEMA GRAS process may take longer than 12 to 18 months and cost more than $1 million depending on the properties of the flavor ingredient, and if we elect to perform additional safety studies or if additional safety studies are requested by the FEMA Expert Panel or one of our collaborators or are necessary to explain unexpected safety study findings. There is a risk that one or more of our product candidates for which we seek FEMA GRAS determination may not qualify for a FEMA GRAS determination for specific categories or at all. This may occur for a variety of reasons, including the flavor ingredient s intended use, the amount of the flavor ingredient intended to be added to foods and beverages, the number of product categories in which the flavor ingredient will be incorporated, whether the flavor ingredient imparts sweetness, the safety profile of the flavor ingredient and the FEMA Expert Panel s interpretation of the safety data. For example, we do not believe that any natural high intensity sweetener that we discover would qualify for a FEMA GRAS determination for its use as a sweetener. Even if we obtain a GRAS determination with respect to a flavor ingredient, the FDA has the ability to challenge such determination or one or more of our collaborators may insist on additional studies, which could materially adversely affect our ability to market products on schedule or at all. In the event that a particular flavor ingredient does not qualify for FEMA GRAS determination or if one or more of our collaborators requires additional studies, we could be required to pursue a lengthy FDA approval process or dedicate our development efforts to alternative ingredients, which would further delay commercialization. In addition, laws, regulations or FDA practice governing the regulatory approval process, the availability of the GRAS determination process or the manufacture or labeling of such products, may change in a manner that could adversely affect our ability to commercialize products on schedule or at all.

Sales of our flavor ingredients outside of the United States will be subject to foreign regulatory requirements, which are determined by multiple governing bodies, such as the Joint FAO/WHO Expert Committee on Food Additives, or JECFA, and the European Food Safety Authority, or

EFSA, and in some instances individual countries, such as China and Japan. These foreign regulatory requirements vary considerably and are subject to change and inherent uncertainty. In most cases, whether or not a GRAS determination has been obtained, approval of a product by the applicable regulatory authorities for a foreign country must still be obtained prior to manufacturing or marketing the product in that country. A GRAS determination in the United States or in any other jurisdiction does not ensure approval in other jurisdictions because the requirements from jurisdiction to jurisdiction may vary widely and may change over time. For example, we are aware of ongoing activities that are intended to clarify the regulatory approval process for flavor ingredients within the European Union. Because of the inherent uncertainty associated with the regulatory approval process outside the United States,

Table of Contents

predicting the outcome or timing of review of any of our submissions to foreign regulatory authorities, present or in the future, is difficult. Accordingly, our estimates and forecasts for those submissions and potential approvals may not be accurate. The process of obtaining foreign approvals could result in significant delays, difficulties and costs for us and require additional safety studies and additional expenses. If we experience delays or if we fail to comply with these regulatory requirements or to obtain and maintain required approvals, our ability to generate revenue will be diminished.

We and our collaborators may not be successful in overcoming these regulatory hurdles, which could result in product launch delays, unanticipated expenses, termination of collaborations and flavor ingredients not being approved for incorporation into consumer products in one or more geographies. In addition, even after regulatory approval of our flavor ingredients, we may become aware of new information that suggests our flavor ingredients are unsuitable for consumer use, in which case our regulatory approvals may be revoked or we may elect to voluntarily cease the commercialization of those ingredients. These consequences would have a material adverse effect on our business financial condition and results of operations.

Even if we or our collaborators receive regulatory approval and incorporate our flavor ingredients into products, those products may never be commercially successful.

Even if we discover and develop flavor ingredients that obtain the necessary GRAS determination or other regulatory approval, our success depends to a significant degree upon the commercial success of food, beverage and ingredient products incorporating those flavor ingredients. If these products fail to achieve or subsequently maintain market acceptance or commercial viability, our business would be significantly harmed because our royalty revenue is dependent upon consumer sales of these products. In addition, we could be unable to maintain our existing collaborations or attract new product discovery and development collaborators. Many factors may affect the willingness of food and beverage companies to launch new or reformulated products incorporating our flavor ingredients and the market acceptance and commercial success of any potential products incorporating flavor ingredients, including:

- health concerns, whether actual or perceived, regarding our flavor ingredients or those of our competitors;
- unfavorable publicity regarding our flavor ingredients or our research methods;
- the timing of market entry as compared to competitive products;
- whether our collaborators devote sufficient financial and other resources to promote our flavor ingredients;
- the pricing of products that contain our flavor ingredients relative to other competing products;
- the costs and market risks of reformulating existing products;
- the rate of adoption of products by our collaborators and other companies in the flavor industry; and
- any product labeling that may be required by the FDA or other United States or foreign regulatory agencies for products incorporating our flavor ingredients.

We have a history of operating losses and we may not achieve or maintain profitability.*

We have not been profitable and have generated substantial operating losses since we were incorporated in September 1998. We incurred net losses of approximately $7.0 million for the nine months ended September 30, 2012. As of September 30, 2012, we had an accumulated deficit of approximately $228.6 million. We expect to incur additional losses for at least the next two years. The extent of our future losses will depend, in part, on the rate of increase in our operating expenses and the rate of growth, if any, in our revenue from our existing and any future product discovery and development collaborations as well as from other sources that may become available to us in the future and on the level of our expenses. To date, substantially all of our revenue has come from research and development funding, upfront fees, cost reimbursement and milestone payments under our product discovery and development collaborations. In order for us to generate further royalty revenue and become profitable, we must successfully retain our existing product discovery and development collaborations and our collaborators must further commercialize products incorporating one or more of our flavor ingredients, from which we can derive additional royalty revenues, or we must successfully implement alternative strategies where we receive revenues from other sources. Our ability to generate commercial revenue is uncertain and will depend upon, among other things, our ability to meet particular research, development and commercialization objectives.

We expect that our results of operations will fluctuate from period to period, and this fluctuation could cause our stock price to decline.*

Our operating results have fluctuated in the past and are likely to vary significantly in the future based upon a number of factors, many of which we have little or no control over. We operate in a highly dynamic industry and future results could be subject to significant fluctuations. These fluctuations could cause us to fail to meet or exceed our published

Table of Contents

guidance or financial expectations of securities analysts or investors, which could cause our stock price to decline rapidly and significantly. Revenue and expenses in future periods may be greater or less than revenue and expenses in the immediately preceding period or in the comparable period of the prior year. Therefore, period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. Some of the factors that could cause our operating results to fluctuate include:

- termination, expiration or amendment of any of our product discovery and development collaboration agreements;
- our ability to discover and develop flavor ingredients or the ability of our product discovery and development collaborators to incorporate them into food, beverage and ingredient products;
- our receipt of milestone payments in any particular period;
- the ability and willingness of food and beverage companies to commercialize products incorporating our flavor ingredients on expected timelines, or at all;
- our ability to enter into new product discovery and development collaborations and technology collaborations or to extend the terms of our existing collaboration agreements and our payment obligations, expected revenue and other terms of any of our agreements;
- our ability, or our collaborators ability, to successfully satisfy all pertinent regulatory requirements;
- the demand for our collaborators products containing our flavor ingredients; and
- general and industry specific economic conditions, including the current economic and credit crisis, which may affect our collaborators research and development expenditures and commercialization efforts.

We may seek additional capital to fund our operations.*

If we are unable to successfully commercialize our flavor ingredients, maintain our existing product discovery and development collaborations or enter into new collaborations, we will likely need to obtain additional capital, reduce our ongoing expenses and/or modify our strategy to continue our operations. In addition, our business and operations may change in a manner that would consume available resources at a greater rate than anticipated, or we may decide that for other reasons it is in our best interests to seek additional capital. In such an event, we may need to raise substantial additional capital to, among other things:

- fund research, discovery or development programs;
- advance product candidates into and through the safety evaluation and regulatory approval process;
- acquire rights to products or product candidates, technologies or businesses;
- support the commercialization of our flavor ingredients; and

- prosecute, maintain and enforce our intellectual property rights.

If we pursue additional capital to continue our operations, we cannot assure you that additional financing will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our operations, take advantage of opportunities, identify and develop flavor ingredients, develop technologies or otherwise respond to competitive pressures could be significantly limited. In addition, if financing is not available, we may need to alter our strategies, reduce our ongoing expenses or cease operations. In addition, issuances of debt or additional equity could impact the rights of the holders of our common stock, may dilute our stockholders ownership and may impose restrictions on our operations. These restrictions could include limitations on additional borrowing, specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends, redeem our stock or make investments.

If we elect to modify our business operations in order to reduce our expenses, our research, discovery and development programs could be negatively impacted.

If we modify our business operations to meaningfully reduce our expenses we may not be able to fund our current research, discovery and development programs at the levels we require in order to achieve our corporate goals or we may need to suspend or discontinue one or more programs altogether. A reduction in funding in the near term may be accomplished through a number of measures, including reduction in variable internal or external costs or by deferring certain expenses until a later date. Any meaningful funding reduction scenario will likely result in a delay in any affected programs, and may also negatively impact our existing collaborations and harm our ability to attract new collaborators for those and other programs. In addition, a suspension or discontinuation of a program may result in an indefinite and significant delay of any affected program, and we may incur significant inefficiencies if we later elect to resume any such program.

Table of Contents

If we lose our key personnel or are unable to attract and retain qualified personnel, it could adversely affect our business.

Our success depends to a significant degree upon the continued contributions of our executive officers, management and scientific staff. We have entered into employment letter agreements with each of our executive officers; however, all of our employees are at-will employees, which means that either we or the employee may terminate their employment at any time. In addition, we currently have no key person insurance. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to meet the demands of our current or any future product discovery and development collaborators in a timely fashion or to support our independent discovery and development programs. In addition, we may be delayed or unable to develop new product candidates, commercialize our existing product candidates or achieve our other business objectives as a result of any future loss of our other executive officers or key members of our management or scientific staff, which could cause our stock price to decline. Moreover, the loss of the services of one or more of our executive officers or key members of our management or scientific staff could negatively impact the relationships we have with our collaborators.

We may encounter difficulties managing our growth, which could adversely affect our business.

Our strategy includes entering into and working on simultaneous flavor ingredient discovery and development programs across multiple markets. We may choose to increase headcount in the future in order to meet our strategic objectives. If our growth continues, it will continue to place a strain on us, our management and our resources. Our ability to effectively manage our operations, growth and various projects requires us to continue to improve our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. We may not be able to successfully implement these tasks on a larger scale and, accordingly, we may not achieve our research, development and commercialization goals. If we fail to improve our operational, financial and management information systems, or fail to effectively monitor or manage our new and future employees or our growth, our business would suffer significantly. In addition, no assurance can be made that we will be able to maintain adequate facilities to house our staff, conduct our research or achieve our business objectives.

We rely on third parties to manufacture our flavor ingredients on a commercial scale.*

We do not have experience in manufacturing, nor do we have the resources or facilities to manufacture, flavor ingredients on a commercial scale. Therefore, the commercialization of our flavor ingredients depends in part on our or our collaborators ability to manufacture, or to contract with third-party manufacturers of our flavor ingredients, on a large scale, at a competitive cost, with the specified quality and in accordance with relevant food, beverage and ingredient regulatory requirements. Any such collaborators or third-party manufacturers may encounter manufacturing difficulties at any time that could result in delays in the commercialization of potential flavor ingredients. Our inability to find capable manufacturing capacity or to enter into agreements on acceptable terms with third-party manufacturers could delay commercialization of any products we may develop and may harm our relationships with our existing and any future product discovery and development collaborators and our customers. Moreover, if we or our collaborators are required to change from one third-party manufacturer to another for any reason, the commercialization of our products may be delayed further. In addition, if any manufacturer of our flavor ingredients fail to comply with the FDA s good manufacturing practice regulations or similar regulations in other countries, then we or our collaborators may be subject to adverse regulatory action including product recalls, warning letters and withdrawal of our products, or our collaborators or customers products, from the market.

Further, because our flavor ingredients are regulated as food products under the Food, Drug and Cosmetic, or FD&C, Act, we and the third parties with which we collaborate or contract to manufacture, process, pack, import or otherwise handle our products or our product ingredients,

may be required to comply with certain registration, prior notice submission, recordkeeping and other regulatory requirements. Failure of any party in the chain of distribution to comply with any applicable requirements under the FD&C Act or the FDA s implementing regulations, or similar regulations in other countries, may adversely affect the manufacture and/or distribution of our products in commerce.

If we acquire products, technologies or other businesses, we will incur a variety of costs, may have integration difficulties and may experience numerous other risks that could adversely affect our business.*

If appropriate opportunities become available, we may consider acquiring businesses, technologies or products that we believe are a strategic fit with our business. We may also consider reacquiring rights to flavor ingredients that are currently licensed to one or more of our collaborators. We currently have no commitments or agreements with respect to any material acquisitions. We have limited, if any, experience in identifying acquisition targets, successfully acquiring them and integrating them into our current infrastructure. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. In addition, future acquisitions might be funded by issuances of debt or additional equity, which could impact your rights as a holder of our common stock and may dilute your ownership percentage. Any of the foregoing could have a significant adverse effect on our business, financial condition and results of operations.

Table of Contents

Risks Related To Our Industry

Our ability to compete in the flavor ingredient market may decline if we do not adequately protect our proprietary technologies.

Our success depends in part on our ability to obtain and maintain intellectual property that protects our technologies and flavor ingredients. Patent positions may be highly uncertain and may involve complex legal and factual questions, including the ability to establish patentability of sequences relating to taste receptors, proteins, chemical synthesis techniques, compounds and methods for using them to modulate taste for which we seek patent protection. No consistent standard regarding the allowability or enforceability of claims in many of our pending patent applications has emerged to date. As a result, we cannot predict the breadth of claims that will ultimately be allowed in our patent applications, if any, including those we have in-licensed or the extent to which we may enforce these claims against our competitors. The degree of future protection for our proprietary rights is therefore highly uncertain and we cannot assure you that:

- we were the first to file patent applications or to invent the subject matter claimed in patent applications relating to the technologies upon which we rely;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- others did not publicly disclose our claimed technology before we conceived the subject matter included in any of our patent applications;
- any of our patent applications will result in issued patents;
- any of our patent applications will not result in interferences or disputes with third parties regarding priority of invention or the validity of any issued patent;
- any patents that have issued or may be issued to us, our collaborators or our licensors will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable;
- the patents of others will not have an adverse effect on our ability to do business; or
- new proprietary technologies from third parties, including existing licensors, will be available for licensing to us on reasonable commercial terms, if at all.

In addition, patent law outside the United States is uncertain and in many countries intellectual property laws are undergoing review and revision. The laws of some countries do not protect intellectual property rights to the same extent as domestic laws. It may be necessary or useful for us to participate in opposition proceedings to determine the validity of our competitors patents, litigation to enforce our or our licensed intellectual property against others or to defend the validity of any of our or our licensors future patents, which could result in substantial costs and would divert our efforts and attention from other aspects of our business. We cannot be certain of the outcome of any such proceedings or litigation.

Technologies licensed to us by others, or in-licensed technologies, are important to our business. In particular, we depend on high-throughput screening technologies that we licensed from Aurora Biosciences, technology related to certain taste receptor sequences that we license from the University of California and others and technology related to compound libraries that we license from third parties. In addition, we may in the future acquire rights to additional technologies by licensing such rights from existing licensors or from third parties. Such in-licenses may be costly. Also, we generally do not control the patent prosecution, maintenance or enforcement of in-licensed technologies. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we do over our internally developed technologies. Moreover, some of our academic institution licensors, collaborators and scientific advisors have rights to publish data and information to which we have rights. If we cannot maintain the confidentiality of our technologies and other confidential information in connection with our collaborations, our ability to protect our proprietary information or obtain patent protection in the future may be impaired, which could have a significant adverse effect on our business, financial condition and results of operations.

Many of the patent applications we and our licensors have filed have not yet been substantively examined and may not result in patents being issued.*

Many of the patent applications filed by us and our licensors were filed recently with the United States Patent and Trademark Office and some have not been substantively examined and may not result in patents being issued. Some of these

Table of Contents

patent applications claim sequences that were identified from different publicly available sequence information sources such as the High-Throughput Genomic Sequences division of GenBank. It is difficult to predict whether any of our or our licensors applications will ultimately be found to be patentable or, if so, to predict the scope of any allowed claims. In addition, the disclosure in our or our licensors patent applications, particularly in respect of the utility of our claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. Furthermore, recent changes in rules promulgated by the European Patent Office may adversely affect the patentability of inventions claimed in some of our and our licensors patent applications. As a result, it is difficult to predict whether any of our or our licensors applications will be allowed, or, if so, to predict the scope of any allowed claims or the enforceability of the patents. Even if enforceable, others may be able to design around any patents or develop similar technologies that are not within the scope of such patents. Our and our licensors patent applications may not issue as patents that will provide us with any protection or competitive advantage.

Disputes concerning the infringement or misappropriation of our proprietary rights or the proprietary rights of others could be time consuming and extremely costly and could delay our research and development efforts.

Our commercial success, if any, will be significantly harmed if we infringe the patent rights of third parties or if we breach any license or other agreements that we have entered into with regard to our technology or business. Our success will also depend, in part, on our ability to prevent others from infringing our patent rights.

We are aware of other companies and academic institutions that have been performing research in the areas of taste modulation and flavor ingredients. In particular, other companies, academic institutions and inventor applicants have announced that they have conducted taste-receptor or ion channel research and have published data on taste receptor sequence information and taste receptors or filed patent applications or obtained patent protection on taste modulation or taste receptors and their uses, including Ajinomoto, California Institute of Technology, Cargill, Chromocell, Colorado State University, Columbia University, Dendreon, Duke University, the German Institute of Human Nutrition, Givaudan SA, International Flavors & Fragrances Inc., Johannes Gutenberg University, Kyushu University, Monell Chemical Senses Corp., Mount Sinai School of Medicine, the National Institutes of Health, Nestlé, Novartis, NutraSweet, Nutrinova GMBH, Pfizer, Inc., Sloan Kettering, Symrise, Tate & Lyle, The Scripps Research Institute, Unilever, the University of California, the University of Miami, the University of Tokyo, the University of Wisconsin, Virginia Commonwealth University and Wiessenbach. To the extent any of these companies, academic institutions or inventor applicants currently have, or obtain in the future, broad patent claims, such patents could block our ability to use various aspects of our discovery and development process and might prevent us from developing or commercializing newly discovered flavor ingredients or otherwise conducting our business. The University of California, for example, claims certain patent rights relating to the coexpression of T1R receptors that may not have been licensed to us. While our technology is focused on the use of human T1R receptors, we cannot assure you that it does not infringe such patent rights. In such event, if we are not able to amend our license with the University of California to include such patent rights and our technology is found to interfere with or infringe such patent rights, our business, financial condition and results of operations could suffer a significant adverse effect. In addition, it is possible that some of the flavor ingredients that are discovered using our technology may not be patentable or may be covered by intellectual property of third parties.

We are not currently a party to any litigation, interference, opposition, protest, reexamination, reissue or any other potentially adverse governmental, ex parte or inter-party proceeding with regard to our patent or trademark positions. However, the life sciences and other technology industries are characterized by extensive litigation regarding patents and other intellectual property rights. Many life sciences and other technology companies have employed intellectual property litigation as a way to gain a competitive advantage. We may become involved in litigation, interference proceedings, oppositions, reexamination, protest or other potentially adverse intellectual property proceedings as a result of alleged infringement by us of the rights of others or as a result of priority of invention disputes with third parties. Third parties may also challenge the validity of any of our issued patents. Similarly, we may initiate proceedings to enforce our patent rights and prevent others from infringing our or our licensed intellectual property rights. In any of these circumstances, we might have to spend significant amounts of money, time and effort defending our position and we may not be successful. In addition, any claims relating to the infringement of third-party proprietary rights or proprietary determinations, even if not meritorious, could result in costly litigation, lengthy governmental proceedings, divert management s attention and resources, or require us to enter into royalty or license agreements that are not advantageous to us.

Should any person have filed patent applications or obtained patents that claim inventions also claimed by us, we may have to participate in an interference proceeding declared by the relevant patent regulatory agency to determine priority of invention and, thus, the right to a patent for these inventions in the United States. Such a proceeding could result in substantial cost to us even if the outcome is favorable. Even if successful on priority grounds, an interference action may result in loss of claims based on patentability grounds raised in the interference action. Litigation, interference proceedings or

Table of Contents

other proceedings could divert management s time and efforts. Even unsuccessful claims could result in significant legal fees and other expenses, diversion of management s time and disruption in our business. Uncertainties resulting from initiation and continuation of any patent proceeding or related litigation could harm our ability to compete and could have a significant adverse effect on our business, financial condition and results of operations.

An adverse ruling arising out of any intellectual property dispute, including an adverse decision as to the priority of our inventions or invalidity of our patents, could undercut or invalidate our intellectual property position. An adverse ruling could also subject us to significant liability for damages, including possible treble damages, prevent us from using technologies or developing products, or require us to negotiate licenses to disputed rights from third parties. Although patent and intellectual property disputes in the technology area are often settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include license fees and ongoing royalties. Furthermore, necessary licenses may not be available to us on satisfactory terms, if at all. Failure to obtain a license in such a case could have a significant adverse effect on our business, financial condition and results of operations.

If we are unable to protect our trade secrets and other proprietary information, we could lose any competitive advantage we may have, which could adversely affect our business.

We rely in part on trade secret protection for our confidential and proprietary information, knowhow and processes. Our policy is to execute proprietary information and invention agreements with our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual s relationship with us be kept confidential and not be disclosed to third parties. These agreements also generally provide that inventions conceived by the individual in the course of their employment shall be our exclusive property. Similarly, in the course of our collaborations or in the negotiation of potential collaborations we often disclose confidential and proprietary information under written agreements that obligate those third parties to keep our information confidential and to use our confidential information only for the purposes that we specify. There can be no assurance that we will be able to effectively enforce these agreements or that proprietary information is our exclusive property. There can be no assurance that the subject proprietary information will not be disclosed, that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or that we can meaningfully protect our trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Many potential competitors, including those who have greater resources and experience than we do, may develop products or technologies that make ours obsolete or noncompetitive.*

The life sciences and other technology industries are characterized by rapid technological change, and the area of sensory or taste receptor research is a rapidly evolving field. Our future success will depend on our ability to maintain a competitive position with respect to technological advances. Technological developments by others may result in our flavor ingredients and technologies becoming obsolete.

In particular, we face substantial competition from companies pursuing the commercialization of products and services relevant to taste using more traditional methods for the discovery of flavor ingredients, or for the reduction of salt, sugar, monosodium glutamate, or MSG, or bitter taste. These competitors include leading flavor companies, such as Firmenich, Givaudan SA, International Flavors & Fragrances Inc., Symrise and Takasago. These companies provide flavors and other products, such as oils, extracts and distillates, to consumer products companies for use in a wide variety of products including foods, beverages, confectionaries, dairy products and pharmaceuticals. Competitors currently developing or marketing high intensity sweeteners include Ajinomoto, BRAIN AG, or Biotechnology Research and Information Network AG, Cargill, GLG

Life Tech, Natur Research Ingredients, Nutrasweet, Nutrinova GMBH, PureCircle Limited, Symrise and Tate & Lyle. Competitors currently developing or marketing menthol or cooling agents include International Flavors and Fragrances, Jindal Drugs, Mentha & Allied, Sharp Menthol, Symrise, Takasago and Renessenz llc. We currently compete and will continue to compete in the future with these companies in collaborating with and selling flavor products and technologies to manufacturers of food, beverage and ingredient products. Many of these companies have substantially greater capital resources, research and development resources and experience, manufacturing capabilities, regulatory expertise, sales and marketing resources, established relationships with consumer products companies and production facilities.

Savory flavor ingredients, particularly inosine monophosphate, or IMP, are commercially available, and we will compete with the companies that produce these flavors. IMP is widely available and is a generally accepted food additive by the food, beverage and ingredient industries. As a result, our existing and future collaborators may choose to incorporate IMP or similar savory flavor ingredients into their food, beverage and ingredient products instead of our savory flavor ingredients.

Table of Contents

We may compete with bitter masking or bitter blocking compounds, such as adenosine 5 monophosphate, or AMP. We may also compete with known methods for reducing sodium, such as the use of potassium chloride in combination with flavors and masking agents. In addition, we may compete with existing cooling agents, such as menthol and WS-3, which are currently in use.

We may in the future face competition from life sciences and other technology companies and other commercial enterprises. These entities engage as we do in biotechnology, biology or chemistry research and could apply this technology to the discovery and development of flavor ingredients. We are aware of one other company, Chromocell, that is involved in research for the discovery and development of sweet flavor modifiers, bitter blockers and salt substitutes. We cannot guarantee that products developed as a result of our competitors existing or future collaborations will not compete with our flavor ingredients.

Universities and public and private research institutions are also potential competitors. While these organizations primarily have educational objectives, they may develop proprietary technologies related to the sense of taste or secure patent protection that we may need for the development of our technologies and products. We may attempt to license these proprietary technologies, but these licenses may not be available to us on acceptable terms, if at all.

Our competitors, either alone or with their collaborative partners, may succeed in developing technologies or discovering flavor ingredients that are more effective, safer, more affordable or more easily commercialized than ours, and our competitors may obtain intellectual property protection or commercialize products sooner than we do. Developments by others may render our product candidates or our technologies obsolete. In addition, our current product discovery and development collaborators are not prohibited from entering into research and development collaboration agreements with third parties in any product field. Our failure to compete effectively would have a significant adverse effect on our business, financial condition and results of operations.

We may be sued for product liability and exposed to other product safety-related risks, which could adversely affect our business and harm our reputation.

Because our business strategy involves the development and sale by our collaborators of commercial products incorporating our flavor ingredients, we may be sued for product liability. Products incorporating our flavor ingredients are also subject to risks such as product contamination or spoilage, product tampering or other adulteration. From time to time we receive reports of observed effects after individuals taste solutions or products that include novel flavor ingredients that we are testing or developing, including reports such as irritation of the mouth, tingling of the tongue, lips or gums, and modulation or loss of taste sensation. Our practice is to track reports of any observed effects and, in particular, to evaluate whether any adverse effect may be related to our novel flavor ingredient or whether another cause is determinable. In some instances, these effects may be observed only at higher levels of use or exposure, in which case we may elect to proceed with development, and subsequent commercialization, of a novel flavor ingredient at use levels that we believe are appropriate for only a subset of all potential applications. Nevertheless, we may be held liable if any flavor ingredient we test, develop or commercialize, or any product our collaborators test, develop or commercialize that incorporates any of our flavor ingredients, causes injury or illness or is found otherwise unsuitable during product testing, manufacturing, marketing, sale or consumer use. In addition, the safety studies we must perform and the regulatory approvals we must obtain prior to incorporating our flavor ingredients into a commercial product will not protect us from any such liability.

Any alleged illness or injury associated with any of our flavor ingredients, product defect, product liability judgment or product recall may negatively impact our financial results depending on the reaction of our collaborators, scope, competitive reaction and consumer attitudes. Even if such an allegation or product liability claim lacks merit, cannot be substantiated, is unsuccessful or is not fully pursued, the negative publicity

surrounding any assertion that our flavor ingredients or products that incorporate our flavor ingredients caused illness, injury or death could adversely affect our reputation with existing and potential collaborators and licensees and our corporate image and could cause a decline in our stock price.

Our product liability insurance may not fully cover our potential liabilities associated with the sale of commercial products incorporating any of our flavor ingredients. Inability to obtain sufficient insurance coverage to protect against potential product liability claims could prevent or inhibit the commercialization of products developed by us or our product discovery and development collaborators. We may be obligated to indemnify our product discovery and development collaborators for product liability or other losses they incur as a result of our flavor ingredients. Any indemnification we receive from such collaborators for product liability that does not arise from our flavor ingredients may not be sufficient to satisfy our liability to injured parties. If we are sued for any injury caused by our flavor ingredients or products incorporating our flavor ingredients, our liability could exceed our total assets.

Table of Contents

We use hazardous materials. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly.

Our discovery and development process requires our employees to routinely handle hazardous chemical, radioactive and biological materials. Our operations also produce hazardous waste products. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of these materials. As a result of the increase in size of our operations, we are now classified as a large quantity generator of hazardous waste. This classification may result in increased scrutiny of our operations by the Environmental Protection Agency. Compliance with applicable environmental laws and regulations may be expensive, and current or future environmental regulations may impair our discovery and development efforts.

In addition, we cannot entirely eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. Our insurance policies have limited coverage for damages or cleanup costs related to hazardous waste disposal or contamination. We may be forced to curtail operations or be sued for any injury or contamination that results from our use or the use by others of these materials, and our liability may exceed our total assets.

Risks Related To Our Common Stock

The price of our common stock is volatile.

The market prices for securities of biotechnology companies historically have been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Since our initial public offering in June 2004, the price of our common stock has ranged from approximately $1 per share to approximately $23 per share. The market price of our common stock may fluctuate in response to many factors, including:

- developments concerning our collaborative agreements;
- delays in commercialization of our flavor ingredients;
- results of safety evaluation of our flavor ingredients;
- developments related to the United States and international regulatory approval of our products;
- results of consumer acceptance testing of our flavor ingredients by our collaborators;
- announcements of technological innovations by us or others;
- the discovery of a product defect or the commencement of a product recall;

- an allegation of illness or injury relating to our flavor ingredients, whether meritorious or not, or any product liability judgment;
- developments in patent or other proprietary rights;
- changes in our management, key personnel or members of our Board of Directors;
- future sales of our common stock by existing stockholders;
- comments by securities analysts;
- general market conditions;
- fluctuations in our operating results;
- government regulation;
- failure of any of our flavor ingredients, if approved, to achieve commercial success; and
- public concern as to the safety of our flavor ingredients or other unfavorable publicity regarding our flavor ingredients or our research methods.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us more complicated and the removal and replacement of our directors and management more difficult.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions may also make it difficult for stockholders to remove and replace our board of directors and management. These provisions:

- authorize the issuance of blank check preferred stock by our board of directors, without stockholder approval, which could increase the number of outstanding shares and prevent or delay a takeover attempt;
- limit who may call a special meeting of stockholders;

Table of Contents

- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders; and

- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

In addition, the requirements of Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a third party from acquiring us.

Our shareholder rights plan may hinder or prevent change of control transactions.

Our shareholder rights plans may discourage transactions involving an actual or potential change in our ownership. In addition, our board of directors may issue shares of preferred stock without any further action by you. Such issuances may have the effect of delaying or preventing a change in our ownership. If changes in our ownership are discouraged, delayed or prevented, it would be more difficult for our current board of directors to be removed and replaced, even if you and other stockholders believe such actions are in the best interests of us and our stockholders.

We have never paid cash dividends on our capital stock and we do not anticipate paying dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any future debt or credit facility may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of potential gain for the foreseeable future.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation as currently in effect (filed as Exhibit 3.1 to Registration Statement File No. 333-113998).
3.2	Amended and Restated Bylaws as currently in effect (filed as Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on December 20, 2007).
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of Delaware on February 14, 2005 (filed as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on February 15, 2005).
4.1	Form of Common Stock Certificate (filed as Exhibit 4.1 to Registration Statement File No. 333-113998).
4.2	Form of Rights Certificate (filed as Exhibit 4.1 to our Current Report on Form 8-K filed with the SEC on February 15, 2005).
4.3	Rights Agreement, dated February 14, 2005 by and between the Registrant and Mellon Investor Services LLP (filed as Exhibit 4.2 to our Current Report on Form 8-K filed with the SEC on February 15, 2005).
10.1*	First Amendment dated August 2, 2012 to the Collaborative Research, Development, Commercialization and License Agreement dated August 16, 2010, by and between the Registrant and PepsiCo, Inc.
31.1	Certification of Kent Snyder, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Antony Rogers, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Kent Snyder, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Antony Rogers, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Senomyx, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) condensed balance sheets, (ii) condensed statements of operations, (iii) condensed statements of cash flows, and (iv) notes to condensed financial statements (detail tagged).

* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

29

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Senomyx, Inc.

Date: November 8, 2012	By:	/S/ KENT SNYDER Kent Snyder Chief Executive Officer and Chairman of the Board of Directors (on behalf of the registrant and as the registrant s Principal Executive Officer)
	By:	/S/ ANTONY ROGERS Antony Rogers Senior Vice President and Chief Financial Officer (on behalf of the registrant and as the registrant s Principal Financial and Accounting Officer)