

SCYNEXIS INC  
Form 10-K  
March 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED December 31, 2017

OR

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

Commission File Number 001-36365

SCYNEXIS, Inc.

(Exact name of registrant as specified in its charter)

Delaware 56-2181648  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

101 Hudson Street Suite 3610

Jersey City, NJ 07302 - 6548  
(Address of principal executive offices) (Zip Code)

(201) 884-5485

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(Registrant's telephone number, including area code)

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

| Title of Each Class                       | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value \$0.001 per share | The NASDAQ Stock Market LLC               |

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of its Common Stock on the Nasdaq Global Market on June 30, 2017 was \$46,517,308. Excludes 490,728 shares of the registrant's Common Stock held by

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executive officers and directors outstanding at June 30, 2017. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of March 8, 2018, there were 46,837,435 shares of the registrant's Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2018 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission not later than 120 days following the end of the registrant's fiscal year ended December 31, 2017.

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SCYNEXIS, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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## PART I

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “potential” and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Annual Report on Form 10-K in greater detail under the heading “Risk Factors.” Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by our cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

### ITEM 1. BUSINESS

#### Overview

SCYNEXIS, Inc. is a biotechnology company committed to positively impacting the lives of patients suffering from difficult-to-treat and often life-threatening infections by delivering innovative anti-infective therapies. We are developing our lead product candidate, SCY-078, as the first representative of a novel oral and intravenous (IV) triterpenoid antifungal family in clinical development for the treatment of several serious fungal infections, including invasive candidiasis, invasive aspergillosis, refractory invasive fungal infections and vulvovaginal candidiasis (VVC). SCY-078 is a structurally distinct glucan synthase inhibitor that has been shown to be effective in vitro and in vivo against a broad range of human fungi pathogens such as *Candida* and *Aspergillus* species, including multidrug-resistant strains, as well as *Pneumocystis* species. *Candida* and *Aspergillus* species are the fungi responsible for approximately 85% of all invasive fungal infections in the United States (U.S.) and Europe. To date, we have characterized the pharmacokinetics and safety profile of oral and IV formulations of SCY-078 in multiple Phase 1 studies. In a Phase 2 study, evaluating oral SCY-078 as a step-down therapy in patients with invasive candidiasis, we confirmed that oral SCY-078 achieved the intended plasma exposure for efficacy and was well-tolerated. In another Phase 2 proof-of-concept study, evaluating oral SCY-078 in patients with VVC, we observed numerically higher clinical cure rates at test-of-cure visit and fewer recurrences of infection at the four-month follow-up when compared to oral fluconazole, the standard of care (SoC). We applied to the U.S. Food and Drug Administration (FDA) for, and received, the designation of the oral tablet and IV formulations of SCY-078 for invasive candidiasis and invasive aspergillosis as Qualified Infectious Disease Product, or QIDP, under the Generating Antibiotic Incentives Now Act, or GAIN Act. We also applied to the FDA for, and were granted, Fast Track designation for SCY-078 for these indications.

#### Our Platform of Indications

We continue to accelerate and expand our clinical programs, leveraging the versatility of the SCY-078 platform, including the potential for oral SCY-078 to be a suitable treatment for indications with significant unmet medical

needs and considerable commercial opportunity. The following table summarizes the indications we are currently seeking, anticipated NDA submission timing and estimated peak sales in the United States:

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VVC—Our most advanced stage of clinical development, targeting both acute and recurrent infections.

We are currently enrolling patients in a Phase 2b dose-finding study of oral SCY-078 for the treatment of VVC (DOVE study). The DOVE study is a randomized, multicenter, double-blind, active-controlled, dose-finding study designed to evaluate the safety and efficacy of oral SCY-078 versus oral fluconazole in adult female patients. Approximately 180 patients with moderate to severe acute VVC are being randomized to one of five different regimens of oral SCY-078 or oral fluconazole, the current standard of care (SoC). Efficacy will be measured by the percentage of patients with clinical cure (complete resolution of signs and symptoms) at the test-of-cure visit at day 10 (primary endpoint) and at a follow-up visit on day 25. Mycological eradication (negative fungal culture) will also be evaluated at the same time points. Robust enrollment in the study has been maintained and we expect to report top-line results for this study in mid-2018. If successful, following completion of the DOVE study and following an End-of-Phase 2 meeting with the FDA, we plan to study the dose regimen selected from this study in a subsequent Phase 3 program, potentially initiating in the fourth quarter of 2018 with the objective of filing the New Drug Application (NDA) for acute VVC in 2020.

Invasive Candidiasis—Path forward established for IV program of SCY-078, with clinical trials to initiate in the third quarter of 2018 with an improved IV formulation.

As previously disclosed in March 2017, the FDA required us to hold the initiation of any new clinical studies with a cyclodextrin-based IV formulation of SCY-078 following the review of three mild-to-moderate inflammation-related thrombotic events observed in healthy volunteers receiving the highest dose level of a cyclodextrin-based IV formulation of SCY-078 in a Phase 1 study. Based on subsequent interactions with the FDA, we completed a broad range of pre-clinical activities designed to identify whether the underlying cause of the thrombotic events was related to the active ingredient, SCY-078, or the administration regimen for the cyclodextrin-based IV formulation of SCY-078. Several pre-clinical studies showed that SCY-078 does not affect blood coagulation by itself, providing supporting evidence that the thrombotic events associated with the administration of the cyclodextrin-based IV formulation were triggered by vascular endothelium inflammation at the site of infusion where the concentration of the cyclodextrin-based formulation of SCY-078 was greatest.

In parallel, we continued our pursuit of alternative IV formulations and accelerated the development of a new formulation based on liposomal technology that has been successfully used to improve systemic tolerability of other commercially available IV formulations, including IV antifungals. In comparing the cyclodextrin-based IV formulation head-to-head against the liposomal IV formulation of SCY-078 in pre-clinical evaluations, the liposomal formulation showed a superior profile for infusion-related and vascular inflammation tolerability. Based on these initial pre-clinical studies, we believe that the liposomal IV formulation may offer significant clinical benefits over the cyclodextrin-based IV formulation and, therefore decided to focus our efforts on the advancement of the liposomal IV formulation of SCY-078. This decision was discussed with the FDA and a path forward was established. IND-enabling pre-clinical studies with the liposomal formulation are ongoing, and we anticipate initiating a Phase 1 study in healthy volunteers with the liposomal IV formulation of SCY-078 in the third quarter of 2018. If successful, following completion of the Phase 1 study and pending FDA's review, we plan to initiate a Phase 2b IV-



Oral step-down study of SCY-078 in invasive candidiasis patients with the liposomal IV and oral formulations of SCY-078 in the fourth quarter of 2018.

Invasive Aspergillosis—SCY-078 in combination with standard of care may represent a significant opportunity to improve outcomes for this high-mortality infection.

Based on promising pre-clinical data with combination use of SCY-078 with SoC vs. *Aspergillus* spp., we plan to initiate a Phase 2 study of oral SCY-078 in patients with invasive aspergillosis in the third quarter of 2018. This initial study is planned as a randomized, double-blind trial with the objective of assessing the safety and efficacy of oral SCY-078 in combination with a mold active azole therapy, the SoC for this indication, compared to SoC alone. We believe that SCY-078's broad activity against *Aspergillus* spp., including azole-resistant strains, along with its minimal drug-drug interactions, high tissue penetration into the lungs and oral formulation allowing for long-term administration, may make it an ideal candidate for use as combination therapy to provide improved outcomes vs. SoC.

Refractory Invasive Fungal Infections—Potential for streamlined development pathway.

We are currently enrolling patients in the FURI study, a global, open-label study in which oral SCY-078 is being administered to patients with invasive fungal infections that are refractory to, or that are intolerant of, standard therapy (azoles, echinocandins and/or polyenes). Twenty-four locations in the U.S. and Europe are now active in this study and enrollment is progressing. We also initiated the CARES study, a global, open-label study of oral SCY-078 for the treatment of *Candida auris* infections. *Candida auris* has been classified by the Centers for Disease Control and Prevention (CDC) as a serious public health threat, as it is multidrug-resistant, has resulted in high mortality rates (up to 60%) and can be spread from patients (and surfaces) to patients, resulting in hospital outbreaks. The CARES study is intended to provide rapid access to oral SCY-078 for patients suffering from this life-threatening infection.

The open-label designs of the FURI and CARES studies allow for evaluation of the data on an interim basis to further inform subsequent regulatory steps of the development program. We believe that compelling data from the FURI and/or CARES studies could allow SCY-078 to become eligible for the regulatory Limited Population Pathway for Antibacterial and Antifungal Drugs (LPAD) potentially resulting in an initial NDA based on streamlined development. We plan to continue to advance enrollment in the FURI and CARES studies, both in the U.S. and globally, with preliminary data review planned for the fourth quarter of 2018.

#### Key milestones

We believe we will achieve the following key milestones in 2018:

- to complete enrollment and announce top-line study results of the DOVE Phase 2b study of oral SCY-078 as a treatment for VVC in mid-2018 and initiate the Phase 3 VVC program in the fourth quarter of 2018 following an end-of-Phase 2 meeting with the FDA;
- to initiate the Phase 1 clinical trial to evaluate the safety and tolerability of the liposomal IV formulation of SCY-078 in healthy volunteers in the third quarter of 2018. If successful, following completion of the Phase 1 study, initiate a Phase 2b clinical trial designed to evaluate IV/oral SCY-078 for the treatment of invasive candidiasis in the fourth quarter of 2018;

- to initiate a Phase 2 study of oral SCY-078 in combination with current standard of care (azole) as a treatment for invasive aspergillosis in the third quarter of 2018; and
- to continue to advance enrollment in both the FURI and CARES studies, both in the U.S. and globally, with preliminary data review planned for the fourth quarter of 2018.

#### Our Strategy

Key elements of our strategy include:

- to further develop SCY-078 and obtain regulatory approval in major commercial markets for our key initial indications: VVC (acute and recurrent), invasive candidiasis and invasive aspergillosis;
- to commercialize SCY-078 for selected indications in the U.S. through a dedicated commercial team, including field force;
- to contract with commercial partners to develop and commercialize SCY-078 outside of the U.S.;
- to assess external opportunities to expand our clinical pipeline; and
- to leverage our strong scientific team to pursue the development of other internal proprietary compounds.

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## Market Opportunity

### Acute and Recurrent VVC

VVC, commonly known as a “vaginal yeast infection,” is the second most common cause of vaginitis and it is usually caused by *Candida* spp. It affects approximately 70%-75% of women at least once in their lifetime, with 40-50% of these women experiencing more than one episode. VVC episodes include the following:

- Uncomplicated cases. These are sporadic mild-to-moderate infections typically caused by *C. albicans* spp. in a normal host. They represent the majority of the VVC episodes; and
- Complicated cases. These represent the remaining episodes and include: severe infections, recurrent cases, infections caused by non-*albicans* *Candida* spp., and/or observed in an abnormal host.

VVC can be associated with substantial morbidity, including significant genital discomfort, reduced sexual pleasure, psychological distress and loss of productivity. The global diagnosis and treatment, along with lost productivity, is estimated to cost \$1.0 billion per year in the U.S.

Current treatments for acute VVC include OTC topical azole antifungals (clotrimazole, miconazole, and others) and the use of the prescription oral azole antifungal, fluconazole. Fluconazole is the only orally-administered antifungal currently approved for acute VVC in the U.S., with a therapeutic cure rate of 55% as reported in its label. Uncomplicated acute VVC cases are often effectively treated with topical agents and/or with one to three doses of oral fluconazole. However, management of VVC during pregnancy, moderate-to-severe VVC, recurrent VVC and VVC caused by fluconazole-resistant *Candida* spp., are not fully addressed by oral fluconazole. In addition, there are no oral alternatives for VVC patients who do not respond to or tolerate fluconazole, and there are no FDA-approved products for the treatment of recurrent VVC. We believe that SCY-078, if approved for the treatment of acute and recurrent VVC, may provide a significant benefit for patients not satisfied with existing therapies.

### Invasive Candidiasis

Invasive Candidiasis is a serious fungal infection caused by various species of the *Candida* infection that occurs in immunocompromised patients. The current treatment algorithm for invasive candidiasis infections includes empiric treatment, confirmed treatment, and maintenance step-down treatment as defined below:

- Empiric Treatment. The rapid progression of disease and high mortality rates associated with documented invasive fungal infections often result in antifungal therapy being administered in the hospital in suspected (unconfirmed) cases;
- Confirmed Treatment. Once a *Candida* infection is confirmed (via blood culture or rapid diagnostic) treatment begins in the hospital setting, as it occurs most commonly in ICU and surgical patients, patients using a central venous catheter, and immunosuppressed patients; and
- Maintenance Step-down Treatment. Depending on the risk factors of patients, some of them may be allowed to continue treatment with oral step-down therapy in the outpatient setting. Treatment should continue for two weeks after signs and symptoms have resolved and *Candida* yeasts are no longer in the bloodstream.

Current treatment guidelines for invasive candidiasis in the U.S. and in Europe recommend the use of IV echinocandins (the only glucan synthase inhibitor currently commercially available) as first-line therapy for empiric and confirmed cases. The main limitation of the echinocandin class is that only IV administration is available, limiting the flexibility of stepping down to an oral therapy in the same treatment class. The only option currently available to

step down to an oral therapy after initial IV echinocandin are the azoles (the only antifungal class orally bioavailable).

Despite existing antifungal agents, mortality in this high-risk patient population remains high at approximately 30-40%. In addition, the increasing rate of drug-resistant *Candida* strains has created a need for new treatments. The CDC has listed fluconazole-resistant *Candida* as a serious threat requiring prompt and sustained action and has also identified a rise in echinocandin resistance, especially among *Candida glabrata*. In June 2016, the CDC issued an extraordinary alert for healthcare facilities and providers to be on the lookout for patients with *C. auris*, a multidrug-resistant strain with high mortality (approximately 60%). We believe that SCY-078, if approved for the treatment of invasive candidiasis, may provide an alternative to current IV echinocandin use in empiric and confirmed cases, and fulfill the significant current unmet needs in the oral maintenance setting.

## Invasive Aspergillosis

Invasive Aspergillosis is a serious fungal infection caused by *Aspergillus* species. The infection is reported to be the leading infection-caused death in immunocompromised patients. Current treatment guidelines in the U.S. and in Europe recommend the use of azoles (itraconazole, voriconazole or isavuconazole) as the initial first-line therapy. However, patients face unsatisfactory clinical outcomes with mortality rates ranging from 30% to 80% (depending on the stage of infection and the host underlying disease) and long treatment durations. Additionally, current therapies often exhibit drug-drug interaction, and the recent emergence of *A. fumigatus* azole resistance is increasingly becoming of clinical concern worldwide.

Due to the significant rate of resistance in some countries (i.e., Netherlands ~10-20%), combination antifungal therapy as first-line treatment for patients suspected of invasive aspergillosis is recommended. The combination of voriconazole or isavuconazole with an IV echinocandin is recommended at least until results of resistance testing are obtained. A previous study, by Marr et al. in invasive aspergillosis patients demonstrated that the combination of an IV echinocandin and an IV/oral azole for two weeks followed by an oral azole alone for four additional weeks improved outcomes in certain patient subgroups. In this study, the combination regimen was given for only two weeks because of the limitations of using an IV echinocandin long-term in the outpatient setting. We believe that SCY-078, if approved in combination with standard of care for the treatment of invasive aspergillosis, would allow patients to receive the required combination treatment for the full six to twelve weeks of therapy, possibly leading to better outcomes.

## SCY-078 Target Product Profile

SCY-078, a triterpenoid analogue, represents a new chemical class which acts through the inhibition of the glucan synthase, an established target in antifungal therapeutics. SCY-078 is being developed as oral and IV formulations and has demonstrated potent activity against a large collection of medically relevant strains of *Candida* and *Aspergillus* species, including multi-drug resistant strains, as well as *Pneumocystis* species. Additionally, SCY-078 has shown in vitro and in vivo activity against multi-drug resistant organism such as *Candida auris* and synergistic/additive activity in combination with isavuconazole against *Aspergillus* strains. SCY-078 has unique attributes that define its potential to address significant unmet medical needs and market opportunities, including:

- broad activity against *Candida*, *Aspergillus*, and *Pneumocystis* strains;
- activity against azole and most echinocandin-resistant *Candida* strains, including multi-drug resistant strains;
  - activity against azole-resistant *Aspergillus* strains;
- only glucan synthase inhibitor with both oral and IV formulations in clinical development, allowing for first-line treatment, oral step-down with the same agent and longer duration of treatment;
- distinct chemical structure from other glucan synthase inhibitors, providing a unique spectrum of activity and pharmacokinetic profile;
- fungicidal (i.e., killing the fungi) capabilities against *Candida* species compared to azoles, which are fungistatic (i.e., inhibiting the growth of fungi);
- high tissue penetration, allowing high concentrations in the organs commonly affected by fungal infections; and
- Enhanced activity at acidic pH (normal vaginal pH is 3.8 to 4.5).

We believe that SCY-078, if approved, has the potential to address significant gaps with commercially available therapies in the following indications:

- acute moderate-severe and recurrent vulvovaginal candidiasis;
- invasive candidiasis (including resistant infections); and
- invasive aspergillosis (including resistant infections).

In the future, we may also consider other indications for SCY-078 for which longer oral antifungal regimens are typically needed and would benefit from the broad spectrum of activity, favorable safety profile and low potential for drug-drug interactions, including for the treatment of chronic fungal infections and for prophylaxis use.

Treatment of VVC. If SCY-078 is approved for the treatment of VVC, it could provide a first-line therapy for recurrent VVC, for which there is currently no approved treatment, and be the only oral, non-azole, fungicidal treatment for moderate and severe acute cases of VVC. We believe that SCY-078's broad spectrum activity (including fluconazole-resistant strains), its enhanced activity at acidic pH and its high penetration in the vaginal tissue, may allow SCY-078 to address the current unmet needs in this indication and improve the quality-of-life of these patients. Additionally, in contrast with fluconazole that is fungistatic against *Candida* spp., SCY-078 is fungicidal against most *Candida* isolates. We believe that SCY-078's "cidal" activity (i.e., killing the pathogen) may provide an advantage in preventing recurrences.

Treatment of invasive *Candida* infections. If SCY-078 is approved for the treatment of invasive *Candida* infections, we believe it could complement or replace IV echinocandins as the drug of choice for these infections because of its broader spectrum of activity and its availability in both IV and oral forms. Having both formulations would allow physicians and their patients to start and stay on a single effective therapy for both inpatient and outpatient settings. Transitioning patients from hospital-based care to outpatient care is key to potentially reduce, or eliminate, expensive hospital stays and risks of hospital-acquired infections. Given the growing emergence of fluconazole-resistant *Candida* in hospital settings, SCY-078 could also be used as the step-down therapy from any IV echinocandin, replacing fluconazole, and providing the advantage of continuing the antifungal treatment with an oral glucan synthase inhibitor that has a broader spectrum of activity than fluconazole.

Treatment of invasive *Aspergillus* infections. We believe that SCY-078's broad activity against *Aspergillus* spp., including azole-resistant strains, along with its minimal drug-drug interactions, high tissue penetration into the lungs and oral formulation allowing for long-term administration, may make it an ideal candidate for use as combination therapy. If the combination of SCY-078 and standard of care is approved for the treatment of invasive *Aspergillus* infections and provides a significant improvement in clinical outcomes, "SCY-078 combo" could replace the azole as the treatment of choice for this difficult-to-treat infection. We recently reported data showing synergistic activity of SCY-078 in combination with an azole in both in vitro and in vivo models of invasive aspergillosis. A previous study, by Marr et al. in invasive aspergillosis demonstrated that the combination of an IV echinocandin and an azole for two weeks followed by an oral azole alone for four additional weeks improved outcomes in certain patient subgroups. In this study, the combination regimen of an IV echinocandin with an azole was given for only two weeks, because of the limitations of using an IV echinocandin long-term in the outpatient setting. A combination of SCY-078 and an azole would allow patients with invasive aspergillosis to receive this combination for the full six to twelve weeks of therapy, possibly leading to better outcomes.

Treatment of refractory invasive fungal infections. SCY-078 has been shown to be effective pre-clinically against *Candida* species resistant to azoles, including *C. auris*, *C. albicans*, *C. glabrata* and *C. krusei*. In addition, SCY-078 has been shown to be effective in vitro against the majority of echinocandin-resistant *Candida* strains tested. *Candida auris* has been classified by the Centers for Disease Control and Prevention (CDC) as a serious public health threat, as it is multidrug-resistant, has resulted in high mortality rates (up to 60%) and can be spread from patients (and surfaces) to patients, resulting in hospital outbreaks. The current refractory invasive fungal infections open-label studies (CARES and FURI) may provide SCY-078 the opportunity to become eligible for the regulatory Limited Population Pathway for Antibacterial and Antifungal Drugs (LPAD) potentially resulting in an initial New Drug Application (NDA) based on streamlined development. If approved, we believe SCY-078 has the potential to become the treatment of choice in this patient population.

Given our stage of development, we have not yet established a commercial organization or distribution capabilities.

For the treatment of VVC, we anticipate that prescribing physicians will mostly be obstetricians and gynecologists and likely a number of primary care physicians and, we believe, it may require a specific sales and marketing force with a women's health focus. We will assess our global commercial strategy for VVC in the future.

For the treatment of invasive fungal infections, we expect that prescribing physicians for the treatment of invasive fungal infections will be located at major medical centers, where physicians specializing in critical care, infectious disease specialists, and physicians treating immune compromised or immuno-suppressed patients, such as oncologists and those performing solid organ transplants and stem cell transplants, are likely to be found. For these indications, we intend to form our own focused hospital-based field force to target physicians in the U.S. Outside of the U.S., subject to obtaining necessary marketing approvals, we will likely seek to commercialize SCY-078 through distribution or other collaboration arrangements.

### Competition for SCY-078

Our competitors include large pharmaceutical and biotechnology companies, and specialty pharmaceutical and generic drug companies. The three leading branded antifungal drugs representing one from each main class are as follows:

Azoles (2016 worldwide sales of \$800.0 million). Noxafil® (posaconazole) marketed by Merck and Cresemba® (isavuconazole), recently approved in the U.S. and other global markets and marketed by Astellas in the U.S.;

Echinocandins (2016 worldwide sales of \$1.0 billion). Cancidas® (caspofungin), a product that became generic in March 2017. Pfizer also markets the echinocandin Eraxis® (anidulafungin) and Astellas markets the echinocandin Mycamine® (micafungin); and

Polyenes (2016 worldwide sales of \$500.0 million). AmBisome® (liposomal amphotericin B), a product sold by Gilead in Europe, by Astellas in the U.S. and by Dainippon-Sumitomo in Japan.

Pfizer, Merck, Astellas, and Gilead are all large pharmaceutical companies with significant experience and financial resources in the marketing and sale of specialty pharmaceuticals. Various other producers market and sell generic oral voriconazole, fluconazole and itraconazole.

Further, we expect that product candidates currently in clinical development may represent significant competition, if approved. These include the triazole VT-1161 being developed by Viamet Pharmaceuticals, Inc. (assets recently acquired by



NovaQuest Capital Management, LLC), the long-acting IV echinocandin CD101 being developed by Cidara Therapeutics, Inc., APX-001 developed by Amplyx Pharmaceuticals Inc., the polyene amphotericin B oral formulation MAT2203 developed by Matinas BioPharma Holdings Inc., F901318 developed by F2G Limited and VL2397 developed by Vical Incorporated. These companies may have greater resources than ours.

We believe that SCY-078 has the ability to perform well in the future fungal infection market given the sparse competitive marketplace, the unmet medical need, and the high mortality rate of these infections. The key competitive factors affecting the success of SCY-078, if approved, are likely to be its efficacy, safety, convenience, price, use in outpatient settings, the level of generic competition and the availability of reimbursement from government and other third-party payors. If approved, we believe that SCY-078's unique features, including being a novel antifungal class, broad-spectrum of activity including resistant strains, IV and oral formulations, fungicidal activity versus *Candida*, high tissue penetration, and favorable safety profile, will differentiate it from competing products and allow premium pricing to generics and other competing products.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than products that we may develop. Our competitors also may obtain FDA, or other regulatory, approval for their products more rapidly than we may obtain approval for ours. In addition, our ability to compete may be affected because in many cases insurers or other third-party payors seek to encourage the use of generic products. In the azole class, fluconazole, itraconazole, and oral voriconazole are generic. Caspofungin, the largest selling echinocandin, is now available on a generic basis. If approved, we believe SCY-078 will be capable of delivering value supportive of premium pricing over competitive generic products.

#### SCY-078 Development

We initially discovered and developed SCY-078 through a research collaboration with Merck Sharp & Dohme Corp., or Merck, a subsidiary of Merck & Co., Inc., and in May 2013 we acquired worldwide rights to SCY-078 in the field of human health. The compound is derived, by chemical modification, from enfumafungin, a natural product, and shows antifungal activity against *Candida* and *Aspergillus* through inhibition of glucan synthesis, a similar mechanism of action to the echinocandin class. SCY-078 has shown fungicidal activity against clinically relevant *Candida* species and potent in vitro activity against strains of *Candida* that are resistant to azoles and echinocandins and azole-resistant *Aspergillus* species. We have reported potent antifungal in vitro activity of SCY-078 against the multidrug resistant pathogen *Candida auris*, which has been classified by the CDC as an emerging serious global health threat. SCY-078 is the first representative of new class of antifungal agents, triterpenoid analogue (a novel and structurally distinct glucan synthase inhibitor), that retains antifungal activity against the majority of echinocandin-resistant strains, suggesting that SCY-078 acts on the fungal cell wall in a manner distinct from the echinocandins.

We are developing both IV and oral formulations of SCY-078. Patients with invasive fungal infections are typically prescribed IV treatment in hospitals and then are switched, or "stepped down," to oral formulations to complete their antifungal treatment after they have shown sufficient improvement. The duration of the entire antifungal regimen (IV and oral) varies depending on the response to the antifungal treatment and the type of infection. Per current guidelines, invasive candidiasis patients are treated for at least two weeks after negative cultures are obtained and invasive aspergillosis patients are typically treated for six to 12 weeks. The availability of SCY-078 in both oral and IV formulations would allow for maximum flexibility in the administration of the same agent during the entire antifungal regimen. The IV formulation would allow initiation of treatment in critically ill patients for whom IV therapy is preferred. The oral formulation would allow step-down from the initial IV antifungal agent (either SCY-078 or echinocandins) to complete the antifungal regimen, as well as initiation of therapy in outpatient settings for those conditions that do not require hospitalization, such as VVC.

In animal models of invasive fungal infections used to test other drugs that have proven to be effective in humans, SCY-078 was shown to be highly active against *Candida* spp. These studies determined the drug concentrations in blood required to achieve efficacy. These correlations of drug exposure to drug activity, or PK/PD, have been used to identify the predicted human exposure of SCY-078 believed to be required to achieve efficacy (i.e., target exposure). Phase 1 and Phase 2 studies of SCY-078 indicate that the target exposure is achievable in humans at doses and regimens expected to be safe and adequately tolerated.

To date, more than 400 subjects and patients have received SCY-078 either orally, by IV, or by IV followed by oral. The most commonly reported adverse events after oral administration have been gastrointestinal events (i.e., nausea, diarrhea, vomiting). The gastrointestinal (GI) events reported have typically been transient (i.e., short duration), mild or moderate and not leading to discontinuation. The most commonly reported adverse events after IV administration of SCY-078 have been local reactions at the site of infusion. During our Phase 1 IV program in healthy volunteers, we observed three mild-to-moderate thrombotic events in healthy volunteers receiving the cyclodextrin-based IV formulation of SCY-078 at the highest doses and highest concentrations in a Phase 1 study. Based on these events, the FDA required us to hold the initiation of any new clinical studies with the IV formulation of SCY-078. We completed a broad range of pre-clinical activities designed to identify the underlying cause of the thrombotic events and to evaluate the optimal administration regimen for IV formulations of SCY-078. Several pre-clinical studies showed that SCY-078 does not affect blood coagulation by itself, providing

supporting evidence that the thrombotic events were triggered by vascular endothelium inflammation at the site of infusion. We identified a new formulation based on liposomal technology that our preclinical evaluations indicate has a superior profile for infusion-related and vascular inflammation tolerability when compared with the cyclodextrin-based IV formulation. Subsequent development activities for the IV formulation will be carried out with the new liposomal based formulation.

Serious Adverse Events (SAEs) are common when conducting clinical trials in a seriously ill population such as patients experiencing invasive candidiasis. Several SAEs have been reported in our clinical trials but only four of the events have been deemed by the investigator to be potentially related to SCY-078, although other contributing factors could not be ruled out. These four SAEs include: one event of elevation of liver function tests in a subject who received a single dose of oral SCY-078 (resolved) and three events secondary to thrombi formation at site of IV infusion (resolved) using the cyclodextrin-based IV formulation of SCY-078.

SCY-078 is protected by an issued composition of matter patent in the United States, which expires in 2030. The composition of matter patent has been granted in 63 countries and is pending in 19 other countries. Additional patent applications related to SCY-078 salts and polymorphs, and its use as an antifungal agent, have been filed and are currently pending. If granted, the new patent families will extend the patent protection of SCY-078 salts, including the citrate salt currently under development, up to 2036.

#### Preclinical Characterization of SCY-078

SCY-078 has broad antifungal activity based on a proven mechanism of action

SCY-078 is a potent inhibitor of the synthesis of the polymer beta (1,3)-D-glucan, an essential component of the fungal cell walls of *Candida* and *Aspergillus* species. Glucan synthesis inhibition is a clinically proven antifungal mechanism of action, as demonstrated by the echinocandin class of antifungal agents. The activity of SCY-078 observed against the majority of echinocandin-resistant strains suggests that SCY-078 acts in a manner distinct from the echinocandins. SCY-078 has been shown to have potent activity in vitro against clinically relevant *Candida* and *Aspergillus* species, including isolates that are resistant to currently available antifungal therapies. Azole-resistance among *Candida* and *Aspergillus* species is a global concern, particularly considering that azoles are the only antifungal class used to treat these life-threatening conditions that can be administered orally. SCY-078 retains its antifungal potency against fungal strains that are resistant to azoles. Echinocandin resistance is increasing in prevalence, particularly among azole-resistant species such as *Candida glabrata*. SCY-078 retained in vitro activity against a majority of echinocandin-resistant *Candida glabrata* strains we have tested. Multidrug resistance has been reported in several strains of *Candida*; particularly concerning is the emergence of *C. auris* that exhibits high rates of resistance to two or more antifungals. Thus, SCY-078 may offer a therapeutic option against multidrug resistant strains such as those that have emerged in *C. glabrata* and *C. auris*. In addition, SCY-078 has shown to have activity against *Pneumocystis* spp.

Nonclinical toxicology is supportive of continued development

The preclinical safety of SCY-078 has been evaluated in multiple studies in rats, dogs, rabbits, and non-human primates. The SCY-078 toxicology program was expanded to include three-month oral dose studies in two species (rats and dogs). Consistent with findings from prior non-clinical toxicology studies of shorter durations, we believe that these longer-term toxicity studies confirmed the favorable safety profile of oral SCY-078. Chronic (six-month rat, nine-month dog) oral dose studies are currently ongoing. These studies will allow flexible treatment regimens of SCY-078 beyond three months in our next stages of clinical development, which is particularly relevant for patients with invasive aspergillosis or refractory fungal infections.

### Manufacturing and Supply of SCY-078

We have agreements with external vendors that are capable of supplying kilogram quantities of drug substance and of producing drug product to support ongoing and planned clinical trials. However, we do not own or operate and do not intend to own or operate facilities for manufacturing, storage and distribution, or testing of drug substance or drug product. We have relied on third-party contract manufacturers for synthesis of our clinical compounds and manufacture of drug product. We expect to continue to rely on either existing or alternative third-party manufacturers to supply SCY-078 for ongoing and planned clinical trials and for commercial production.

SCY-078 is a semi-synthetic compound. Thus, the manufacturing process for SCY-078 involves fermentation and synthetic chemical steps. The synthetic process does not require any specialized equipment and uses readily sourced intermediates. At commercial launch, we expect cost of goods for SCY-078 to be similar to that of other small molecule drugs. We have negotiated agreements with suppliers to produce both drug product and drug substance for our current needs. In the future, we plan to validate the process with selected vendors and secondary suppliers to establish a secure supply chain that could enable commercialization.

We estimate our supplies on hand for both oral and IV formulations of SCY-078 are sufficient to supply our ongoing and planned clinical trials. Manufacture of additional supplies of SCY-078 drug substance is planned to support any further

optimization of either of the formulations, if needed. Additional batches of both oral and IV SCY-078 drug product will be manufactured as needed to support the subsequent stages of our clinical development plan.

A drug manufacturing program subject to extensive governmental regulations requires robust quality assurance systems and experienced personnel with the relevant technical and regulatory expertise as well as strong project management skills. We believe we have a team that is capable of managing these activities. The third-party vendors that currently manufacture clinical supplies to support our ongoing clinical studies have the necessary capabilities and are in compliance with cGMP appropriate for the current stage of development.

The third-party vendors we will select to support our manufacturing and supply program both for future late-stage development and commercial readiness activities will have the required capabilities with respect to facilities, equipment and technical expertise, quality systems that meet global regulatory and compliance requirements, satisfactory regulatory inspection history from relevant health authorities and proven track records in supplying drug substance and drug product for late-stage clinical and commercial use.

#### Research and Development Expenses

A significant portion of our operating expenses is related to research and development and we intend to maintain our strong commitment to research and development. In fiscal years 2017 and 2016, we incurred \$18.3 million and \$20.1 million, respectively, on research and development expenses. See "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for costs and expenses related to research and development, and other financial information for each of the fiscal years 2017 and 2016.

#### Collaborations and Licensing Agreements Associated with Our Core Drug Development Operations

We currently have a number of licensing and collaboration agreements associated with our core drug development operations, including the following:

##### Merck

We initially discovered and developed SCY-078 through a research collaboration with Merck Sharp & Dohme Corp., or "Merck", a subsidiary of Merck & Co., Inc. In May 2013, Merck transferred to us all development and commercialization rights for SCY-078 (also known as MK-3118). This decision was made following a review and prioritization of Merck's infectious disease portfolio. Under the terms of the agreement, we received all human health rights to SCY-078, including all related technical documents, preclinical data, data from the seven Phase 1 trials conducted by Merck, and drug product and drug substance. The agreement continues until expiration of all royalty obligations. The agreement may be terminated if either party is in material breach and fails to remedy the breach after receiving written notice. In January 2014, Merck assigned the patents to us related to SCY-078 that it had exclusively licensed to us. Under the terms of the patent assignment, Merck no longer has responsibility to maintain the patents. Merck is eligible to receive milestones upon initiation of a Phase 3 clinical study, NDA filing and marketing approvals in each of the U.S., major European markets and Japan that could total up to \$19 million. In addition, Merck will receive tiered royalties based on worldwide sales of SCY-078. The aggregate royalties are in the single digit percentages of net sales, and we expect to pay royalties on net sales of SCY-078 to Merck for no more than ten years from first commercial launch, on a country-by-country basis.

In December 2014, we entered into an amendment to the license agreement with Merck that defers the remittance of a milestone payment due to Merck, such that no amount will be due upon initiation of the first phase 2 clinical trial of a product containing the SCY-078 compound (the "Deferred Milestone"). The amendment also increased, in an amount equal to the Deferred Milestone, the milestone payment that will be due upon initiation of the first Phase 3 clinical

trial of a product containing the SCY-078 compound. In December 2016 and January 2018, we entered into second and third amendments to the license agreement with Merck which clarified what would constitute the initiation of a Phase 3 clinical trial for the purpose of a milestone payment. Except as described above, all other terms and provisions of the license agreement remain in full force and effect.

#### R-Pharm

In August 2013, we entered into an agreement with R-Pharm, CJSC, or "R-Pharm", a leading supplier of hospital drugs in Russia, granting them exclusive rights to develop and commercialize SCY-078 in the field of human health in Russia, Turkey, and certain Balkan, Central Asian, Middle Eastern and North African countries. We retained the right to commercialize SCY-078 in the Americas, Europe, and Asia. We received an upfront payment of \$1.5 million and are entitled to receive up to \$18 million in payments if certain development and sales based milestones are achieved. We are also entitled to single digit percent royalty payments for products that do not fall under the patents and a royalty percentage in the teens for products that do fall under the patents. This agreement expires upon R-Pharm's last royalty payment, which is the later of 12 years from the first registration of the product in the countries where R-Pharm's license rights exist under this agreement, or the last to expire of the patents in such countries. Either party may terminate this agreement if the other party breaches and fails to remedy the breach after receiving notice from the non-breaching party. We have the ability to terminate this agreement if we determine that

R-Pharm fails to make reasonable progress in the development and commercialization of SCY-078. If we give R-Pharm notice of failure to make reasonable progress, R-Pharm will have the opportunity to correct the deficiencies.

The original agreement also included terms whereby R-Pharm would reimburse us for certain research and development costs associated with Phase 2 and Phase 3 clinical trials of oral SCY-078 and the development of an IV formulation of SCY-078. However, these cost reimbursement terms required that the clinical trials and the IV formulation development follow a global development plan that was agreed upon by both parties in August 2013. Subsequent to August 2013, modifications were made to the global development plan that caused the clinical trial cost reimbursement terms in the original agreement to no longer be enforceable. Further, the IV formulation development cost reimbursement terms in the original agreement did not specify which IV formulation and development costs were reimbursable by R-Pharm. In November 2014, we entered into a supplemental arrangement with R-Pharm, whereby R-Pharm was informed of the modified IV formulation development plan and R-Pharm agreed to reimburse us for specifically identified IV formulation development and manufacturing costs incurred by us. The specifically identified costs were defined as all costs incurred by us under a separate arrangement we have with a third-party service provider, whereby the third-party service provider is performing certain IV formulation and development services for us. We estimate that total reimbursable costs pursuant to the original agreement and supplemental arrangement with R-Pharm will be approximately \$1.3 to \$1.9 million.

## Government Regulation

### Government regulation

Government authorities in the United States, at the federal, state and local level, and in other countries extensively regulate, among other things, the research, development, testing, manufacture, including any manufacturing changes, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing, import and export of pharmaceutical products such as those we are developing. The processes for obtaining regulatory approvals in the United States and in foreign countries, along with subsequent compliance with applicable statutes and regulations, require the expenditure of substantial time and financial resources.

### U.S. drug approval process

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations. The process of obtaining regulatory approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations requires the expenditure of substantial time and financial resources. Failure to comply with the applicable U.S. requirements at any time during the product development process, approval process or after approval, may subject an applicant to a variety of administrative or judicial sanctions, such as the FDA's refusal to approve pending NDAs, withdrawal of an approval, imposition of a clinical hold, issuance of warning letters, product recall requests, product seizures, total or partial suspension of production or distribution, injunctions, refusals of government contracts, restitution, disgorgement or civil or criminal penalties.

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

- completion of preclinical laboratory tests, animal studies and formulation studies in compliance with the FDA's good laboratory practice, or GLP, regulations;
- submission to the FDA of an investigational new drug application, or IND, which must become effective before human clinical trials may begin;
- approval by an independent institutional review board, or IRB, at each clinical site before each trial may be initiated;

- performance of adequate and well-controlled human clinical trials in accordance with good clinical practice, or GCP, to establish the safety and efficacy of the proposed drug for each indication, subject to on-going IRB review;
- submission to the FDA of an NDA;
- satisfactory completion of an FDA advisory committee review, if applicable;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the product is produced to assess compliance with current Good manufacturing practice, or cGMP, regulations and guidance, and to assure that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality and purity; and
- FDA review and approval of the NDA.

#### Preclinical studies

Preclinical studies include laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess potential safety and efficacy. An IND sponsor must submit the results of the preclinical tests, together with manufacturing information, analytical data and any available clinical data or literature, among other things, to the FDA as part



of an IND. Some preclinical testing may continue even after the IND is submitted. An IND automatically becomes effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions related to one or more proposed clinical trials and places the clinical trial on a clinical hold. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. As a result, submission of an IND may not result in the FDA allowing clinical trials to commence.

#### Clinical trials

Clinical trials involve the administration of the investigational new drug to human subjects under the supervision of qualified investigators in accordance with GCP requirements, which include the requirement that all research subjects provide their informed consent in writing for their participation in any clinical trial. Clinical trials are conducted under protocols detailing, among other things, the objectives of the study, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. A protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. In addition, an IRB at each institution participating in the clinical trial must review and approve the plan for any clinical trial before it commences at that institution. Information about certain clinical trials must be submitted within specific timeframes to the National Institutes of Health, or NIH, for public dissemination on their ClinicalTrials.gov website.

Human clinical trials are typically conducted in three sequential phases, which in some cases may overlap or be combined:

Phase 1: The drug is initially introduced into healthy human subjects or patients with the target disease or condition and tested for safety, dosage tolerance, absorption, metabolism, distribution, excretion and, if possible, to gain an early indication of its effectiveness.

Phase 2: The drug is administered to a limited patient population with the target disease to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

Phase 3: The drug is administered to an expanded patient population with the target disease, generally at geographically dispersed clinical trial sites, in well-controlled clinical trials to generate enough data to statistically evaluate the efficacy and safety of the product for approval, to establish the overall risk-benefit profile of the product, and to provide adequate information for the labeling of the product.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and more frequently if serious adverse events occur. Phase 1, Phase 2 and Phase 3 clinical trials sometimes cannot be completed successfully within any specified period, or at all. Furthermore, the FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients.

In some cases, the FDA may condition approval of an NDA for a product candidate on the sponsor's agreement to conduct additional clinical trials to further assess the drug's safety and effectiveness after NDA approval. Such post-approval trials are typically referred to as Phase 4 studies.

In some circumstances, the FDA may also order a sponsor to conduct post-approval clinical trials if new safety information arises raising questions about the drug's risk-benefit profile. Those clinical trials are typically referred to as Post-Marketing Requirements, or PMRs.

## GAIN Act

The FDA has various expedited development programs, including break-through therapy, fast track designation and priority review, that are intended to expedite or simplify the process for the development and FDA review of drugs that meet certain qualifications. The purpose of these programs is to provide important new drugs to patients earlier than under standard FDA review procedures.

The GAIN Act is intended to encourage development of new antibacterial and antifungal drugs for the treatment of serious or life-threatening infections by providing certain benefits to sponsors, including extended exclusivity periods, fast track and priority review. To be eligible for these benefits a product in development must seek and be awarded designation as a Qualifying Infectious Disease Product, or QIDP.

To qualify as a QIDP according to the criteria established in the GAIN Act, a product must be an antibacterial or antifungal drug for human use intended to treat serious or life-threatening infections, including, those:

- (1) caused by an antifungal resistant pathogen, including novel or emerging infectious pathogens; or
- (2) qualifying pathogens listed by the FDA in accordance with the GAIN Act.

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### Fast Track Designation

The FDA is required to facilitate the development, and expedite the review, of drugs that are intended for the treatment of a serious or life-threatening disease or condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for the condition. Under the Fast Track program, the sponsor of a new drug candidate may request that the FDA designate the drug candidate for a specific indication as a Fast Track drug concurrent with, or after, the filing of the IND for the drug candidate. The FDA must determine if the drug candidate qualifies for Fast Track designation within 60 days of receipt of the sponsor's request.

If a drug candidate is granted Fast Track designation, the sponsor may engage in more frequent interactions with the FDA, and the FDA may review sections of the NDA before the application is complete. This rolling review is available if the applicant provides, and the FDA approves, a schedule for the submission of the remaining information and the applicant pays applicable user fees. However, the FDA's time period goal for reviewing an application does not begin until the last section of the NDA is submitted. Additionally, Fast Track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

### Pediatric exclusivity

Pediatric exclusivity is another type of non-patent marketing exclusivity in the United States and, if granted, provides for the attachment of an additional six months of regulatory protection to the term of any existing exclusivity, including the non-patent exclusivity periods described above, and to the regulatory term of any patent that has been submitted to FDA for the approved drug product. This six-month exclusivity may be granted based on the voluntary completion of a pediatric study or studies in accordance with an FDA-issued "Written Request" for such a study or studies.

### Qualified Infectious Disease Product exclusivity

If the NDA for a QIDP is approved by the FDA, the FDA will extend by an additional five years any non-patent marketing exclusivity period awarded, such as a five-year exclusivity period awarded for a new chemical entity. This extension is in addition to any pediatric exclusivity extension awarded. Eligibility for the extension will be denied if the product is approved for uses that would not meet the definition of a QIDP.

### Foreign regulation

To market any product outside of the United States, we would need to comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy and governing, among other things, clinical trials, marketing authorization, commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we would need to obtain the necessary approvals by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country and can involve additional product testing and additional administrative review periods. The time required to obtain approval in other countries might differ from and be longer than that required to obtain FDA approval. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may negatively impact the regulatory process in others.

### Pharmaceutical coverage, pricing and reimbursement

Our ability to commercialize our product candidates successfully will depend in part on the extent to which the United States and foreign governmental authorities, private health insurers and other third-party payors establish appropriate coverage and reimbursement levels for our product candidates and related treatments. In many of the markets where

we would commercialize a product following regulatory approval, the prices of pharmaceutical products are subject to direct price controls (by law) and to drug reimbursement programs with varying price control mechanisms. Public and private health care payors control costs and influence drug pricing through a variety of mechanisms, including through negotiating discounts with the manufacturers and through the use of tiered formularies and other mechanisms that provide preferential access to certain drugs over others within a therapeutic class. Payors also set other criteria to govern the uses of a drug that will be deemed medically appropriate and therefore reimbursed or otherwise covered. In particular, many public and private health care payors limit reimbursement and coverage to the uses of a drug that are either approved by the FDA or that are supported by other appropriate evidence (for example, published medical literature) and appear in a recognized drug compendium. Drug compendia are publications that summarize the available medical evidence for particular drug products and identify which uses of a drug are supported or not supported by the available evidence, whether or not such uses have been approved by the FDA.

#### Intellectual Property

We strive to protect the proprietary technology that we believe is important to our business, including seeking and maintaining patents intended to cover our product candidates and compositions, and their methods of use and other inventions that are commercially important to the development of our business. We also rely on trade secrets to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

As of March 1, 2018, we are the owner of 8 issued U.S. patents and 118 issued non-U.S. patents with claims to novel compounds, compositions containing them, processes for their preparation, and their uses as pharmaceutical agents, with terms expiring between 2019 and 2036. Of these patents, one U.S. patent relates to SCY-078. We are actively pursuing four U.S. patent applications and 22 non-U.S. patent applications in at least 19 jurisdictions.

Our success will depend significantly on our ability to obtain and maintain patents and other proprietary protection for commercially important technology, inventions and know-how related to our business, defend and enforce our patents, maintain our licenses to use intellectual property owned by third parties, preserve the confidentiality of our trade secrets and operate without infringing the valid and enforceable patents and other proprietary rights of third parties. We also rely on know-how, continuing technological innovation and in-licensing opportunities to develop, strengthen, and maintain our proprietary position in the field of antifungal agents.

We believe that we have a strong intellectual property position and substantial know-how relating to the development and commercialization of SCY-078, including patents or patent applications covering inventions that we have co-invented with Merck. We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our technology.

Our objective is to continue to expand our intellectual property estate by filing patent applications directed to SCY-078 or derivatives thereof. We intend to pursue, maintain, and defend patent rights, whether developed internally or licensed from third parties, and to protect the technology, inventions, and improvements that are commercially important to the development of our business.

#### SCY-078

The patent portfolio for SCY-078 is directed to cover compositions of matter, formulation, methods of use and precursors or intermediaries in its preparation. This patent portfolio includes an issued U.S. patent and corresponding foreign national and regional counterpart patents and patent applications. The patents and patent applications relating to SCY-078 include patents and patent applications that were initially assigned to us and Merck Sharp & Dohme Corp, a subsidiary of Merck & Co., Inc. Merck Sharp & Dohme Corp. subsequently assigned to us all of its rights in these patents and patent applications relating to SCY-078. The issued composition of matter patent (U.S. Patent No. 8,188,085), if the appropriate maintenance, renewal, annuity, and other governmental fees are paid, is expected to expire in 2030. Based on our current development plan, we believe that an additional term of up to five years for the SCY-078 U.S. patent may result from the patent term extension provision of the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). We expect that the patent applications in this portfolio, if issued, and if appropriate maintenance, renewal, annuity, and other governmental fees are paid, would expire between 2030 and 2036, including any additional term from patent term adjustment or patent term extension. The patent term calculation method and the provisions under the Hatch-Waxman Act are described in the “Patent Term” section below. We are not currently aware of any third-party patents (other than patents we have licensed) encompassing SCY-078.

The terms of issued SCY-078 composition of matter patents in other jurisdictions (Algeria, Armenia, Australia, Azerbaijan, Belarus, Belize, Brunei, Canada, China, Colombia, El Salvador, EPO (Austria, Belgium, Croatia, Czech Republic, Denmark, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Macedonia, Netherlands, Poland, Portugal, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom), Hong Kong, Honduras, Indonesia, Israel, Japan, Kyrgyzstan, Korea, Kazakhstan, Lebanon, Morocco, Moldova, Mexico, Mexico, Malaysia, Nicaragua, New Zealand, Peru, Philippines, Russia, Singapore, South Africa, Tajikistan, Turkmenistan, Tunisia, Taiwan and Ukraine), if the appropriate maintenance, renewal, annuity, and other government fees are paid, are expected to expire in 2029. These patents and patent applications (if applicable),

depending on the national laws, may benefit from extension of patent term in individual countries. In some European countries, for example, a supplementary protection certificate, if obtained, provides a maximum of five years of market exclusivity. The duration of the supplementary protection certificate may be extended to five and a half years when the supplementary protection certificate relates to a human medicinal product for which data from clinical trials conducted in accordance with an agreed Pediatric Investigation Plan, or PIP, have been submitted. Likewise, in Japan, the term of a patent may be extended by a maximum of five years in certain circumstances.

#### Patent Term

The term of individual patents and patent applications will depend upon the legal term of the patents in the countries in which they are obtained. Generally, the patent term is 20 years from the date of filing of the patent application (or earliest filed parent application, if applicable).

Under the Hatch-Waxman Act, the term of a patent that claims an FDA-approved drug may also be eligible for patent term extension, or PTE. Eligibility for a PTE is based, in part, on whether the FDA approval of the drug represents the first permitted commercial marketing or use of the drug. Drugs that are considered to be new chemical entities under FDA's regulations are generally eligible for PTE.

PTE permits patent term restoration of a U.S. patent as partial compensation for patent term lost during the FDA regulatory review process, which includes both the testing period while the drug is being investigated under an IND and the approval period while FDA is reviewing a marketing application. The length of the patent term extension is half the testing period plus all of the approval period, with certain limitations. The Hatch-Waxman Act permits a patent term extension of up to five years beyond the expiration of the patent; however, a patent term extension cannot in any event extend the remaining term of a patent beyond a total of 14 years from the date of product approval; only one patent that claims an approved drug may be extended; and the applicable approval must be the first approval of the product under the provision of law authorizing the approval. During the extension period, the patent holder's rights under the patent are generally limited to approved uses of the product. Similar provisions may be available in Europe and certain other foreign jurisdictions to extend the term of a patent that covers an approved drug. When possible, depending upon the length of clinical trials and other factors involved in the filing of an NDA, we expect to apply for patent term extensions for patents covering SCY-078 and its use in treating various diseases. As a specific example, if we are awarded the maximum length of PTE, our U.S. composition of matter patent relating to SCY-078 would have an expected expiration date of the earlier of 14 years from product approval or August 28, 2035. However, depending on any changes in our clinical path and the date of FDA approval, the PTE may not be granted, or may be less than the maximum.

#### Proprietary rights and processes

We may rely, in some circumstances, on proprietary technology and processes (including trade secrets) to protect our technology. However, these can be difficult to protect. We seek to protect our proprietary technology and processes, in part, by entering into confidentiality agreements with our employees, consultants, scientific advisors, contractors, and collaborators. We also seek to preserve the integrity and confidentiality of our proprietary technology and processes by maintaining physical security of our premises and physical and electronic security of our information technology systems. While we have confidence in these individuals, organizations and systems, agreements or security measures may be breached, and we may not have adequate remedies for any breach. In addition, our proprietary technology and processes may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants, scientific advisors, contractors, or collaborators use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. For this and more comprehensive risks related to our proprietary technology and processes, please see the section on "Risk Factors-Risks Relating to Our Intellectual Property."

#### Employees

As of March 1, 2018, we had 19 employees, all of whom were employed on a full-time basis. Our employees are engaged in administration, accounting and finance, research, clinical development, manufacturing, and business development functions. We believe our relations with our employees are good.

#### Corporate Information

We were incorporated in the State of Delaware on November 4, 1999. Our corporate headquarters are located at 101 Hudson Street, Suite 3610, Jersey City, New Jersey 07302.

Our corporate website address is [www.scynexis.com](http://www.scynexis.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website. The information contained on, or that can be accessed through, our website is not part of this Annual Report, and the inclusion of our website address in this Annual Report is an inactive textual reference only.

Other Information

We generated \$0.3 million in revenues in 2017 and 2016, all of which were generated outside of the United States. All of our assets are located in the United States.

ITEM 1A. RISK FACTORS

In evaluating our business, you should carefully consider the following risks, as well as the other information contained in this Annual Report on Form 10-K. These risk factors could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Annual Report on Form 10-K and those we may make from time to time. If any of the following risks actually occurs, our business, financial condition and operating results could be harmed. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business.



## Risks Relating to Our Financial Condition and Need for Additional Capital

We have never been profitable, we have no products approved for commercial sale, and to date we have not generated any revenue from product sales. As a result, our ability to curtail our losses and reach profitability is unproven, and we may never achieve or sustain profitability.

We are not profitable and do not expect to be profitable in the foreseeable future. We have incurred net losses in each year since our inception, including a net loss of approximately \$25.1 million for the year ended December 31, 2017. As of December 31, 2017, we had an accumulated deficit of approximately \$205.3 million. On a prospective basis, our strategic focus, along with the commitment of our financial resources, will be directed towards the development of SCY-078, our lead product candidate. Although we had cash and cash equivalents and short-term investments of \$43.9 million as of December 31, 2017, and raised an additional \$27.8 million of net proceeds in our public offering of our common stock and warrants in March 2018, there can be no assurances that we will be able to continue our operations on a long-term basis. We have suffered substantial losses from operations since inception and will require additional financing.

We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. The net losses we incur may fluctuate significantly from quarter to quarter. We anticipate that our expenses will increase substantially as we:

- continue the development of SCY-078 for treatment of multiple indications;
- conduct ongoing and initiate new clinical trials for SCY-078;
- seek marketing approvals for SCY-078;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control and scientific personnel;
- maintain and create additional infrastructure to support our operations as a public company; and
- develop in-house product candidates or seek to in-license product candidates from third-parties.

In addition, our expenses could increase if we are required by the U.S. Food and Drug Administration, or the FDA, to perform studies in addition to, or that are larger than, those that we currently expect.

As a result of the foregoing, we expect to experience net losses and negative cash flows from operations for the foreseeable future, and we are unable to predict when, or if, we will be able to achieve profitability. Our losses and negative cash flows have had, and will continue to have, an adverse effect on our stockholders' equity, financial position and working capital.

We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Our financial condition and operating results have varied significantly in the past and will continue to fluctuate from quarter to quarter or year to year due to a variety of factors, many of which are beyond our control. The following factors relating to our business, as well as factors described elsewhere in this report, may contribute to these fluctuations:

- the costs associated with developing SCY-078, which are difficult for us to predict;
- any delays in regulatory review and approval of SCY-078;
- delays in the timing of submission of a new drug application, or NDA, as well as commencement, enrollment and the timing of clinical testing, of SCY-078 or any other product candidates we may seek to develop;

- our ability to commercialize product candidates, both in the United States and overseas, if we are able to obtain regulatory approval to do so;
- the costs associated with obtaining and maintaining regulatory approval and ongoing company compliance and product compliance for SCY-078;
- market acceptance of SCY-078 and any future product candidates we may seek to develop;
- changes in regulations and regulatory policies;
- competition from existing products or new products that may emerge;
- the ability of patients or healthcare providers to obtain coverage of, or sufficient reimbursement for, any products we are able to develop;

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- our ability to establish or maintain collaborations, licensing or other arrangements;
- costs related to, and outcomes of, potential litigation;
- potential product liability claims; and
- potential liabilities associated with hazardous materials.

Due to the various factors mentioned above, and others, the results of any quarterly or annual periods should not be relied upon as indications of future operating performance. Further, any financial projections we make are made as of the date we make them are subject to these risks and uncertainties, and these financial projections may not be realized.

We will continue to require substantial additional capital, and if we are unable to raise capital when needed we would be forced to delay, reduce or eliminate our development program for SCY-078.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. If the FDA requires that we perform additional studies beyond those that we currently expect, our expenses could increase beyond what we currently anticipate, the timing of the submission of the NDA could be delayed, and any potential product approval could be delayed. We believe that our existing cash and cash equivalents and short-term investments as of December 31, 2017, together with the \$27.8 million of net proceeds in our public offering of common stock and warrants in March 2018, will be sufficient to meet our anticipated operating requirements into 2020; provided, however, that changing circumstances may cause us to consume cash more rapidly than we currently anticipate. We may need to raise additional funds from additional issuances of equity and/or debt securities or otherwise obtain funding through strategic alliances or collaborations with third parties. In any event, we will require additional capital to complete development of, to seek regulatory approval for and, if approval is obtained, to commercialize SCY-078 and any future product candidates we may seek to develop. Raising funds in the current economic environment, when the capital markets have been affected by the global recession, may present additional challenges.

When we are required to secure additional financing, the additional fundraising efforts may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop. In addition, we cannot guarantee that financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to:

- significantly delay, scale back or discontinue the development or commercialization of SCY-078 and any future product candidates we may seek to develop;
- seek strategic alliances for research and development programs at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available; or
- relinquish or license on unfavorable terms our rights to any product candidates that we otherwise would seek to develop or commercialize ourselves.

If we are required to conduct additional fundraising activities and we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we will be prevented from pursuing development and commercialization efforts, which will have a material adverse effect on our business, operating results and prospects.

We have a significant concentration of credit risk in the form of cash on deposit with one bank, which exceeds the individual account FDIC insurance limits.

We had cash and cash equivalents and short-term investments of \$43.9 million with one banking institution as of December 31, 2017. We monitor the credit rating of our commercial bank based on the quarterly reviews of independent analysts. If the commercial bank experiences insolvency and we are unable to access our cash and cash equivalents, or if we experience a loss of principal, it may adversely affect our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop.

Our operating activities may be restricted as a result of covenants related to the indebtedness under our loan agreement and we may be required to repay the outstanding indebtedness in an event of default, which could have a materially adverse effect on our business.

On September 30, 2016, we entered into a loan and security agreement with Solar Capital Ltd. (Solar), pursuant to which Solar provided \$15 million of funding. Until we have repaid such indebtedness, the loan and security agreement subjects us to various customary covenants, including requirements as to financial reporting and insurance, and restrictions on our ability to dispose of our business or property, to change our line of business, to liquidate or dissolve, to merge or consolidate with any other entity or to acquire all or substantially all the capital stock or property of another entity, to incur additional indebtedness, to incur liens on our property, to pay any dividends or other distributions on capital stock other than dividends payable solely in capital stock, to redeem capital stock, to enter into licensing agreements, to engage in transactions with affiliates, or to encumber our intellectual property. Our business may be adversely affected by these restrictions on our ability to operate our business. Additionally, we may be required to repay the outstanding indebtedness under the loan if an event of default occurs

under the loan and security agreement. Under the loan and security agreement, an event of default will occur if, among other things: we fail to make payments under the loan and security agreement; we breach any of our covenants under the loan and security agreement, subject to specified cure periods with respect to certain breaches; the Lender determines that a material adverse change has occurred; we or our assets become subject to certain legal proceedings, such as bankruptcy proceedings; we are unable to pay our debts as they become due; or we default on contracts with third parties which would permit the holder of indebtedness to accelerate the maturity of such indebtedness or that could have a material adverse change on us. We may not have enough available cash or be able to raise additional funds through equity or debt financings to repay such indebtedness at the time any such event of default occurs. In this case, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant to others rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves. Solar could also exercise its rights as collateral agent to take possession of and to dispose of the collateral securing the term loans, which collateral includes substantially all of our property (excluding intellectual property, which is subject to a negative pledge). Our business, financial condition and results of operations could be materially adversely affected as a result of any of these events.

#### Risks Relating to the Development, Regulatory Approval and Commercialization of Our Product Candidates For Human Use

We cannot be certain that SCY-078 will receive regulatory approval, and without regulatory approval we will not be able to market SCY-078. Regulatory approval is a lengthy, expensive and uncertain process.

Our ability to generate significant revenue related to SCY-078 sales will depend on the successful development and regulatory approval of SCY-078. We expect that the earliest that we could obtain regulatory approval of SCY-078 and commence commercialization of SCY-078 will be several years from now, if at all.

We currently have no products approved for sale and we cannot guarantee that we will ever have marketable products. The development and commercialization of a product candidate, including preclinical and clinical testing, manufacturing, quality systems, labeling, approval, record-keeping, selling, promotion, marketing and distribution of products, is subject to extensive regulation by the FDA in the United States and regulatory authorities in other countries, with regulations differing from country to country. We are not permitted to market product candidates in the United States until and unless we receive approval of an NDA from the FDA. We have not submitted an NDA for SCY-078. Obtaining approval of an NDA is a lengthy, expensive and uncertain process. An NDA must include extensive preclinical and clinical data and supporting information to establish the product candidate's safety and effectiveness for each indication. The approval application must also include significant information regarding the chemistry, manufacturing and controls for the product. The product development and regulatory review process typically takes years to complete, involves numerous uncertainties and the potential for concerns to emerge late in the development process, and approval is never guaranteed. Even if a product is approved, the FDA may limit the indications for which the product may be used, require extensive warnings on the product labeling or require costly ongoing requirements for post-marketing clinical studies and surveillance or other risk management measures to monitor the safety or efficacy of the product candidate, including the imposition of a Risk Evaluation and Mitigation Strategy, or REMS. Markets outside of the United States also have requirements for approval of drug candidates with which we must comply prior to marketing. Obtaining regulatory approval for marketing of a product candidate in one country does not ensure we will be able to obtain regulatory approval in other countries, but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in other countries. Also, any regulatory approval of a product candidate, once obtained, may be withdrawn. If SCY-078 or any of our other wholly-owned or partnered product candidates do not receive timely regulatory approval, or fail to maintain that regulatory approval, we may not be able to generate sufficient revenue to become profitable or to continue our operations. Moreover, the filing of our NDA or the receipt of regulatory approval does not assure commercial success of any approved product.

Although both the oral and IV formulations of SCY-078 have been granted Qualified Infectious Disease Product status and Fast Track designation, this does not guarantee that the length of the FDA review process will be significantly shorter than otherwise, or that SCY-078 will ultimately be approved by the FDA.

We applied to the FDA for, and received, the designation of the oral tablet and the IV formulations of SCY-078 for invasive candidiasis and invasive aspergillosis as Qualified Infectious Disease Product, or QIDP, under the Generating Antibiotic Incentives Now Act, or GAIN Act. We also applied to the FDA for, and were granted, Fast Track designation for SCY-078 for these indications. Receipt of QIDP status and Fast Track designation in practice may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA or related GAIN Act exclusivity benefits.

Delays in the commencement, enrollment and completion of clinical trials could result in increased costs to us and delay or limit our ability to obtain regulatory approval for SCY-078 or any future product candidates.

We do not know whether clinical trials of SCY-078 or any future product candidates we may seek to develop will be allowed to commence or, if commenced, will be completed on schedule or at all. The commencement, enrollment and completion of clinical trials can be delayed for a variety of reasons, including:

- inability to reach agreements on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- difficulty identifying and engaging qualified clinical investigators;
- regulatory objections to commencing a clinical trial or proceeding to the next phase of investigation, including inability to reach agreement with the FDA or non-U.S. regulators regarding the scope or design of our clinical trials or for other reasons such as safety concerns that might be identified during preclinical development or early stage clinical trials;
- inability to identify and maintain a sufficient number of eligible trial sites, many of which may already be engaged in other clinical trial programs, including some that may be for the same indication as our product candidates;
- withdrawal of clinical trial sites from our clinical trials as a result of changing standards of care;
- inability to obtain institutional review board (or ethics review committee) approval to conduct a clinical trial at prospective sites;
- difficulty identifying, recruiting and enrolling eligible patients to participate in clinical trials for a variety of reasons, including meeting the enrollment criteria for our study and competition from other clinical trial programs for the same indication as product candidates we seek to commercialize;
- inability to retain patients in clinical trials due to the treatment protocol, personal issues, side effects from the therapy or lack of efficacy;
- inability to produce and/or obtain in a timely manner sufficient quantity of our products to satisfy the requirements of the clinical trials; and
- inability to obtain sufficient funding to commence a clinical trial.

In addition, a clinical trial may be suspended or terminated by us, our current or any future partners, an institutional review board, the FDA or other regulatory authorities due to a number of factors, including:

- failure by us, CROs or clinical investigators to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- failed inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities;
- safety or efficacy issues or any determination that a clinical trial presents unacceptable health risks. During an extension of our Phase 1 program for the intravenous formulation in healthy volunteers, aimed to expand the safety margin that would allow greater flexibility of dosing options in patients, we observed adverse events secondary to thrombi formation at site of IV infusion; or
- lack of adequate funding to continue the clinical trial due to unforeseen costs resulting from enrollment delays, requirements to conduct additional trials and studies, increased expenses associated with the services of our CROs and other third parties, or other reasons.

If we are required to conduct additional clinical trials or other testing of SCY-078 or any future product candidates we may seek to develop, we may be delayed in obtaining, or may not be able to obtain, marketing approval for these product candidates.

In addition, if our current or any future partners have rights to and responsibility for development of SCY-078 or any future product candidates, they may fail to meet their obligations to develop and commercialize the product candidates, including clinical trials for these product candidates.

Changes in regulatory requirements and guidance may occur and we or any of our partners may be required by appropriate regulatory authorities to amend clinical trial protocols to reflect these changes. Amendments may require us or any of our partners to resubmit clinical trial protocols to independent review boards for re-examination, which may impact the costs, timing or successful completion of a clinical trial. If we or any of our partners experience delays in the completion of, or if we or our partners terminate, clinical trials, the commercial prospects for SCY-078 and any future product candidates we may seek to develop will be harmed, and our ability to generate revenue from sales of these product candidates will be



prevented or delayed. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate.

Clinical failure can occur at any stage of clinical development. Because the results of earlier clinical trials are not necessarily predictive of future results, any product candidate we or our current or potential future partners advance through clinical trials may not have favorable results in later clinical trials or receive regulatory approval.

Clinical failure can occur at any stage of clinical development. Clinical trials may produce negative or inconclusive results, and we or our partners may decide, or regulators may require us, to conduct additional clinical or preclinical testing. In addition, data obtained from tests are susceptible to varying interpretations, and regulators may not interpret data as favorably as we do, which may delay, limit or prevent regulatory approval. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will generate the same results or otherwise provide adequate data to demonstrate the efficacy and safety of a product candidate. Frequently, product candidates that have shown promising results in early clinical trials have subsequently suffered significant setbacks in later clinical trials. In addition, the design of a clinical trial can determine whether its results will support approval of a product application, or approval of a supplemental application to add a new indication or other changes, and flaws or shortcomings in the design of a clinical trial may not become apparent until the clinical trial is well advanced. We have limited experience in designing clinical trials and may be unable to design and execute a clinical trial to support regulatory approval, or approval of supplemental applications for new indications or other changes. Further, clinical trials of potential products often reveal that it is not practical or feasible to continue development efforts. If SCY-078 or any future product candidates are found to be unsafe or lack efficacy, we or our collaborators will not be able to obtain regulatory approval for them and our business would be harmed. For example, if the results of our ongoing or planned Phase 2 and Phase 3 clinical trials of SCY-078 do not achieve, to the satisfaction of regulators, the primary efficacy endpoints and demonstrate an acceptable level of safety, the prospects for approval of SCY-078 would be materially and adversely affected. A number of companies in the pharmaceutical industry, including those with greater resources and experience than us, have suffered significant setbacks in Phase 2 and Phase 3 clinical trials, even after seeing promising results in earlier clinical trials.

In some instances, there can be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including differences in trial protocols and design, differences in size and type of the patient populations, adherence to the dosing regimen and the rate of dropout among clinical trial participants. Further, the patients taking SCY-078 often have other significant medical issues, such as organ transplants, cancer or other conditions in which their immune systems are suppressed, which makes it difficult to measure the effect of SCY-078 in the presence of these medical issues. We do not know whether any Phase 2, Phase 3 or other clinical trials we or any partners may conduct will demonstrate consistent and/or adequate efficacy and safety to obtain regulatory approval to market SCY-078 and any future product candidates we may seek to develop.

We have limited experience in conducting clinical trials and have never submitted an NDA before, and we may be unable to do so for SCY-078 or any future product candidate we may seek to develop.

Merck completed seven Phase 1 clinical trials of SCY-078 and we have completed seven Phase 1 clinical trials, two Phase 2 trials, and have initiated two Phase 3 trials which are ongoing. We are planning to conduct additional Phase 1, Phase 2, and Phase 3 clinical trials of SCY-078. The conduct of successful Phase 2 and Phase 3 clinical trials is essential in obtaining regulatory approval, and the submission of a successful NDA is a complicated process. We have limited experience in preparing and submitting regulatory filings, have previously only sponsored three Phase 2 clinical trials, and have not previously sponsored any Phase 3 clinical trials, nor have we ever submitted an NDA. Consequently, we may be unable to successfully and efficiently execute and complete these planned clinical trials in a way that is acceptable to the FDA and leads to an NDA submission, acceptance and approval of SCY-078 or any future product candidate we may seek to develop. We may require more time and incur greater costs than our

competitors and may not succeed in obtaining regulatory approvals of product candidates that we may seek to develop. In addition, failure to commence or complete, or delays in, our planned clinical trials would prevent us from or delay us in commercializing SCY-078 or any future product candidate we may develop.

The environment in which our regulatory submissions may be reviewed changes over time, which may make it more difficult to obtain regulatory approval of any of our product candidates we may seek to develop or commercialize.

The environment in which regulatory submissions are reviewed changes over time. For example, average review times at the FDA for NDAs have fluctuated over the last ten years, and we cannot predict the review time for any submission with any regulatory authorities. Review times can be affected by a variety of factors, including budget and funding levels and statutory, regulatory and policy changes. Moreover, in light of widely publicized events concerning the safety risks of certain drug products, regulatory authorities, members of Congress, the Government Accountability Office, medical professionals and the general public have raised concerns about potential drug safety issues. These events have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and establishment of risk evaluation and mitigation strategies that may, for instance, restrict distribution of drug products. The increased attention to drug safety issues may result in a more cautious approach by the FDA to clinical trials. Data from preclinical studies and clinical trials may receive greater scrutiny with respect to safety, which may make the FDA or other regulatory authorities more likely to terminate

clinical trials before completion, or require longer or additional clinical trials that may result in substantial additional expense, a delay or failure in obtaining approval or approval for a more limited indication or conditions of use than originally sought.

In addition, data obtained from preclinical studies and clinical trials are subject to different interpretations, which could delay, limit or prevent regulatory review or approval of product candidates. Changes in FDA personnel responsible for review of our submissions could also impact the manner in which our data are viewed. Furthermore, regulatory attitudes towards the data and results required to demonstrate safety and efficacy can change over time and can be affected by many factors, such as the emergence of new information, including information on other products, policy changes and agency funding, staffing and leadership. We do not know whether future changes to the regulatory environment will be favorable or unfavorable to our business prospects.

If SCY-078 or any other future product candidates for which we receive regulatory approval do not achieve broad market acceptance, the revenue that is generated from their sales will be limited.

The commercial success of SCY-078 or any other product candidates we may seek to develop will depend upon the acceptance of these product candidates among physicians, patients, the medical community and healthcare payors. The degree of market acceptance of product candidates will depend on a number of factors, including:

- limitations or warnings contained in the FDA-approved labeling;
- changes in the standard of care for the targeted indications;
- limitations in the approved indications;
- availability of alternative therapies with potentially advantageous results, or other products with similar results at similar or lower cost, including generics and over-the-counter products;
- lower demonstrated clinical safety or efficacy compared to other products;
- occurrence of significant adverse side effects;
- ineffective sales, marketing and distribution support;
- lack of availability of coverage and adequate reimbursement from managed care plans and other third-party payors;
- timing of market introduction and perceived effectiveness of competitive products;
- lack of cost-effectiveness;
- adverse publicity about our product candidates or favorable publicity about competitive products;
- lack of convenience and ease of administration; and
- potential product liability claims.

If SCY-078 or any future product candidates we may seek to develop are approved, but do not achieve an adequate level of acceptance by physicians, healthcare payors and patients, sufficient revenue may not be generated from these product candidates, and we may not become or remain profitable. In addition, efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

A significant use of antifungal drugs consists of treatment due to the presence of symptoms before diagnosis of the invasive fungal infections, and if recently approved diagnostic tools, or additional tools currently under development, for the quick diagnosis of invasive fungal infections are broadly used in the marketplace, the number of treatments using antifungal drugs may decrease significantly, decreasing the potential market for SCY-078.

We believe that a large portion of the treatments using antifungal drugs are administered when symptoms of invasive fungal infections are present but a diagnosis of the infection has not yet been made, due to the rapid and potentially fatal progression of invasive fungal infections. Diagnostic tools recently approved by the FDA, or currently under development, for the rapid diagnosis of invasive fungal infections may significantly diminish the need to treat patients in advance of diagnosis of invasive fungal infections, which will reduce the potential market for SCY-078 in the event

that we are able to obtain FDA approval of SCY-078. Moreover, if a rapid and accurate test of the susceptibility of a fungal infection to generically available treatments is developed and widely adopted, the market for SCY-078 may suffer.

If resistance to SCY-078 develops quickly or cross-resistance with echinocandins becomes more common, our business will be harmed.

We recognize that, over time, resistance develops against every antibacterial and antifungal drug. One or more strains of fungal pathogens may develop resistance to SCY-078 more rapidly than we currently expect, either because our hypothesis of the mechanism of action is incorrect or because a strain of fungi undergoes some unforeseen genetic mutation that permits it to survive. Since we expect lower resistance relative to other antifungal drug classes to be a major factor in the commercialization

of SCY-078, rapid development of such resistance or development of cross resistance with echinocandins would have a major adverse impact on the acceptability and sales of SCY-078.

If we are unable to obtain regulatory approval of both the oral and IV formulations of SCY-078, SCY-078 may not achieve broad market acceptance and sales will be limited.

Current treatment regimens for invasive fungal infections typically involve initial administration of treatments as an IV infusion, with a switch to an oral formulation of the same or a similar medication to complete the course of treatment on an out-patient basis. We believe that providing both the IV and oral formulations will be beneficial to doctors who prefer to start treatment of patients in a hospital setting with an IV therapy and then switch them to an oral formulation of the same medication. If we are unable to successfully develop and achieve regulatory approval for either the oral or IV formulation of SCY-078, our lead product candidate may not achieve, or may be delayed in achieving, broad market acceptance and sales will be limited.

Our product candidates may have undesirable side effects that may delay or prevent marketing approval, or, if approval is received, require them to be taken off the market or otherwise limit their sales.

It is impossible to predict when or if SCY-078 or any other product candidate we may seek to develop will prove effective or safe or will receive marketing approval. Unforeseen side effects from any product candidates could arise either during clinical development or, if approved, after the product has been marketed. The most commonly reported adverse events after oral administration have been gastrointestinal (GI) events (i.e., nausea, diarrhea, vomiting). The gastrointestinal events reported have typically been transient (i.e., short duration), mild or moderate and not leading to discontinuation. The most commonly reported adverse events after IV administration of SCY-078 have been local reactions at the site of infusion. During our Phase 1 IV program in healthy volunteers, aimed to expand the safety margin that would allow greater flexibility of dosing options in patients, we observed three mild-to-moderate thrombotic events in healthy volunteers receiving the IV formulation of SCY-078 at the highest doses and highest concentrations in a Phase 1 study. These events were reported to FDA as 15-day alert reports because they were unexpected and required anticoagulant therapy. The potential contribution of the IV formulation of SCY-078 to these events cannot be ruled out even though rates of thrombotic events due to intravenous catheters reported in the literature are comparable to those observed in the Phase 1 study.

Serious adverse events (SAEs) are common when conducting clinical trials in a seriously ill population such as patients experiencing invasive candidiasis. Several SAEs have been reported in our clinical trials but only four of the events have been deemed by the investigator to be potentially related to SCY-078, although other contributing factors could not be ruled out. These four serious adverse events include: one event of elevation of liver function tests in a subject who received a single dose of oral SCY-078 (resolved) and three events secondary to thrombi formation at site of IV infusion with the cyclodextrin-based IV formulation.

On March 2, 2017, we announced that the FDA had informed us to hold the initiation of any new clinical studies with our IV formulation until the FDA completes a review of all available pre-clinical and clinical data of the IV formulation of SCY-078. In January 2018, we announced that we plan to restart clinical trials with IV SCY-078 in the third quarter of 2018, using a liposomal IV formulation that has shown an improved tolerability profile in pre-clinical assessments compared with the cyclodextrin-based IV formulation used in the earlier study. If the FDA does not permit us to initiate new clinical studies with our IV formulation, we will not be able to develop and commercialize an IV formulation of SCY-078, which would harm our business prospects.

Preclinical findings in the future could trigger the need to evaluate or monitor for specific potential safety concerns in clinical trials. The results of future clinical trials may show that SCY-078 and any future product candidates we may seek to develop cause undesirable or unacceptable side effects, which could interrupt, delay or halt clinical trials,

resulting in delay of, or failure to obtain, marketing approval from the FDA and other regulatory authorities, or may lead us to abandon their development altogether.

Even if SCY-078 or any future product candidate we may seek to develop receives marketing approval, we or others may subsequently identify undesirable or unacceptable side effects caused by these products, in which case:

- regulatory authorities may require the addition of labeling statements, specific warnings, precautions, contraindications or field alerts to physicians and pharmacies;
- we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- we may have limitations on how we promote the product;
- sales of the product may decrease significantly;
  - regulatory authorities may require us to take our approved product off the market;

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- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us or our current or potential future partners from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenue from the sale of products.

We have never marketed a drug before, and if we are unable to establish an effective sales force and marketing infrastructure or enter into acceptable third-party sales and marketing or licensing arrangements, we may not be able to successfully commercialize SCY-078 and any future product candidates we may seek to develop.

We currently do not have any sales, distribution and marketing capabilities, the development of which will require substantial resources and will be time consuming. The costs incurred in the development of these capabilities, either internally or through a third-party contract sales organization, would be incurred in advance of any approval of a product candidate. In addition, we may not be able to hire a sales force in the United States that is sufficient in size or has adequate expertise in the medical markets that we intend to target. If we are unable to establish our sales force and marketing capability, our operating results may be adversely affected. In addition, we plan to enter into sales and marketing or licensing arrangements with third parties for international sales of any approved products. If we are unable to enter into or maintain any such arrangements on acceptable terms, or at all, we may be unable to market and sell SCY-078 or any future product candidates we may seek to develop in these markets.

We expect that SCY-078 and any future product candidates we may seek to develop will face competition, and most of our competitors have significantly greater resources than we do.

The pharmaceutical industry is highly competitive, with a number of established, large pharmaceutical companies, as well as many smaller companies. There are many foreign and domestic pharmaceutical companies, biotechnology companies, public and private universities, government agencies and research organizations actively engaged in research and development of products that may target the same markets as SCY-078 and any future product candidates we may seek to develop. We expect any products we develop to compete on the basis of, among other things, product efficacy, price, lack of significant adverse side effects and convenience and ease of treatment. For example, SCY-078 will compete against current leading antifungal drugs, including voriconazole from the azole class, caspofungin from the echinocandin class, and liposomal amphotericin B from the polyenes class, many of which are currently available in generic form, or expected to be available in generic form at the time SCY-078 might be approved.

Compared to us, many of our competitors in the antifungal market have, and potential competitors for any future product candidates we may seek to develop may have, substantially greater:

- resources, including capital, personnel and technology;
- research and development capability;
- clinical trial expertise;
- regulatory expertise;
- intellectual property portfolios;
- expertise in prosecution of intellectual property rights;
- manufacturing and distribution expertise; and
- sales and marketing expertise.

As a result of these factors, our competitors and potential competitors may obtain regulatory approval of their products more rapidly than we do. Our competitors and potential competitors may also develop drugs that are more effective, more widely used and less costly than ours and may also be more successful than us in manufacturing and marketing their products and maintaining compliance with ongoing regulatory requirements.

Reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance in the United States. If there is not sufficient reimbursement for our products, it is less likely that our products will be purchased by patients and/or providers.

Successful commercialization of pharmaceutical products usually depends on the availability of coverage and adequate reimbursement from third-party payors, including commercial insurers and federal and state healthcare programs. Patients and/or healthcare providers who purchase drugs generally rely on third-party payors to reimburse all or part of the costs associated with such products. As such, coverage and adequate reimbursement from third-party payors can be essential to new product acceptance and may have an effect on pricing.



Because SCY-078 is not currently commercially available, we do not know the extent to which it will be reimbursed if it is approved by the FDA. If we choose to bring other product candidates to market, they will be subject to similar uncertainty. We believe that SCY-078 and any other product candidates that are brought to market are less likely to be purchased by patients and/or providers if they are not adequately reimbursed by third-party payors.

Furthermore, the market for our product candidates may depend on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. Industry competition to be included in such formularies results in downward pricing pressures on pharmaceutical companies. Third-party payors may refuse to include a particular branded drug in their formularies when a competing generic product is available. The adoption of certain payment methodologies by third-party payors may limit our ability to profit from the sale of SCY-078. For example, under Medicare, hospitals are reimbursed under an inpatient prospective payment system. This pricing methodology provides a single payment amount to hospitals based on a given diagnosis-related group. As a result, with respect to Medicare reimbursement for services in the hospital inpatient setting, hospitals could have a financial incentive to use the least expensive drugs for the treatment of invasive fungal infections, particularly the IV formulations of these drugs, as they are typically administered in the hospital, which may significantly impact our ability to charge a premium for SCY-078.

All third-party payors, whether governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs, including mechanisms to encourage the use of generic drugs. Congress has also considered policies to lower the reimbursement formulas in federal and state healthcare programs. Furthermore, coverage of, and reimbursement for, drugs can differ significantly from payor to payor and may require significant time and resources to obtain. In addition, new laws or regulations could impact future coverage and reimbursement.

Healthcare policy changes, including the Affordable Care Act, or changes or repeal of the Affordable Care Act, may have a material adverse effect on us.

In recent years, there have been numerous initiatives on the federal and state levels for comprehensive reforms affecting the payment for, the availability of and reimbursement for healthcare services in the United States, including pharmaceutical products. These initiatives have ranged from proposals to fundamentally change federal and state healthcare reimbursement programs, including providing comprehensive healthcare coverage to the public under governmental funded programs, to minor modifications to existing programs.

In March 2010, Congress enacted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or the Affordable Care Act. The Affordable Care Act is designed to expand access to affordable health insurance, control healthcare spending, and improve healthcare quality. The law includes provisions to tie Medicare provider reimbursement to healthcare quality and incentives, mandatory compliance programs, enhanced transparency disclosure requirements, increased funding and initiatives to address fraud and abuse, and incentives to state Medicaid programs to expand their coverage and services. It also imposes an annual tax on pharmaceutical manufacturers or importers who sell "branded prescription drugs." Some of the provisions of the Affordable Care Act have yet to be implemented, and there have been judicial and Congressional challenges to certain aspects of the Affordable Care Act, as well as recent efforts by the Trump administration to repeal or replace certain aspects of the Affordable Care Act. Since January 2017, President Trump has signed two Executive Orders and other directives designed to delay the implementation of certain provisions of the Affordable Care Act or otherwise circumvent some of the requirements for health insurance mandated by the Affordable Care Act. Concurrently, Congress has considered legislation that would replace or repeal and replace all or part of the Affordable Care Act. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the Affordable Care Act have been signed into law. The Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is

commonly referred to as the “individual mandate”. Additionally, on January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain Affordable Care Act-mandated fees, including the so-called “Cadillac” tax on certain high cost employer-sponsored insurance plans and the annual fee imposed on certain health insurance providers based on market share. Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the Affordable Care Act, effective January 1, 2019, to increase from 50 percent to 70 percent the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D and to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole”.

Further, there has been heightened governmental scrutiny in the United States of pharmaceutical pricing practices in light of the rising cost of prescription drugs. Such scrutiny has resulted in several recent congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for products.

We cannot predict what healthcare reform initiatives may be adopted in the future. Further federal, state and foreign legislative and regulatory developments are likely, and we expect ongoing initiatives to increase pressure on drug pricing, which could have a negative impact on our sales of any future approved products.

We expect that a portion of the market for SCY-078 and any other product candidates we may seek to develop will be outside the United States. However, our product candidates may never receive approval or be commercialized outside of the United States.

Before we or any commercial partners can market and commercialize any product candidates outside of the United States, there are numerous and varying regulatory requirements of other countries that will apply. Research and marketing authorization procedures vary among countries and can involve additional product testing and administrative review periods. The marketing authorization process in other countries may include all of the risks detailed above regarding failure to obtain FDA approval in the United States as well as other risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country, or identification of potential safety concerns in one country, may have a negative effect on the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA approval in the United States. As described above, such effects include the risks that:

- SCY-078 and any future product candidates we may seek to develop may not generate preclinical or clinical data that are deemed sufficient by regulators in a given jurisdiction;

- SCY-078 may not be approved for all indications requested, or any indications at all, in a given jurisdiction which could limit the uses of SCY-078 and any future product candidates we may seek to develop and have an adverse effect on product sales and potential royalties; and

- such approval in a given jurisdiction may be subject to limitations on the indicated uses for which the product may be marketed or require costly post-marketing follow-up studies.

Foreign countries may have requirements for marketing authorization holders or distributors to have a legal or physical presence in that country, and consideration of and compliance with these requirements may result in additional time and expense before we can pursue or obtain marketing authorization in foreign jurisdictions. If we do receive approval in other countries, we may enter into sales and marketing arrangements with third parties for international sales of any approved products.

Even if SCY-078 or any other future product candidates we may seek to develop receive regulatory approval, we may still face future development and regulatory difficulties.

Even if regulatory approval is obtained for SCY-078 or any other future product candidates we may seek to develop, regulatory authorities may still impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies. Given the number of high profile adverse events with certain drug products, regulatory authorities may require, as a condition of approval, costly risk evaluation and mitigation strategies, which may include safety surveillance, restricted distribution and use, patient education, enhanced labeling, expedited reporting of certain adverse events, pre-approval of promotional materials and restrictions on direct-to-consumer advertising. For example, any labeling approved for any of our product candidates may include a restriction on the term of its use, or it may not include one or more intended indications. Furthermore, any new legislation addressing drug safety issues could result in delays or increased costs during the period of product development, clinical trials and regulatory review and approval, as well as increased costs to assure compliance with any new post-approval regulatory requirements. Any of these restrictions or requirements could force us or our partners to conduct costly studies.

SCY-078 and any other future product candidates we may seek to develop will also be subject to ongoing regulatory requirements for the packaging, storage, advertising, promotion, record-keeping and submission of safety and other post-market information on the drug. In addition, approved products, manufacturers and manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to current Good Manufacturing Practices, or cGMP. As such, we and our contract manufacturers, which we will be responsible for overseeing and monitoring for compliance, are subject to continual review and periodic inspections to assess compliance with cGMP. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. The FDA may hold us responsible for any deficiencies or noncompliance of our contract manufacturers in relation to SCY-078 and any other future product candidates we may seek to develop. Failure to follow cGMP can result in products being deemed adulterated, which carries significant legal implications. We will also be required to engage in pharmacovigilance activities and report certain adverse reactions and production problems, if any, to the FDA and to comply with certain requirements concerning advertising and promotion for products. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved label. As such, we may not promote products for indications or uses for which they do not have approval. Failure to comply with FDA advertising and promotion standards, which are often subject to interpretation by regulators, may result in a wide range of exposure and liability for us.

If a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured or disagrees with the promotion, marketing or labeling of a product, a regulatory agency may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If the manufacturing or marketing of products fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters;
- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us or our partners to enter into a consent decree, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- impose other civil or criminal penalties;
- suspend regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to approved applications filed by us, our partners or our potential future partners;
- impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products or require a product recall.

Non-compliance may also open a company to potential whistleblower lawsuits and the potential for liability under the False Claims Act.

Pharmaceutical companies are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and limit our ability to commercialize our products.

We are subject to regulation by other regional, national, state and local agencies, including the Department of Justice, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies. Violations of any of the foregoing requirements could result in penalties being assessed against us.

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical companies on one hand and prescribers, purchasers and formulary managers on the other. The Affordable Care Act, among other things, clarified that a person or entity need not have actual knowledge of the federal Anti-Kickback Statute or specific intent to violate it, in order to have committed a violation. In addition, the Affordable Care Act amended the federal civil False Claims Act to provide that a claim that includes items or services resulting from a violation of the federal Anti-Kickback Statute, constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act. There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, however, the exceptions and safe harbors are drawn narrowly, and practices that do not fit squarely within an exception or safe harbor may be subject to scrutiny.

The federal civil and criminal false claims laws, including the federal civil False Claims Act, prohibit any person from knowingly presenting, or causing to be presented, claims for payment of government funds that are false or fraudulent or knowingly making, or causing to be made, a false record or statement material to a false or fraudulent claim to avoid, decrease or conceal an obligation to pay money to the federal government. Many pharmaceutical and other healthcare companies have been investigated and have reached substantial financial settlements with the federal government under these laws for a variety of alleged marketing activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company's products; and

inflating prices reported to private price publication services, which are used to set drug payment rates under government healthcare programs. Companies have been prosecuted for causing false claims to be submitted because of the marketing of their products for unapproved uses. Pharmaceutical and other healthcare companies have also been prosecuted on other legal theories of Medicare and Medicaid fraud.

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, regardless of the payor (e.g., public or private). Similar to the federal Anti-Kickback Statute, a person or entity need not have actual knowledge the statute or specific intent to violate it, in order to have committed a violation.

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their implementing regulations, which impose certain obligations with respect to safeguarding the privacy, security and transmission

of individually identifiable health information on “covered entities,” such as certain healthcare providers, health plans, and healthcare clearinghouses and their respective “business associates” that perform services for them, which involve the creation, use, maintenance or disclosure of, individually identifiable health information.

The Physician Payments Sunshine Act, created under the Affordable Care Act, which require certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program (with certain exceptions) to report annually to the Centers for Medicare and Medicaid Services information related to payments or other transfers of value made to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members.

The majority of states also have statutes or regulations similar to these laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. Some of these states also prohibit certain marketing related activities including the provision of gifts, meals, or other items to certain health care providers. In addition, certain states, including California, Connecticut, Nevada, and Massachusetts, require pharmaceutical companies to implement compliance programs or marketing codes.

Compliance with various federal and state laws is difficult and time consuming, and companies that violate them may face substantial penalties. The potential sanctions include civil monetary penalties, exclusion of a company’s products from reimbursement under government programs, integrity oversight and reporting obligations to resolve allegations of non-compliance with these laws, criminal fines and imprisonment. Because of the breadth of these laws and the lack of extensive legal guidance in the form of regulations or court decisions, it is possible that some of our business activities or those of our commercial partners could be subject to challenge under one or more of these laws. Such a challenge could have a material adverse effect on our business and financial condition and growth prospects.

We could become subject to government investigations and related subpoenas. Such subpoenas are often associated with previously filed qui tam actions, or lawsuits filed under seal under the federal civil False Claims Act. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged federal civil False Claims Act violations. The time and expense associated with responding to such subpoenas, and any related qui tam or other actions may be extensive, and we cannot predict the results of our review of the responsive documents and underlying facts or the results of such actions. Responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties, settlement payments or administrative actions, as well as any related actions brought by stockholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business.

The number and complexity of both federal and state laws continues to increase, and additional governmental resources are being added to enforce these laws and to prosecute companies and individuals who are believed to be violating them. In particular, the Affordable Care Act includes a number of provisions aimed at strengthening the government’s ability to pursue federal Anti-Kickback Statute and federal False Claims Act cases against pharmaceutical manufacturers and other healthcare entities, including substantially increased funding for healthcare fraud enforcement activities, enhanced investigative powers, and amendments to the federal civil False Claims Act that make it easier for the government and whistleblowers to pursue cases for alleged kickback and false claim violations. Responding to a government investigation or enforcement action would be expensive and time-consuming and could have a material adverse effect on our business and financial condition and growth prospects.

If we fail to comply with applicable federal, state, or local regulatory requirements, we could be subject to a range of regulatory actions that could affect our ability to commercialize our products and could harm or prevent sales of any affected products that we are able to commercialize, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other

aspects of our business.

Regulations, guidelines and recommendations published by various government agencies and organizations may affect the use of SCY-078 and any future product candidates we may seek to develop.

Government agencies may issue regulations and guidelines directly applicable to us, our partners or our potential future partners and our product candidates. In addition, professional societies, practice management groups, private health/science foundations and organizations involved in various diseases from time to time publish guidelines or recommendations to the healthcare and patient communities. These various sorts of recommendations may relate to such matters as product usage, dosage, and route of administration and use of related or competing therapies. Changes to these recommendations or other guidelines advocating alternative therapies could result in decreased use of SCY-078 and any future product candidates we may seek to develop, which may adversely affect our results of operations.

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### Risks Related to Our Dependence on Third Parties

We are dependent on our existing third-party collaboration with R-Pharm to commercialize SCY-078 in the Russian Federation and certain other countries, and if R-Pharm is not successful in commercializing SCY-078 in those countries, we will lose a significant source of potential revenue.

We currently have a development license and supply agreement with R-Pharm, a leading supplier of hospital drugs in Russia, pursuant to which we license to R-Pharm rights to develop and commercialize SCY-078 in the field of human health in Russia and certain smaller non-core markets. R-Pharm will pay us milestone payments upon the achievement of specified milestones, including registration of SCY-078 in a country and upon the achievement of specified levels of sales. In addition, R-Pharm will pay us royalties upon sales of SCY-078 by R-Pharm. We are relying on R-Pharm to commercialize SCY-078 in the countries covered by our agreement with it, and if R-Pharm is not able to commercialize SCY-078 in those countries, or determines not to pursue commercialization of SCY-078 in those countries, we will not receive any milestone or royalty payments under the agreement.

We are dependent on other third-party collaborations to develop and commercialize product candidates we have outlicensed, and if our third-party collaborators are not successful in developing and commercializing product candidates we have outlicensed, we will not receive any revenue from these collaborations.

A portion of our strategy is to license to third parties rights to develop and commercialize product candidates, including candidates we have discovered other than SCY-078, and if these third parties do not perform under our agreements with them, we will not receive any revenue from these collaborations. For example, we currently have license agreements with R-Pharm to develop and commercialize SCY-078 in Russia. We are relying on these third parties to commercialize the compounds subject to the respective license agreements, and if they are not able to commercialize the compounds subject to the respective agreements, or determines not to pursue commercialization of the compounds, we will not receive any royalty payments under the agreements. If our third-party collaborators under these agreements and any future agreements we enter into do not perform under the agreements, or terminate the agreements, we will not receive the benefits we expect under the agreements.

We may not be successful in establishing and maintaining development and commercialization collaborations, which could adversely affect our ability to develop and commercialize product candidates.

Developing pharmaceutical products, conducting clinical trials, obtaining regulatory approval, establishing manufacturing capabilities and marketing approved products is expensive. Consequently, we plan to establish collaborations for development and commercialization of product candidates and research programs. For example, we currently have a development license and supply agreement with R-Pharm, pursuant to which we license to R-Pharm rights to develop and commercialize SCY-078 in the field of human health in Russia and certain smaller non-core markets, and if SCY-078 receives marketing approval, we may enter into additional sales and marketing arrangements with third parties for international sales. If we are unable to enter into any of these arrangements on acceptable terms, or at all, we may be unable to market and sell SCY-078 and any future product candidates we may seek to develop in certain markets. We expect to face competition in seeking appropriate collaborators. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement and they may require substantial resources to maintain. We may not be successful in our efforts to establish and implement collaborations or other alternative arrangements for the development of product candidates. When we partner with a third party for development and commercialization of a product candidate, we can expect to relinquish to the third party some or all of the control over the future success of that product candidate. Our collaboration partner may not devote sufficient resources to the commercialization of product candidates or may otherwise fail in their commercialization. The terms of any collaboration or other arrangement that we establish may not be favorable to us. In addition, any collaboration that we enter into may be unsuccessful in the development and commercialization of product candidates. In some

cases, we may be responsible for continuing preclinical and initial clinical development of a partnered product candidate or research program, and the payment we receive from our collaboration partner may be insufficient to cover the cost of this development. If we are unable to reach agreements with suitable collaborators for product candidates, we could face increased costs, we may be forced to limit the number of product candidates we can commercially develop or the territories in which we commercialize them and we might fail to commercialize products or programs for which a suitable collaborator cannot be found. If we fail to achieve successful collaborations, our operating results and financial condition will be materially and adversely affected.

We depend on third-party contractors for a substantial portion of our drug development activities and may not be able to control their work as effectively as if we performed these functions ourselves.

We outsource, and intend to continue to outsource, substantial portions of our drug development activities to third-party service providers, including manufacturing and the conduct of our clinical trials and various preclinical studies. Our agreements with third-party service providers and CROs are and will be on a study-by-study basis and typically short-term. In all cases, we expect to be able to terminate the agreements with notice and be responsible for the supplier's previously incurred costs.

Because we rely on third parties, our internal capacity to perform these functions is limited. Outsourcing these functions involves risk that third parties may not perform to our standards, may not produce results in a timely manner or may fail to perform at all. Even if we outsource activities, in most cases regulators will hold us responsible for the compliance of the

activities performed, and hold us responsible for oversight and monitoring of the activities. In addition, the use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated. There are a limited number of third-party service providers that have the expertise required to achieve our business objectives. Identifying, qualifying and managing performance of third-party service providers can be difficult and time consuming and could cause delays in our development programs. We currently have a small number of employees devoted to clinical development activities, which limits the internal resources we have available to identify and monitor our third-party providers. To the extent we are unable to identify, retain and successfully manage the performance of third-party service providers in the future, our business may be adversely affected.

We have no experience manufacturing product candidates on a large clinical or commercial scale. As a result, we are and will be dependent on third parties for the manufacture of SCY-078 and any future product candidates we may seek to develop, and if we experience problems with any of these third parties, the commercial manufacturing of SCY-078 and any future product candidates we may seek to develop could be delayed.

If SCY-078 is approved, the inability to manufacture sufficient commercial supplies of the drug product could adversely affect product commercialization. We do not currently have any agreements with third-party manufacturers for the long-term commercial supply of our product candidates, including SCY-078. We may encounter technical difficulties or delays in the transfer of SCY-078 manufacturing on a commercial scale to a third-party manufacturer, or may be unable to enter into agreements for commercial supply with third-party manufacturers, or may be unable to do so on acceptable terms.

We may not be able to establish additional sources of supply for SCY-078 and any future product candidates we may seek to develop. These suppliers are subject to regulatory requirements covering manufacturing, testing, quality control and record keeping relating to product candidates and are also subject to ongoing inspections by the regulatory agencies. Failure by any of our suppliers to comply with applicable regulations may result in long delays and interruptions to our product candidate supply while we seek to secure another supplier that meets all regulatory requirements.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including:

- the possible breach of the manufacturing agreements or violation of regulatory standards by the third parties because of factors beyond our control; and
- the possibility of termination or nonrenewal of the agreements by the third parties because of our breach of the manufacturing agreement or based on their own business priorities.

Any of these factors could result in delays or higher costs in connection with our clinical trials, regulatory submissions, required approvals or commercialization of SCY-078 and any future product candidates we may seek to develop.

If we fail to establish or lose our relationships with CROs, our drug development efforts could be delayed.

We are substantially dependent on third-party vendors and CROs for preclinical studies and clinical trials related to our drug discovery and development efforts. If we fail to establish or lose our relationship with any one or more of these providers, we could experience a significant delay in both identifying another comparable provider and then contracting for its services, which could adversely affect our development efforts. We may be unable to retain an alternative provider on reasonable terms, or at all. Even if we locate an alternative provider, it is likely that this provider will need additional time to respond to our needs and may not provide the same type or level of services as the original provider. In addition, any contract research organization that we retain will be subject to the FDA's

regulatory requirements and similar foreign standards and we do not have control over compliance with these regulations by these providers. Consequently, if these practices and standards are not adhered to by these providers, the development and commercialization of SCY-078 and any future product candidates we may seek to develop could be delayed, which could severely harm our business and financial condition.

#### Risks Relating to Our Intellectual Property

We were dependent on Merck for the establishment of our intellectual property rights related to SCY-078, and if Merck did not establish our intellectual property rights with sufficient scope to protect SCY-078, we may have limited or no ability to assert intellectual property rights to SCY-078.

Under our agreement with Merck, Merck was responsible for establishing the intellectual property rights to SCY-078. As we were not responsible for the establishment of our intellectual property rights to SCY-078, we have less visibility into the strength of our intellectual property rights to SCY-078 than if we had been responsible for the establishment of these rights. If Merck did not establish those rights such that they are of sufficient scope to protect SCY-078, then we may not be able to prevent others from using or commercializing SCY-078, and others may be able to assert intellectual property rights in SCY-078 and prevent us from further pursuing the development and commercialization of SCY-078.

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of SCY-078 and any future product candidates we may seek to develop and the methods used to manufacture them, as well as successfully defending these patents against third-party challenges. Our ability to stop third parties from making, using, selling, offering to sell or importing SCY-078 and any future product candidates we may seek to develop is dependent upon the extent to which we have rights under valid and enforceable patents or trade secrets that cover these activities.

The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No absolute policy regarding the breadth of claims allowed in pharmaceutical patents has emerged to date in the United States or in many foreign jurisdictions. Changes in either the patent laws or in interpretations of patent laws in the United States and foreign jurisdictions may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be enforced in the patents that we currently own or that may be issued from the applications we have filed or may file in the future or that we have licensed or may license from third parties, including Merck for SCY-078. Further, if any patents we obtain or license are deemed invalid or unenforceable, it could impact our ability to commercialize or license our technology.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make compounds that are similar to SCY-078 and any future product candidates we may seek to develop but that are not covered by the claims of our patents;
- if we encounter delays in our clinical trials, the period of time during which we could market our drug candidates under patent protection would be reduced;
- we might not have been the first to conceive, make or disclose the inventions covered by our patents or pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- any patents that we obtain may be invalid or unenforceable or otherwise may not provide us with any competitive advantages; or
- the patents of others may have a material adverse effect on our business.

Due to the patent laws of a country, or the decisions of a patent examiner in a country, or our own filing strategies, we may not obtain patent coverage for all of the product candidates that may be disclosed or methods involving these candidates that may be disclosed in the parent patent application. We plan to pursue divisional patent applications and/or continuation patent applications in the United States and many other countries to obtain claim coverage for inventions that were disclosed but not claimed in the parent patent application, but may not succeed in these efforts.

Composition of matter patents on the active pharmaceutical ingredient are generally considered to be the strongest form of intellectual property protection for pharmaceutical products, as such patents generally provide protection without regard to any method of use. We cannot be certain that the claims in our patent applications covering composition-of-matter of our drug candidates will be considered patentable by the U.S. Patent and Trademark Office, or USPTO, courts in the United States or by the patent offices and courts in foreign countries. Method of use patents protect the use of a product for the method recited in the claims. This type of patent does not prevent a competitor from making and marketing a product that is identical to our product for an indication that is outside the scope of the patented method. Moreover, even if competitors do not actively promote their product for our targeted indications, physicians may prescribe these products “off-label.” Although off-label prescriptions may infringe or contribute to or induce the infringement of method of use patents, the practice is common and such infringement is difficult to prevent

or prosecute. Interference or derivation proceedings provoked by third parties or brought by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications or those of our collaborators or licensors. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Litigation, interference, or derivation proceedings may fail, resulting in harm to our business, and, even if successful, may result in substantial costs and distract our management and other employees.

There have been numerous changes to the patent laws and proposed changes to the rules of the USPTO, which may have a significant impact on our ability to protect our technology and enforce our intellectual property rights. For example, in September 2011, President Obama signed the America Invents Act that codifies several significant changes to the U.S. patent laws, including, among other things, changing from a “first to invent” to a “first inventor to file” system, limiting where a patent holder may file a patent suit, replacing interference or “first to invent” proceedings with derivation proceedings and creating inter partes review and post-grant opposition proceedings to challenge the validity of patents after they have been issued. The effects of these changes are currently unclear as the USPTO only recently has adopted regulations implementing

the changes, the courts have yet to address most of these provisions, and the applicability of the act and new regulations on specific patents and patent applications discussed herein have not been determined and would need to be reviewed.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market in the relevant country or region, which could have a material adverse effect on our business.

We also rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, licensees, licensors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information such that our competitors may obtain it. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how, such as new therapies, including therapies for the indications we are targeting. If others seek to develop similar therapies, their research and development efforts may inhibit our ability to conduct research in certain areas and to expand our intellectual property portfolio, and also have a material adverse effect on our business.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights and we may be unable to enforce or protect our rights to, or use, our technology.

If we choose to go to court to stop another party from using the inventions claimed in any patents we obtain, that individual or company has the right to ask the court to rule that such patents are invalid or should not be enforced. These lawsuits are expensive and would consume time and resources and divert the attention of managerial and scientific personnel even if we were successful in stopping the infringement of such patents or sustaining their validity and enforceability. In addition, there is a risk that the court will decide that such patents are not valid or that we do not have the right to enforce them. There is also the risk that, even if the validity of such patents is upheld, the court will refuse to stop the other party on the grounds that such other party's activities do not infringe such patents. In addition, the United States Court of Appeals for the Federal Circuit and the Supreme Court of the United States continue to address issues under the United States patent laws, and the decisions of those and other courts could adversely affect our ability to sustain the validity of our issued or licensed patents and obtain new patents.

Furthermore, a third party may claim that we or our manufacturing or commercialization partners or customers are using inventions covered by the third party's patent rights and may go to court to stop us or our partners and/or customers from engaging in our operations and activities, including making or selling SCY-078 and any future product candidates we may seek to develop. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and scientific personnel. There is a risk that a court would decide that we or our commercialization partners or customers are infringing the third party's patents and would order us or our partners or customers to stop the activities covered by the patents. In that event, we or our commercialization partners or customers may not have a viable way around the patent and may need to halt commercialization or use of the relevant product. In addition, there is a risk that a court will order us or our partners or customers to pay the other party

damages for having violated the other party's patents or obtain one or more licenses from third parties, which may be impossible or require substantial time and expense. We cannot predict whether any license would be available at all or whether it would be available on commercially reasonable terms. Furthermore, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research or allow commercialization of our drug candidates, and we have done so from time to time. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In such events, we would be unable to further develop and commercialize one or more of our drug candidates, which could harm our business significantly. In the future, we may agree to indemnify our commercial partners and/or customers against certain intellectual property infringement claims brought by third parties which could increase our financial expense, increase our involvement in litigation and/or otherwise materially adversely affect our business.

Because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation, which could adversely affect our intellectual property rights and our business. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

The pharmaceutical and biotechnology industries have produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is



subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be able to do this. Proving invalidity or unenforceability is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, because searches and examinations of patent applications by the USPTO and other patent offices may not be comprehensive, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our patents or pending applications. Our competitors may have filed, and may in the future file, patent applications and may have obtained patents covering technology similar to ours. Any such patents or patent application may have priority over our patent applications, which could further require us to obtain or license rights to issued patents covering such technologies. If another party has obtained a U.S. patent or filed a U.S. patent application on inventions similar to ours, we may have to participate in a proceeding before the USPTO or in the courts to determine which patent or application has priority. The costs of these proceedings could be substantial, and it is possible that our application or patent could be determined not to have priority, which could adversely affect our intellectual property rights and business.

We have received confidential and proprietary information from collaborators, prospective licensees and other third parties. In addition, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have improperly used or disclosed confidential information of these third parties or our employees' former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees. If we are not successful, our ability to continue our operations and our business could be materially, adversely affected.

Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations, on our ability to hire or retain employees, or otherwise on our business.

#### Risks Related to Employee Matters and Managing Growth

We may not be able to manage our business effectively if we are unable to attract and retain key personnel.

We may not be able to attract or retain qualified management, finance, scientific and clinical personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses. Stock-based awards are critical to our ability to recruit, retain and motivate highly skilled talent. However, the trading price of our common stock as listed on the Nasdaq Global Market has traded at or below the exercise price of a significant portion of the stock options currently held by our executive officers and key employees. This may reduce the retention value of these options and we may need to grant additional stock options, make further amendments to the terms of existing option awards, or provide alternative compensation and retention programs to continue to retain our employees, especially our key employees and executive officers. If we are not able to attract and retain necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy. If we are unable to retain our current executive officers and key employees our ability to implement our business strategy successfully could be seriously harmed.

We may need to expand our operations and increase the size of our company, and we may experience difficulties in managing growth.

As we advance SCY-078 through preclinical studies, clinical trials and commercialization, we will need to increase our product development, scientific, marketing, sales and administrative headcount to manage these efforts. Our management, personnel and systems currently in place may not be adequate to support this future growth. Our need to effectively manage our operations, growth and various projects requires that we:

- successfully attract and recruit new employees with the expertise and experience we will require;
- manage our clinical programs effectively, which we anticipate being conducted at numerous clinical sites;
- develop a marketing and sales infrastructure; and
  - continue to develop our operational, financial and management controls, reporting systems and procedures.

If we are unable to successfully manage this growth, our business may be adversely affected.

## Other Risks Relating to Our Business

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.

The use of product candidates in clinical trials and the sale of any products for which we may obtain marketing approval expose us to the risk of product liability claims. Product liability claims may be brought against us or our partners by participants enrolled in our clinical trials, patients, healthcare providers or others using, administering or selling products. If we cannot successfully defend ourselves against any such claims, we would incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

- withdrawal of clinical trial participants;
- termination of clinical trial sites or entire trial programs;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- decreased demand for product candidates and loss of revenue;
- impairment of our business reputation;
  - diversion of management and scientific resources from our business operations; and
- the inability to commercialize product candidates.

We have obtained limited product liability insurance coverage for our clinical trials domestically and in selected foreign countries where we are conducting clinical trials. Our coverage is currently limited to \$5.0 million per occurrence and \$5.0 million in the aggregate per year, as well as additional local country product liability coverage for trials conducted outside of the United States as required by the local country regulations. As such, our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to product liability. We intend to expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for product candidates, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash available to develop SCY-078 and any future product candidates we may seek to develop and adversely affect our business.

Our internal computer systems, or those used by our contract research organizations or other contractors or consultants, may fail or suffer security breaches.

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

Our insurance policies are expensive and protect us only from some business risks, which will leave us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include general liability, employment practices liability, property, auto, workers' compensation, products liability and directors' and officers' insurance. We do not know, however, if we will be able to maintain existing insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our cash position and results of operations.

Our research and development activities could be affected or delayed as a result of possible restrictions on animal testing.

Certain laws and regulations require us to test our product candidates on animals before initiating clinical trials involving humans. Animal testing activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these

areas and by disrupting these activities through protests and other means. To the extent the activities of these groups are successful, our research and development activities may be interrupted, delayed or become more expensive.

#### Risks Relating to Owning Our Common Stock

The market price of our common stock may be highly volatile.

The trading price of our common stock may be volatile. The following factors, in addition to other factors described in this “Risk Factors” section and elsewhere in this report, may have a significant impact on the market price of our common stock:

- the results of our preclinical testing or clinical trials;
- the ability to obtain additional funding;
- any delay in filing an NDA or similar foreign applications for SCY-078 and any future product candidate we may seek to develop or any adverse development or perceived adverse development with respect to the FDA’s review of that NDA or a foreign regulator’s review of a similar applications;
- maintenance of our existing collaborations or ability to enter into new collaborations;
- our collaboration partners’ election to develop or commercialize product candidates under our collaboration agreements or the termination of any programs under our collaboration agreements;
- any intellectual property infringement actions in which we or our licensors and collaboration partners may become involved;
- our ability to successfully develop and commercialize future product candidates;
- changes in laws or regulations applicable to future products;
- adverse regulatory decisions;
- introduction of new products, services or technologies by our competitors;
- achievement of financial projections we may provide to the public;
- achievement of the estimates and projections of the investment community;
- the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us, our collaboration partners or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- legislation or regulation that mandates or encourages the use of generic products;
- additions or departures of key scientific or management personnel;
- significant lawsuits, including patent or stockholder litigation;
- changes in the market valuations of similar companies;
- general economic and market conditions and overall fluctuations in the U.S. equity markets;
- sales of our common stock by us, our executive officers and directors or our stockholders in the future; and
- trading volume of our common stock.

In addition, companies trading in the stock market in general, and the Nasdaq Global Market in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance.

We may identify material weaknesses in our internal controls over financial reporting.

Maintaining effective internal controls over financial reporting is necessary for us to produce accurate financial statements on a timely basis. Management continues to devote significant time, attention, and resources to maintaining and improving our internal controls. We expect to continue to incur costs associated with implementing

appropriate processes and internal controls, which could include new employee compensation costs and fees for additional audit and consulting services, which could negatively affect our financial condition and operating results.

The requirements associated with being a public company will require significant company resources and management attention.

Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we would expect to file with the SEC, and we are required to disclose material changes made in our internal controls and procedures on a quarterly basis. Company responsibilities required by the Sarbanes-Oxley Act include establishing corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent financial fraud. However, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act until we are no longer an “emerging growth company” as defined in the JOBS Act, because we are taking advantage of the exemptions contained in the JOBS Act.

If we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of operations or cash flows. If we are unable to achieve effective internal control over financial reporting, or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the Nasdaq Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

The JOBS Act will allow us to postpone the date by which we must comply with some of the laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC, which could undermine investor confidence in our company and adversely affect the market price of our common stock.

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies” including:

- the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- the “say on pay” provisions, requiring a non-binding stockholder vote to approve compensation of certain executive officers, and the “say on golden parachute” provisions, requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations, of the Dodd-Frank Act and some of the disclosure requirements of the Dodd-Frank Act relating to compensation of our chief executive officer;
- the requirement to provide detailed compensation discussion and analysis in proxy statements and reports filed under the Exchange Act, and instead provide a reduced level of disclosure concerning executive compensation; and

We currently intend to take advantage of some of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act so long as we qualify as an “emerging growth company.”

Future sales and issuances of our common stock or rights to purchase common stock could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. These sales may also result in new investors gaining rights superior to our existing stockholders.

Because we do not intend to declare cash dividends on our shares of common stock in the foreseeable future, stockholders must rely on appreciation of the value of our common stock for any return on their investment.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the future. As a result, we expect that only appreciation of the price of our common stock, if any, will provide a return to our investors for the foreseeable future. Investors seeking cash dividends should not invest in our common stock.



If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the price of our common stock and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our common stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the price of our common stock or trading volume to decline.

We have been named a defendant in a purported securities class action lawsuit. This, and potential similar or related litigation, could result in substantial damages and may divert management's time and attention from our business.

On March 8, 2017, a purported stockholder class action lawsuit was filed in the United States District Court for the District of New Jersey against us and certain of our current and former officers, captioned *Gibson v. Scynexis, Inc., et al.* The action was filed on behalf of a putative class of all persons who purchased or otherwise acquired our securities (1) pursuant or traceable to our IPO, or (2) on the open market between May 2, 2014 and March 2, 2017. It asserts claims for violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. We believe that the claims lack merit and intend to defend the litigation vigorously.

This lawsuit and any other potential related lawsuits are subject to inherent uncertainties, and the actual cost will depend upon many unknown factors. The outcome of the litigation is necessarily uncertain, we could be forced to expend significant resources in the defense of these suits and we may not prevail. Monitoring and defending against legal actions is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, we may incur substantial legal fees and costs in connection with the litigation. We are not currently able to estimate the possible cost to us from these matters, as the lawsuit is currently at an early stage and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to this lawsuit. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on this action could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position. In addition, the uncertainty of the currently pending litigation could lead to more volatility in our stock price.

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

Provisions in our amended and restated certificate of incorporation and our bylaws may delay or prevent an acquisition of us, including the ability of our board of directors to establish new series of preferred stock and issue shares of these new series, which could be used by our board of directors to oppose a hostile takeover attempt, which some stockholders may believe would be in the best interests of stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management, including the elimination of cumulative voting, inability of our stockholders to call special meetings or take action by written consent, ability of our board of directors to fill board vacancies, and ability of our board of directors to determine the size of the board of directors. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning in excess of 15% of our

outstanding voting stock from merging or combining with us. Finally, our charter documents establish advance notice requirements for nominations for election to our board of directors and for proposing matters that can be acted upon at stockholder meetings. Although we believe these provisions together provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We sublease 10,141 square feet of space located at 101 Hudson Street, Suite 3610, Jersey City, New Jersey, which consists solely of office space. The term of the sublease is scheduled to expire on July 30, 2018. On March 1, 2018, the Company entered into a long-term lease agreement for approximately 19,275 square feet of office space in Jersey City, New Jersey. The lease will commence upon the later of July 1, 2018 or the substantial completion of certain improvements to the leased space.

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**ITEM 3. LEGAL PROCEEDINGS**

On March 8, 2017, a purported stockholder class action lawsuit was filed in the United States District Court for the District of New Jersey against SCYNEXIS and certain of its current and former officers, captioned Gibson v. Scynexis, Inc., et al. The action was filed on behalf of a putative class of all persons who purchased or otherwise acquired our securities (1) pursuant or traceable to our IPO, or (2) on the open market between May 2, 2014, and March 2, 2017. It asserts claims for violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. We believe that the claims lack merit and intend to defend the litigation vigorously.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock trades on the Nasdaq Global Market under the symbol "SCYX." The following table sets forth the high and low sales prices per share of our common stock as reported on The Nasdaq Global Market for the periods indicated.

| Year Ended December 31, 2017 | High    | Low     |
|------------------------------|---------|---------|
| First Quarter                | \$ 3.82 | \$ 2.40 |
| Second Quarter               | \$ 2.94 | \$ 1.55 |
| Third Quarter                | \$ 2.48 | \$ 1.52 |
| Fourth Quarter               | \$ 2.50 | \$ 1.67 |

| Year Ended December 31, 2016 | High   | Low    |
|------------------------------|--------|--------|
| First Quarter                | \$6.60 | \$4.01 |
| Second Quarter               | \$4.62 | \$2.05 |
| Third Quarter                | \$4.35 | \$1.74 |
| Fourth Quarter               | \$5.51 | \$2.84 |

## Stockholders

As of March 1, 2018, there were approximately 68 stockholders of record of our common stock, which excludes stockholders whose shares were held in nominee or street name by brokers. The actual number of common stockholders is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

## Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our board of directors may deem relevant. Under the terms of our loan and security agreement with Solar Capital Ltd. (Solar), we may not pay any dividends or other distributions on capital stock other than dividends payable solely in capital stock without the consent of Solar.

## Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our securities during the fourth quarter of 2017.

ITEM 6. SELECTED FINANCIAL DATA

This item is not applicable to smaller reporting companies.

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

Operating results for the year ended December 31, 2017, are not necessarily indicative of results that may occur in future fiscal years. Some of the statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. These forward-looking statements are based on management's beliefs and assumptions and on information currently available to our management and involve significant elements of subjective judgment and analysis. Words such as "expects," "will," "anticipates," "targets," "intends," "plans," "believes," "sees," "estimates," "potential," "should," "could," variations of such words, and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed under the caption "Special Note Regarding Forward Looking Statements" and in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. These and many other factors could affect our future financial and operating results. We undertake no obligation to update any forward-looking statement to reflect events after the date of this Annual Report.

Overview

SCYNEXIS, Inc. is a biotechnology company committed to positively impacting the lives of patients suffering from difficult-to-treat and often life-threatening infections by delivering innovative anti-infective therapies. We are developing our lead product candidate, SCY-078, as the first representative of a novel oral and intravenous (IV) triterpenoid antifungal family in clinical development for the treatment of several serious fungal infections, including invasive candidiasis, invasive aspergillosis, refractory invasive fungal infections and vulvovaginal candidiasis (VVC). SCY-078 is a structurally distinct glucan synthase inhibitor that has been shown to be effective in vitro and in vivo against a broad range of human fungi pathogens such as *Candida* and *Aspergillus* species, including multidrug-resistant strains, as well as *Pneumocystis* species. *Candida* and *Aspergillus* species are the fungi responsible for approximately 85% of all invasive fungal infections in the United States (U.S.) and Europe. To date, we have characterized the pharmacokinetics and safety profile of oral and IV formulations of SCY-078 in multiple Phase 1 studies. In a Phase 2 study, evaluating oral SCY-078 as a step-down therapy in patients with invasive candidiasis, we confirmed that oral SCY-078 achieved the intended plasma exposure for efficacy and was well-tolerated. In another Phase 2 proof-of-concept study, evaluating oral SCY-078 in patients with VVC, we observed numerically higher clinical cure rates at test-of-cure visit and fewer recurrences of infection at the four-month follow-up when compared to oral fluconazole, the standard of care (SoC). We applied to the U.S. Food and Drug Administration (FDA) for, and received, the designation of the oral tablet and IV formulations of SCY-078 for invasive candidiasis and invasive aspergillosis as Qualified Infectious Disease Product, or QIDP, under the Generating Antibiotic Incentives Now Act, or GAIN Act. We also applied to the FDA for, and were granted, Fast Track designation for SCY-078 for these indications.

We continue to accelerate and expand our clinical programs, leveraging the versatility of the SCY-078 platform, including the potential for oral SCY-078 to be a suitable treatment for indications with significant unmet medical needs and considerable commercial opportunity.

We have operated as a public entity since we completed our initial public offering in May 2014, which we refer to as our IPO. We also completed a follow-on public offering of our common stock in April 2015 and public offerings of our common stock and warrants in June 2016 and March 2018. We have received an aggregate of \$141.2 million in net proceeds from the issuance of our common stock in these three offerings. Our principal source of liquidity is cash and cash equivalents and short-term investments, which totaled \$43.9 million as of December 31, 2017 (which does not reflect the net proceeds from our common stock and warrants in March 2018, which net proceeds were approximately \$27.8 million). In addition, during the year ended December 31, 2017, we received net proceeds of \$10.0 million (\$1.3 million in the fourth quarter) under our ATM facility.

We have incurred net losses since our inception, including the year ended December 31, 2017. As of December 31, 2017, our accumulated deficit was \$205.3 million. We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development expenses will continue to increase as we continue to execute our research and drug development strategy. We also expect that we will continue to incur selling, general and administrative expenses to support our public reporting company operations. As a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements. We may offer shares of our common stock pursuant to our Form S-3 shelf registration statement filed with the SEC on October 30, 2015 and declared effective on November 16, 2015 (Shelf Registration), including the related at-the-market (ATM) facility entered into on April 11, 2016 with Cantor Fitzgerald & Co., or Cantor.

We are an emerging growth company. Under the Jumpstart Our Business Startups Act of 2012, or JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time that those standards apply to private companies. We have irrevocably elected not to adopt this exemption from new or revised accounting standards, and therefore,

we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

## Components of Operating Results

### Revenue

Revenue consists of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm. The R-Pharm arrangement and our revenue recognition policy is described within the "Critical Accounting Policies and Significant Judgments and Estimates" section below, as well as in Note 2 to our audited financial statements for the year ended December 31, 2017, included in this Form 10-K.

### Research and Development Expense

Research and development expense consists of expenses incurred while performing research and development activities to discover, develop, or improve potential product candidates we seek to develop. This includes conducting preclinical studies and clinical trials, manufacturing and other development efforts, and activities related to regulatory filings for product candidates. We recognize research and development expenses as they are incurred. Our research and development expense primarily consists of:

- costs related to executing preclinical studies and clinical trials, including related drug formulation, manufacturing and other development;
- salaries and personnel-related costs, including benefits and any stock-based compensation for personnel performing research and development functions;
- fees paid to clinical research organizations ("CROs"), vendors, consultants and other third parties who support our product candidate development and intellectual property protection;
- other costs in seeking regulatory approval of our products; and
- allocated overhead.

SCY-078 was the only key research and development projects during the periods presented. We plan to increase our research and development expense for the foreseeable future as we continue our effort to develop SCY-078 and potentially to develop our other in-house product candidates or candidates we may acquire; subject to the availability of additional funding.

The successful development of product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs required to complete the remaining development of any product candidates. This is due to the numerous risks and uncertainties associated with the development of product candidates.

### Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of salaries and personnel-related costs, including employee benefits and any stock-based compensation. This includes personnel in executive, accounting and finance, commercial, human resources, business development, and administrative support functions. Other expenses include facility-related costs not otherwise allocated to research and development expense, professional fees for accounting, auditing, tax and legal services, consulting costs for general and administrative purposes, information systems maintenance and marketing efforts.

### Other Expense (Income)

Substantially all of our other expense (income) during the periods reported consists of costs associated with:



- fair value adjustments to our warrant liability;
- interest expense associated with our loan payable obligation;
- interest income associated with our held-to-maturity short-term investments and;
- amortization of debt discount.

Income Tax (Expense) Benefit

Income tax (expense) benefit consists of U.S. federal and state income taxes. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses. During the year ended December 31, 2017 and 2016, we did not recognize income tax expense.

## Results of Operations for the Years Ended December 31, 2017 and 2016

The following table summarizes our results of operations for the years ended December 31, 2017 and 2016, and period-to-period percentage change (dollars in thousands):

|   | Years Ended December 31, |            | Period-to-Period |          |
|---|--------------------------|------------|------------------|----------|
|   | 2017                     | 2016       | Change           |          |
| Revenue                                 | 257                      | \$257      | \$—              | —        |
| Operating expenses:                     |                          |            |                  |          |
| Research and development, net           | 18,326                   | 20,076     | (1,750)          | (8.7)%   |
| Selling, general and administrative     | 8,251                    | 7,998      | 253              | 3.2%     |
| Total operating expenses                | 26,577                   | 28,074     | (1,497)          | (5.3)%   |
| Loss from operations                    | (26,320)                 | (27,817)   | 1,497            | (5.4)%   |
| Other expense (income):                 |                          |            |                  |          |
| Amortization of debt discount           | 400                      | 100        | 300              | 300.0%   |
| Interest income                         | (386)                    | (185)      | (201)            | 108.6%   |
| Interest expense                        | 1,455                    | 351        | 1,104            | 314.5%   |
| Warrant liability fair value adjustment | (2,729)                  | 1,906      | (4,635)          | (243.2)% |
| Total other (income) expense:           | (1,260)                  | 2,172      | (3,432)          | (158.0)% |
| Net Loss                                | \$(25,060)               | \$(29,989) | \$4,929          | (16.4)%  |

Revenue. For the year ended December 31, 2017, revenue remained consistent when compared to the year ended December 31, 2016 and consisted of the continued amortization of a non-refundable upfront payment received under our collaboration arrangement with R-Pharm.

Research and Development. For the year ended December 31, 2017, research and development expenses decreased to \$18.3 million from \$20.1 million for the year ended December 31, 2016. The decrease of \$1.8 million, or 8.7%, was primarily driven by a decrease of \$1.7 million in clinical development, a decrease of \$1.3 million in chemistry, manufacturing, and controls (CMC), a decrease of \$0.6 million in consulting fees, an increase of \$0.9 million in salary and personnel related costs and an increase of \$0.9 million in other research and development expenses.

The \$1.7 million decrease in clinical development for the year ended December 31, 2017, was primarily driven by reduced clinical activities associated with the IV formulation of SCY-078 and the expense recognized for our two completed Phase 2 and drug-drug interaction studies that were all ongoing in the prior comparable period and completed in 2016, offset in part by the expense recognized for the year ended December 31, 2017 for the DOVE and FURI studies. The \$1.3 million decrease in CMC expense for the year ended December 31, 2017, was primarily driven by a decrease in our SCY-078 manufacturing costs after a new manufacturer was engaged by us in the second half of 2016. The increase in full time employees in 2017 was primarily responsible for the \$0.9 million increase in salary and personnel related costs for the year ended December 31, 2017; and as a result, we utilized less external consultants during 2017. The \$0.9 million in other research and development expenses for year ended December 31, 2017, was driven primarily by a \$0.4 million increase in regulatory expenses incurred due to costs associated with regulatory filings made in 2017; and a \$0.3 million increase in preclinical expenses associated with increased activities in 2017 to further support the planned clinical studies and regulatory activities as described within the “Overview” section in Item 1 in this Annual Report on Form 10-K, offset in part by expense incurred in 2016 for certain toxicology studies.

**Selling, General and Administrative.** For the year ended December 31, 2017, selling, general and administrative expenses increased to \$8.3 million from \$8.0 million for the year ended December 31, 2016. The increase of \$0.3 million, or 3.2%, was primarily driven by an increase of \$0.6 million in business development related activities, a \$0.3 million increase in stock-based compensation, and a net increase of \$0.2 million in other selling, general and administrative expenses; offset by a decrease of \$0.4 million in both professional and consulting expenses. The \$0.4 million decrease in professional expenses was primarily driven by the recognition of \$0.2 million in non-recurring expense in 2016 associated with the termination of the ATM offering program entered into with Cowen on November 11, 2015. The \$0.4 million decrease in consulting expenses was due to the expense recognized in 2016 associated with the transition from our former corporate headquarters.

**Amortization of Debt Discount.** For the year ended December 31, 2017, we recognized \$0.4 million in amortization of debt discount. The debt discount comprised issuance costs, customary closing and final fees, and the fair value of the warrants issued in conjunction with the Loan and Security Agreement (Loan Agreement) with Solar Capital Ltd. (Solar), in its capacity as administrative and collateral agent and as lender, entered into in September 2016.

**Interest Income.** For the year ended December 31, 2017, we recognized \$0.4 million in interest income associated with the short-term investments.

Interest Expense. For the year ended December 31, 2017, we recognized \$1.5 million in interest expense associated with the Loan Agreement with Solar.

Warrant Liability Fair Value Adjustment. On June 21, 2016, we sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of our common stock at a public offering price of \$2.40 per share of common stock sold. We accounted for these warrants as a liability instrument measured at their fair value. The fair values of these warrants have been determined using the Black-Scholes valuation model (Black-Scholes). The warrants are subject to remeasurement at each balance sheet date, using Black-Scholes, with any changes in the fair value of the outstanding warrants recognized in the accompanying statements of operation. For the year ended December 31, 2017, we recognized a \$2.7 million gain in the fair value adjustment related to the warrant liability primarily due to the decrease in our stock price during the year.

## Liquidity and Capital Resources

### Sources of Liquidity

As of December 31, 2017, we had cash and cash equivalents and short-term investments of approximately \$43.9 million, compared to \$58.6 million as of December 31, 2016. The decrease in our cash and cash equivalents and short-term investments was primarily due to the continued development costs associated with our lead product candidate, SCY-078.

On March 6, 2018, we entered into an Equity Underwriting Agreement (the Underwriting Agreement) with Guggenheim Securities, LLC, representative of the several underwriters, relating to the offering, issuance and sale of (a) 17,751,500 shares of the Company's common stock, par value \$0.001 per share and (b) two series of warrants to purchase up to an aggregate of 21,301,800 shares of the Company's common stock which resulted in approximately \$27.8 million of net proceeds after deducting the underwriting discount and estimated offering expenses

We have incurred net losses since our inception, including the year ended December 31, 2017. As of December 31, 2017, our accumulated deficit was \$205.3 million. We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development expenses will continue to increase and we will continue to incur selling, general and administrative expenses to support our operations. As a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements. We may offer shares of our common stock pursuant to our Form S-3 shelf registration statement filed with the SEC on October 30, 2015 and declared effective on November 16, 2015, including the related at-market-facility entered into on April 11, 2016 with Cantor.

### Cash Flows

The following table sets forth the significant sources and uses of cash for the years ended December 31, 2017 and 2016 (dollars in thousands):

|                                       | Years Ended  |          |
|---------------------------------------|--------------|----------|
|                                       | December 31, |          |
|                                       | 2017         | 2016     |
| Cash and cash equivalents, January 1  | \$35,656     | \$46,985 |
| Net cash used in operating activities | (24,556)     | (29,353) |

|   |          |          |
|---|----------|----------|
| Net cash used in investing activities     | (9,620 ) | (22,472) |
| Net cash provided by financing activities | 9,989    | 40,496   |
| Net decrease in cash and cash equivalents | (24,187) | (11,329) |
| Cash and cash equivalents, December 31    | \$11,469 | \$35,656 |

### Operating Activities

The \$4.8 million decrease in net cash used in operating activities for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was primarily due to decreases in costs associated with SCY-078 development efforts. We expect that our research and development expenses will increase as we pursue our SCY-078 development efforts described in the "Overview" section above and we expect we will continue to incur selling, general and administrative expenses to support our operations.

Net cash used in operating activities of \$24.6 million for the year ended December 31, 2017, primarily consisted of the \$25.1 million net loss adjusted for non-cash charges that included the gain on change in fair value of the warrant liability of \$2.7 million and stock-based compensation expense of \$1.7 million, plus a net favorable change in operating assets and liabilities of \$1.0 million. The net favorable change in operating assets and liabilities included an increase in accounts payable and accrued expenses of \$2.1 million and an increase in prepaid expenses, other assets, and deferred costs of \$0.8 million. The increase in prepaid expenses, other assets, and deferred costs is primarily due to a \$0.6 million increase in long term prepaid SCY-078 development services.

Net cash used in operating activities of \$29.4 million for the year ended December 31, 2016, primarily consisted of the \$30.0 million net loss adjusted for non-cash charges that included the non-cash component for the change in fair value of warrant liability of \$1.9 million and stock-based compensation expense of \$1.2 million, and a net unfavorable change in operating assets and liabilities of \$3.0 million. The net unfavorable change in operating assets and liabilities included a decrease in accrued but unpaid severance and retention costs of \$2.6 million, a decrease in deferred revenue of \$0.3 million, and a decrease in accounts payable and other accrued expenses of \$0.3 million. The decrease in accrued but unpaid severance and retention costs was primarily due to payments made for remaining compensatory obligations.

#### Investing Activities

Net cash used in investing activities of \$9.6 million for the year ended December 31, 2017, consisted primarily of purchases and maturities of short-term investments of \$78.4 million and \$68.8 million, respectively.

Net cash used in investing activities of \$22.5 million for the year ended December 31, 2016, consisted of \$35.5 million of investment purchases, partially offset by the maturity of investments of \$12.3 million, maturity of a security posted as collateral for our corporate credit card program of \$0.3 million, and the receipt of an escrow receivable associated with the sale of the Services Business of \$0.5 million.

#### Financing Activities

Net cash provided by financing activities of \$10.0 million for the year ended December 31, 2017, consisted of gross proceeds from common stock issued under the Shelf Registration of \$10.3 million, partially offset by related underwriting discounts and commissions and offering expenses totaling \$0.3 million.

Net cash provided by financing activities of \$40.5 million for the year ended December 31, 2016, consisted of gross proceeds from common stock and warrants issued under the Shelf Registration of \$28.1 million, partially offset by related underwriting discounts and commissions and offering expenses totaling \$2.0 million, and net proceeds of \$14.4 million from our Loan Agreement.

#### Future Funding Requirements

To date, we have not generated any revenue from product sales. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize SCY-078. In addition, we expect our expenses to increase in connection with our ongoing development activities, particularly as we continue the research, development and clinical trials of, and seek regulatory approval for, product candidates. We anticipate that we will need substantial additional funding in connection with our continuing future operations.

Based upon our existing operating plan (and accounting for the planned activities intended to address FDA questions and potentially lift the clinical hold on the IV formulation of SCY-078, including the cost of an additional Phase 1 study), we believe that our existing cash and cash equivalents and short-term investments will enable us to fund our operating requirements into 2020. We are currently evaluating our operating plan and assessing the potential cash utilization impact of our updated SCY-078 development strategy. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development of product candidates.

Our future capital requirements will depend on many factors, including:

- the progress, costs, and the clinical research and development of SCY-078;
- the outcome, costs and timing of seeking and obtaining FDA and any other regulatory approvals;
- the ability of our product candidates to progress through clinical development successfully;
- our need to expand our research and development activities;
- the costs associated with securing, establishing and maintaining commercialization and manufacturing capabilities;
- our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;
- our need and ability to hire additional management and scientific and medical personnel;
- the costs associated with our securities litigation, and the outcome of that litigation;
- our need to implement additional, as well as to enhance existing, internal systems and infrastructure, including financial and reporting processes and systems; and

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the economic and other terms, timing and success of our existing licensing arrangements and any collaboration, licensing or other arrangements into which we may enter in the future.

Until such time, if ever, as we can generate substantial revenue from product sales, we expect to finance our cash needs through a combination of net proceeds from equity offerings, debt financings, or other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities as we did in April 2015, June 2016, and March 2018, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, similar to the Loan Agreement with Solar that closed on September 30, 2016, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through sales of assets, other third-party funding, strategic alliances and licensing or collaboration arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

#### Contractual Obligations, Commitments and Contingencies

Our commitments and contingencies, including payment obligations under license agreements that are contingent upon future events such as our achievement of specified development, regulatory and commercial milestones, have been disclosed in Notes 6 and 7 of our audited financial statements for the year ended December 31, 2017, included in this Form 10-K.

In addition to those obligations, commitments and contingencies set forth in Notes 6 and 7, we have and will continue to enter into contracts in the normal course of business with various third parties who support our clinical trials, support our preclinical research studies, and provide other services related to our operating purposes. These contracts generally provide for termination or cancellation within 30 days of notice.

#### Off-Balance Sheet Arrangements

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

#### Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements, as well as the reported revenues and expenses during the reported periods. We evaluate these estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our financial statements for the year ended December 31, 2017, included in this annual report, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements and understanding and evaluating our reported financial results.



## Revenue Recognition and Deferred Revenue

We have entered into collaboration and licensing agreements in which multiple elements exist, including the sale or license of intellectual property and the provision of services, in exchange for non-refundable upfront payments and consideration as services are performed. Under these arrangements, we are also entitled to receive development milestones and royalties in the form of a designated percentage of product sales. We classify non-refundable upfront payments, milestone payments and royalties received under collaboration and licensing agreements as revenues within our statements of operations because we view such activities as being central to our business operations.

We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred or we have provided the service, the fees are fixed and determinable and collectability is reasonably assured. We record amounts received prior to satisfying the above revenue recognition criteria as deferred revenue until all applicable revenue recognition criteria are met.

Non-refundable upfront fees are recorded as deferred revenue and recognized into revenue as license fees from collaborations on a straight-line basis over the estimated period of our substantive performance obligations. If we do not have substantive performance obligations, we recognize non-refundable upfront fees into revenue through the date the deliverable is satisfied. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation.

We will recognize a milestone payment as revenue when earned if it is substantive and we have no ongoing performance obligations related to the milestone. A milestone payment is considered substantive if it: 1) is commensurate with either our performance to achieve the milestone or the enhanced value of the delivered item as a result of a specific outcome from our performance to achieve the milestone; 2) relates solely to past performance; and 3) is reasonable relative to all of the deliverables and payment terms, including other potential milestone consideration, within the arrangement.

We have received several non-refundable upfront payments under certain licensing and collaboration arrangements that contain substantive prospective performance obligations that we are providing to our licensees or collaboration partners over defined or estimated service or relationship periods. Because these arrangements contained substantive performance obligations, the non-refundable upfront payments are being recognized over the service periods of each respective arrangement. Revenue recognized under these non-refundable upfront payments are described further in Note 2 to our audited financial statements for the year ended December 31, 2017, included in this annual report.

#### Research and Development Accruals

We are required to estimate our expenses resulting from our obligations under contracts with CROs, clinical site agreements, vendors, and consultants in connection with conducting SCY-078 clinical trials and preclinical studies and other development activities. The financial terms of these contracts are subject to negotiations which vary from contract to contract, and may result in payment flows that do not match the periods over which materials or services are provided to us under such contracts. Our objective is to reflect the appropriate development and trial expenses in our financial statements by matching those expenses with the period in which the services and efforts are expended by our service providers.

For clinical trials, we account for these expenses according to the progress of the trial as measured by actual hours expended by CRO personnel, investigator performance or completion of specific tasks, patient progression, or timing of various aspects of the trial. For preclinical development services performed by outside service providers, we determine accrual estimates through financial models, taking into account development progress data received from outside service providers and discussions with our knowledgeable internal personnel and service provider personnel. During the course of a clinical trial or preclinical study or development project, we adjust our rate of trial or project expense recognition if actual results differ from our estimates. We make estimates of our accrued expenses as of each balance sheet date within our financial statements based on the facts and circumstances known to us at that time. Our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in our reporting changes in estimates in any particular period. We have not experienced any significant adjustments to our estimates to date.

#### Stock-Based Compensation

We record the fair value of stock options issued as of the grant date as compensation expense. We recognize compensation expense over the requisite service period, which is equal to the vesting period.

Stock-based compensation expense has been reported in our statements of operations as follows (dollars in thousands):

| Years Ended  |      |
|--------------|------|
| December 31, |      |
| 2017         | 2016 |

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|                                     |         |         |
|-------------------------------------|---------|---------|
| Research and development            | \$458   | \$299   |
| Selling, general and administrative | 1,204   | 911     |
| Total                               | \$1,662 | \$1,210 |

On December 31, 2017, the aggregate intrinsic value of outstanding options to purchase shares of our common stock was \$0.2 million, based upon the \$2.32 closing sales price per share of our common stock as reported on the Nasdaq Global Market on that date.

#### Determination of the Fair Value of Stock-based Compensation Grants

We calculate the fair value of stock-based compensation arrangements using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the use of subjective assumptions, including volatility of our common stock, the expected term of our stock options, the risk free interest rate for a period that approximates the expected term of our stock options, and the fair value of the underlying common stock on the date of grant. In applying these assumptions, we considered the following factors:

- we do not have sufficient history to estimate the volatility of our common stock price. We estimate expected volatility based on reported data for selected reasonably similar publicly traded companies for which the historical information is available. For the purpose of identifying peer companies, we consider characteristics such as industry, length of trading history, similar vesting terms and in-the-money option status. We plan to continue to use the guideline peer group volatility information until the historical volatility of our common stock is relevant to measure expected volatility for future option grants;

- the assumed dividend yield is based on our expectation of not paying dividends on our underlying common stock for the foreseeable future;
- we determine the average expected life of stock options based on the simplified method in accordance with SEC Staff Accounting Bulletin Nos. 107 and 110, as our common stock has a limited trading history. We expect to use the simplified method until we have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term;
- we determine the risk-free interest rate by reference to implied yields available from U.S. Treasury securities with a remaining term equal to the expected life assumed at the date of grant; and
- we recognize forfeitures as they are incurred.

The assumptions used in the Black-Scholes option-pricing model for the years ended December 31, 2017 and 2016 are set forth below:

| Employee Stock Options                    | Years Ended  |        |
|---|--------------|--------|
|   | December 31, |        |
|   | 2017         | 2016   |
| Weighted average risk-free interest rate  | 2.07 %       | 1.48 % |
| Weighted average expected term (in years) | 6.04         | 6.08   |
| Weighted average expected volatility      | 51.38%       | 67.18% |
| Expected dividend yield                   | —            | —      |
| Forfeiture rate                           | —            | 5.00 % |

| Non-Employee Director Stock Options       | Years Ended  |        |
|---|--------------|--------|
|   | December 31, |        |
|   | 2017         | 2016   |
| Weighted average risk-free interest rate  | 2.01 %       | 1.41 % |
| Weighted average expected term (in years) | 5.37         | 5.30   |
| Weighted average expected volatility      | 53.86%       | 67.61% |
| Expected dividend yield                   | —            | —      |
| Forfeiture rate                           | —            | 5.00 % |

#### Fair Value Adjustments to Warrant Liability

On June 21, 2016, we sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of our common stock under the Shelf Registration at a public offering price of \$2.40 per share of common stock sold. We accounted for these warrants as a liability instrument measured at its fair value. The fair values of these warrants have been determined using the Black-Scholes valuation model. We estimate expected volatility using a weighted average based on the volatility of reasonably similar publicly traded companies for which the historical information is available and the historical volatility of our common stock price. We plan to continue to use the guideline peer group volatility information until the historical volatility of our common stock is relevant to measure expected volatility. We determine the risk-free interest rate by reference to implied yields available from U.S. Treasury securities and utilize the remaining term of the warrant as the expected term.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

This item is not applicable to smaller reporting companies.



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of SCYNEXIS, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of SCYNEXIS, Inc. (the "Company") as of December 31, 2017 and 2016, the related statements of operations, changes in stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

March 13, 2018

We have served as the Company's auditor since 2000.





SCYNEXIS, INC.

## BALANCE SHEETS

(in thousands, except share and per share data)

|   | December 31, 2017 | December 31, 2016 |
|---|-------------------|-------------------|
| <b>Assets</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and cash equivalents   | \$ 11,469         | \$ 35,656         |
| Short-term investments  | 32,424            | 22,930            |
| Prepaid expenses and other current assets                                 | 1,067             | 741               |
| Total current assets  | 44,960            | 59,327            |
| Other assets  | 576               | 120               |
| Deferred offering costs   | 314               | 345               |
| Total assets  | \$ 45,850         | \$ 59,792         |
| <b>Liabilities and stockholders' equity</b>                               |                   |                   |
| Current liabilities:  |                   |                   |
| Accounts payable  | \$ 3,833          | \$ 2,192          |
| Accrued expenses  | 1,705             | 1,268             |
| Deferred revenue, current portion   | 257               | 257               |
| Loan payable, current portion   | 4,349             | —                 |
| Total current liabilities   | 10,144            | 3,717             |
| Deferred revenue, non-current   | 121               | 378               |
| Deferred rent   | —                 | 25                |
| Warrant liability   | 3,872             | 6,601             |
| Loan payable, long term   | 10,303            | 14,252            |
| Total liabilities   | 24,440            | 24,973            |
| Commitments and contingencies   |                   |                   |
| Stockholders' equity:   |                   |                   |
| Preferred stock, \$0.001 par value, authorized 5,000,000 shares as of     |                   |                   |
| December 31, 2017 and December 31, 2016; 0 shares issued and outstanding  | —                 | —                 |
| as of December 31, 2017 and December 31, 2016                             |                   |                   |
| Common stock, \$0.001 par value, authorized 125,000,000 shares as of      |                   |                   |
| December 31, 2017 and December 31, 2016; 28,971,651 and 24,609,411 shares | —                 | —                 |
| issued and outstanding as of December 31, 2017, and December 31, 2016,    |                   |                   |
| respectively  | 29                | 24                |
| Additional paid-in capital  | 226,631           | 214,918           |
| Accumulated deficit   | (205,250)         | (180,123)         |
| Total stockholders' equity  | 21,410            | 34,819            |

|  |           |           |
|--|-----------|-----------|
| Total liabilities and stockholders' equity | \$ 45,850 | \$ 59,792 |
|--|-----------|-----------|

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

SCYNEXIS, INC.

## STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

|  | Years Ended December 31, |             |
|--|--------------------------|-------------|
|  | 2017                     | 2016        |
| Revenue  | 257                      | \$257       |
| Operating expenses:  |                          |             |
| Research and development, net                                  | 18,326                   | 20,076      |
| Selling, general and administrative                            | 8,251                    | 7,998       |
| Total operating expenses                                       | 26,577                   | 28,074      |
| Loss from operations   | (26,320 )                | (27,817 )   |
| Other expense (income):  |                          |             |
| Amortization of debt discount                                  | 400                      | 100         |
| Interest income  | (386 )                   | (185 )      |
| Interest expense   | 1,455                    | 351         |
| Warrant liability fair value adjustment                        | (2,729 )                 | 1,906       |
| Total other (income) expense:                                  | (1,260 )                 | 2,172       |
| Net loss   | \$(25,060 )              | \$(29,989 ) |
| Net loss per share – basic and diluted                         | \$(0.94 )                | \$(1.58 )   |
| Weighted average common shares outstanding – basic and diluted | 26,746,322               | 19,035,299  |

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

SCYNEXIS, INC.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)

|   | Shares of  | Additional |            |               | Total         |
|---|------------|------------|------------|---------------|---------------|
|   | Common     | Common     | Paid-in    | Accumulated   | Stockholders' |
|   | Stock      | Stock      | Capital    | Deficit       | Equity        |
| Balances as of December 31, 2015                              | 13,905,599 | \$ 14      | \$ 192,069 | \$ (150,134 ) | \$ 41,949     |
| Net loss  | —          | —          | —          | (29,989 )     | (29,989 )     |
| Stock-based compensation expense                              | —          | —          | 1,210      | —             | 1,210         |
| Debt discount for Solar Warrant                               | —          | —          | 244        | —             | 244           |
| Common stock issued through employee stock purchase plan      | 7,356      | —          | 19         | —             | 19            |
| Common stock issued under Shelf Registration, net of expenses | 10,696,456 | 10         | 21,376     | —             | 21,386        |
| Balances as of December 31, 2016                              | 24,609,411 | \$ 24      | \$ 214,918 | \$ (180,123 ) | \$ 34,819     |
| Cumulative stock-based compensation forfeiture adjustment     | —          | —          | 67         | (67 )         | —             |
| Net loss  | —          | —          | —          | (25,060 )     | (25,060 )     |
| Stock-based compensation expense                              | —          | —          | 1,662      | —             | 1,662         |
| Common stock issued through employee stock purchase plan      | 18,132     | —          | 35         | —             | 35            |
| Common stock issued under Shelf Registration, net of expenses | 4,344,108  | 5          | 9,949      | —             | 9,954         |
| Balances as of December 31, 2017                              | 28,971,651 | \$ 29      | \$ 226,631 | \$ (205,250 ) | \$ 21,410     |

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

SCYNEXIS, INC.

## STATEMENTS OF CASH FLOWS

(in thousands)

|   | Years Ended<br>December 31, |            |
|---|-----------------------------|------------|
|   | 2017                        | 2016       |
| Cash flows from operating activities:                                       |                             |            |
| Net loss  | \$(25,060)                  | \$(29,989) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                             |            |
| Write off of deferred offering costs  | —                           | 111        |
| Depreciation  | 41                          | 26         |
| Stock-based compensation expense  | 1,662                       | 1,210      |
| Amortization of investment premium  | 124                         | 315        |
| Amortization of debt discount   | 400                         | 100        |
| Change in fair value of Warrant Liability                                   | (2,729 )                    | 1,906      |
| Changes in deferred rent  | (25 )                       | 1          |
| Changes in operating assets and liabilities:                                |                             |            |
| Prepaid expenses, other assets, and deferred costs                          | (790 )                      | 172        |
| Accounts payable and accrued expenses                                       | 2,078                       | (309 )     |
| Accrued severance and retention cost obligations                            | —                           | (2,639 )   |
| Deferred revenue  | (257 )                      | (257 )     |
| Net cash used in operating activities                                       | (24,556)                    | (29,353)   |
| Cash flows from investing activities:                                       |                             |            |
| Maturities of investments   | 68,819                      | 12,300     |
| Proceeds from sale of Services Business                                     | —                           | 500        |
| Maturity of a security  | —                           | 300        |
| Purchases of property and equipment   | (2 )                        | (27 )      |
| Purchase of investments   | (78,437)                    | (35,545)   |
| Net cash used in investing activities                                       | (9,620 )                    | (22,472)   |
| Cash flows from financing activities:                                       |                             |            |
| Proceeds from common stock issued   | 10,287                      | 28,077     |
| Proceeds from Loan Agreement  | —                           | 15,000     |
| Payments of Loan Agreement issuance costs                                   | —                           | (604 )     |
| Payments of offering costs and underwriting discounts and commissions       | (333 )                      | (1,996 )   |
| Proceeds from employee stock purchase plan issuances                        | 35                          | 19         |
| Net cash provided by financing activities                                   | 9,989                       | 40,496     |
| Net decrease in cash and cash equivalents                                   | (24,187)                    | (11,329)   |
| Cash and cash equivalents, beginning of period                              | 35,656                      | 46,985     |
| Cash and cash equivalents, end of period                                    | \$11,469                    | \$35,656   |
| Supplemental cash flow information:   |                             |            |
| Cash paid for interest  | \$1,455                     | \$351      |
| Cash received for interest  | \$513                       | \$478      |
| Noncash financing and investing activities:                                 |                             |            |
| Deferred offering costs reclassified to additional paid-in capital          | \$31                        | \$79       |

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

SCYNEXIS, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Description of Business and Basis of Preparation

#### Organization

SCYNEXIS, Inc. ("SCYNEXIS" or the "Company") is a Delaware corporation formed on November 4, 1999. SCYNEXIS is a biotechnology company, headquartered in Jersey City, New Jersey, committed to positively impacting the lives of patients suffering from difficult-to-treat and often life-threatening infections by delivering innovative anti-infective therapies. The Company is developing its lead product candidate, SCY-078, as the first representative of a novel oral and intravenous triterpenoid antifungal family for the treatment of several fungal infections, including serious and life-threatening invasive fungal infections.

The Company has incurred losses and negative cash flows from operations since its initial public offering ("IPO") in May 2014 and expects to continue to incur losses. The Company's liquidity over the next 12 months could be materially affected by, among other things: its ability to raise capital through equity offerings, debt financings, other non-dilutive third-party funding (e.g., grants), strategic alliances and licensing or collaboration arrangements; key SCY-078 development and regulatory events; costs related to its development of SCY-078; and other factors.

#### Initial Public Offering

On May 7, 2014, the Company completed an initial public offering ("IPO") of its common stock. The Company sold an aggregate of 6,200,000 shares of common stock under the registration statement on Form S-1 declared effective by the Securities and Exchange Commission ("SEC") on May 2, 2014, at a public offering price of \$10.00 per share. Net proceeds were \$54.6 million, after deducting underwriting discounts and commissions of \$3.3 million and offering expenses of \$4.1 million. Upon the completion of the IPO, all outstanding shares of the Company's convertible preferred stock were automatically converted into 1,691,884 shares of common stock and certain outstanding warrants were exercised for an additional 275,687 shares of common stock. In connection with the consummation of the IPO, the Company repaid outstanding debt with a principal balance of \$15.0 million, plus all accrued interest, to the holder of such debt, which was outstanding pursuant to a credit agreement referred to herein as the 2013 Credit Agreement.

#### April 2015 Follow-On Public Offering

On April 28, 2015, the Company completed a follow-on public offering (the "April 2015 Offering") of its common stock. The Company sold an aggregate of 5,376,622 shares of common stock at a public offering price of \$7.70 per share. Net proceeds were approximately \$38.0 million, after deducting underwriting discounts and commissions and offering expenses of approximately \$3.4 million.

#### Shelf Registration Filing

On October 30, 2015, the Company filed a shelf registration statement on Form S-3 with the SEC which was declared effective on November 16, 2015. The registration statement contained two prospectuses:

a base prospectus which covers the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$150.0 million of the Company's common stock, preferred stock, debt securities and warrants, including common stock or preferred stock issuable upon conversion of debt securities, common stock issuable upon

conversion of preferred stock, or common stock, preferred stock or debt securities issuable upon the exercise of warrants (the "Shelf Registration"), and

■ a prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$40.0 million of the Company's common stock that may be issued and sold under a sales agreement with Cowen and Company, LLC ("Cowen"). On April 10, 2016, the Company terminated the sales agreement with Cowen and on April 11, 2016, entered into a Controlled Equity Offering Sales Agreement<sup>SM</sup> (the "Sales Agreement") with Cantor Fitzgerald & Co. ("Cantor"). Pursuant to the Sales Agreement, the Company may sell from time to time, at its option, up to an aggregate of \$40.0 million of the Company's common stock, through Cantor, as sales agent (the "ATM Offering"). Pursuant to the Sales Agreement, sales of the common stock, if any, will be made under the Company's previously filed and currently effective registration statement on Form S-3 (File No. 333-207705).

The common stock that may be offered, issued and sold by the Company under the Sales Agreement is included in the \$150.0 million of securities that may be offered, issued and sold by the Company under the base prospectus. Upon termination of the Sales Agreement with Cantor, any portion of the \$40.0 million included in the Sales Agreement that is not sold pursuant to the Sales Agreement will be available for sale in other offerings pursuant to the base prospectus and a corresponding prospectus supplement, and if no shares are sold under the Sales Agreement, the full \$150.0 million of securities may be sold in other offerings pursuant to the base prospectus.



### June 2016 Public Offering

On June 21, 2016, the Company completed a public offering (the "June 2016 Public Offering") of its common stock and warrants pursuant to the Company's effective Shelf Registration. The Company sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of the Company's common stock at a public offering price of \$2.40 per share. The warrant exercise price is \$3.00 per share. Net proceeds from the June 2016 Public Offering were approximately \$20.8 million, after deducting underwriting discounts and commissions and offering expenses of approximately \$1.7 million. See Note 8 for further details.

### Loan and Security Agreement

On September 30, 2016, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Solar Capital Ltd. ("Solar"), in its capacity as administrative and collateral agent and as lender. Pursuant to the Loan Agreement, Solar is providing the Company with a 48-month secured term loan in the amount of \$15.0 million (the "Term Loan") and the Term Loan matures on September 30, 2020 (the "Maturity Date"). See Note 6 for further details.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: Determination of the fair value of stock-based compensation grants; the estimate of services and effort expended by third-party research and development service providers used to recognize research and development expense; and the estimates and assumptions utilized in measuring the warrant liability fair value each reporting period.

## 2. Summary of Significant Accounting Policies

### Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of cash on deposit and cash equivalents held with one bank which exceed FDIC insured limits. Ongoing credit evaluations of the customer's financial condition are performed and independent credit ratings for the associated bank are reviewed by the Company and collateral is not required. The Company's money market fund investment (recognized as cash and cash equivalents) is with what the Company believes to be a high quality issuer. The Company has not experienced any losses in such account.

Revenue recognized from a non-refundable upfront payment from R-Pharm, CJSC ("R-Pharm"), a collaboration partner (see Note 13), accounted for 100% of the Company's revenue for the years ended December 31, 2017 and 2016. No other parties contributed to the Company's revenue in 2017 and 2016.

### Cash and Cash Equivalents

The Company considers any highly liquid investments with a remaining maturity of three months or less when purchased to be cash and cash equivalents.

### Short-Term Investments

The Company's held-to-maturity investments in U.S. government securities, commercial paper, and its overnight repurchase agreement are carried at amortized cost and any premiums or discounts are amortized or accreted through

the maturity date of the investment. Any impairment that is not deemed to be temporary is recognized in the period identified.

#### Deferred Offering Costs

Deferred offering costs are expenses directly related to the IPO, the April 2015 Offering, or the Company's Shelf Registration (see Note 1). These costs consist of legal, accounting, printing, and filing fees that the Company has capitalized, including fees incurred by the independent registered public accounting firm directly related to the offerings. The IPO deferred offering costs were offset against the IPO proceeds in May 2014 and were reclassified to additional paid-in capital upon completion of the IPO. Deferred costs associated with the April 2015 Offering were offset against the proceeds from the April 2015 Offering and were reclassified to additional paid-in capital upon completion of the April 2015 Offering. Deferred costs associated with the Shelf Registration will be reclassified to additional paid in capital on a pro-rata basis in the event the Company completes an offering under the Shelf Registration, with any remaining deferred offering costs charged to the results of operations at the end of the three-year life of the Shelf Registration. As of December 31, 2017 and 2016, the amount capitalized as deferred offering costs was \$0.3 million.

#### Warrant Liability

On June 21, 2016, the Company sold an aggregate of 9,375,000 shares of common stock and warrants to purchase up to 4,218,750 shares of the Company's common stock under the Shelf Registration at a public offering price of \$2.40 per share

of common stock sold. The Company accounted for these warrants as a liability instrument measured at its fair value. The fair values of these warrants have been determined using the Black-Scholes valuation model ("Black-Scholes"). The warrants are subject to remeasurement at each balance sheet date, using Black-Scholes, with any changes in the fair value of the outstanding warrants recognized in the accompanying statements of operation. See Note 8 for further details.

#### Comprehensive Loss

The Company has no items of comprehensive income or loss other than net loss.

#### Revenue Recognition and Deferred Revenue

The Company has entered into collaboration arrangements in exchange for non-refundable upfront payments and consideration as services are performed. These arrangements include multiple elements, such as the sale of licenses and the provision of services. Under these arrangements, the Company also is entitled to receive development milestone payments and royalties in the form of a designated percentage of product sales. The Company classifies non-refundable upfront payments, milestone payments and royalties received under collaboration and licensing agreements as revenues within its statements of operations because the Company views such activities as being central to its business operations.

Revenue is recognized when all of the following conditions are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) fees are fixed or determinable; and (iv) collection of fees is reasonably assured.

When entering into an arrangement, the Company first determines whether the arrangement includes multiple deliverables and is subject to accounting guidance in ASC subtopic 605-25, Multiple-Element Arrangements. If the Company determines that an arrangement includes multiple elements, it determines whether the arrangement should be divided into separate units of accounting and how the arrangement consideration should be measured and allocated among the separate units of accounting. An element qualifies as a separate unit of accounting when the delivered element has standalone value to the customer. The Company's arrangements do not include a general right of return relative to delivered elements. Any delivered elements that do not qualify as separate units of accounting are combined with other undelivered elements within the arrangement as a single unit of accounting. If the arrangement constitutes a single combined unit of accounting, the Company determines the revenue recognition method for the combined unit of accounting and recognizes the revenue over the period from inception through the date the last deliverable within the single unit of accounting is delivered.

Non-refundable upfront license fees are recorded as deferred revenue and recognized into revenue on a straight-line basis over the estimated period of the Company's substantive performance obligations. If the Company does not have substantive performance obligations, the Company recognizes non-refundable upfront fees into revenue through the date the deliverable is satisfied. Analyzing the arrangement to identify deliverables requires the use of judgment and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. In arrangements that include license rights and other non-contingent deliverables, such as participation in a steering committee, these deliverables do not have standalone value because the non-contingent deliverables are dependent on the license rights. That is, the non-contingent deliverables would not have value without the license rights, and only the Company can perform the related services. Upfront license rights and non-contingent deliverables, such as participation in a steering committee, do not have standalone value as they are not sold separately and they cannot be resold. In addition, when non-contingent deliverables are sold with upfront license rights, the license rights do not represent the culmination of a separate earnings process. As such, the Company accounts for the license and the non-contingent deliverables as a single combined unit of accounting. In such instances, the license revenue in the form

of non-refundable upfront payments is deferred and recognized over the applicable relationship period, which historically has been the estimated period of the Company's substantive performance obligations or the period the rights granted are in effect. The Company recognizes contingent event-based payments under license agreements when the payments are received. The Company has not received any royalty payments to date.

The Company will recognize a milestone payment as revenue when earned if it is substantive and the Company has no ongoing performance obligations related to the milestone. A milestone payment is considered substantive if it: 1) is commensurate with either the Company's performance to achieve the milestone or the enhanced value of the delivered item as a result of a specific outcome from the Company's performance to achieve the milestone; 2) relates solely to past performance; and 3) is reasonable relative to all of the deliverables and payment terms, including other potential milestone consideration, within the arrangement.

Amounts received prior to satisfying all revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets.

The Company's deferred revenue includes a non-refundable upfront payment received under a licensing and collaboration arrangement that contains substantive prospective performance obligations that the Company is providing over respective defined service or estimated relationship periods. Such non-refundable upfront payments are recognized over these defined service or estimated relationship periods. The Company received a non-refundable upfront payment of \$1.5 million

from R-Pharm in August 2013 which is being recognized over a period of 70 months. The Company recognized revenue from this upfront payment of \$0.3 million for the years ended December 31, 2017 and 2016.

In July 2016, the Company entered into an Asset Purchase agreement with UK-based Cypralis Limited (or "Cypralis"), a life sciences company, for the sale of its cyclophilin inhibitor assets. Cypralis also acquired all patents, patent applications and know-how related to the acquired portfolio. In connection with the Asset Purchase agreement, the Company is eligible to receive milestone payments upon the successful progression of Cypralis clinical candidates into later stage clinical studies and royalties payable upon product commercialization. The Company retains the right to repurchase the portfolio assets from Cypralis if abandoned or deprioritized. For the year ended December 31, 2017, there was no revenue recognized associated with this agreement.

#### Collaboration Arrangements

The Company assesses its contractual arrangements, and presents costs incurred and payments received under contractual arrangements, in accordance with FASB ASC 808, Collaborative Arrangements (Topic 808), when the Company determines that the contractual arrangement includes a joint operating activity, has active participation by both parties, and both parties are subject to significant risks and rewards under the arrangement. When reimbursement payments are due to the Company under a collaborative arrangement within the scope of Topic 808, the Company determines the appropriate classification for each specific reimbursement payment in the statements of operations by considering (i) the nature of the arrangement, (ii) the nature of the Company's business operations, and (iii) the contractual terms of the arrangement.

The Company has concluded that the August 2013 development, license, and supply agreement with R-Pharm, combined with the supplemental arrangement in November 2014, is a collaborative arrangement pursuant to Topic 808 and the Company's previously described accounting policy. This agreement and supplemental arrangement is further described in Note 13. The reimbursements due from R-Pharm for specified research and development costs incurred by the Company are classified as a reduction to research and development expense in the accompanying statements of operations. The reimbursements due to the Company are recorded as a reduction of expense when (i) the reimbursable expenses have been incurred by the Company, (ii) persuasive evidence of a cost reimbursement arrangement exists, (iii) reimbursable costs are fixed or determinable, and (iv) the collection of the reimbursement payment is reasonably assured. Unpaid reimbursement amounts due from R-Pharm at period end are presented as an other asset in the accompanying balance sheets.

#### Research and Development

Major components of research and development costs include clinical trial activities and services, including related drug formulation, manufacturing, and other development, preclinical studies, cash compensation, stock-based compensation, fees paid to consultants and other entities that conduct certain research and development activities on the Company's behalf, materials and supplies, legal services, and regulatory compliance.

The Company is required to estimate its expenses resulting from its obligations under contracts with clinical research organizations, clinical site agreements, vendors, and consultants in connection with conducting SCY-078 clinical trials and preclinical development. The financial terms of these contracts are subject to negotiations which vary from contract to contract, and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company's objective is to reflect the appropriate development and trial expenses in its financial statements by matching those expenses with the period in which the services and efforts are expended. For clinical trials, the Company accounts for these expenses according to the progress of the trial as measured by actual hours expended by CRO personnel, investigator performance or completion of specific tasks, patient progression, or timing of various aspects of the trial. For preclinical development services performed by

outside service providers, the Company determines accrual estimates through financial models, taking into account development progress data received from outside service providers and discussions with applicable Company and service provider personnel.

Reimbursements of certain research and development costs by parties under collaborative arrangements have been recorded as a reduction of research and development expense presented within the statement of operations. Such reimbursements were made under the collaboration arrangement with R-Pharm, which is further described in Note 13. Information about the Company's research and development expenses and reimbursements due under collaboration arrangements for the years ended December 31, 2017 and 2016 is presented as follows (in thousands):

|   | Years Ended<br>December 31, |          |
|---|-----------------------------|----------|
|   | 2017                        | 2016     |
| Research and development expense, gross                 | \$18,345                    | \$20,706 |
| Less: Reimbursement of research and development expense | 19                          | 630      |
| Research and development expense, net of reimbursements | \$18,326                    | \$20,076 |

## Patent Expenses

Costs related to filing and pursuing patent applications, as well as costs related to maintaining the Company's existing patent portfolio, are recorded as expense as incurred since recoverability of such expenditures is uncertain.

## Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. The three tiers are defined as follows:

- Level 1 — Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 — Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

## Amortization of Debt Discount

The Company's Term Loan with Solar is recorded net of debt discount which comprised issuance costs, customary closing and final fees, and the fair value of the warrants issued in conjunction with the Term Loan (Note 8). The resulting debt discount is being amortized over the term of the Term Loan using the straight-line method, which approximates the effective interest method, and the amortization of debt discount is included in the accompanying statements of operations.

## Income Taxes

The Company provides for deferred income taxes under the asset and liability method, whereby deferred income taxes result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that the Company believes is more likely than not to be realized. The Company recognizes uncertain tax positions when the positions will be more likely than not sustained based solely upon the technical merits of the positions.

Certain modifications made to an outstanding incentive stock option award at any time after the initial grant dates which are considered to be "material modifications", as defined within the Internal Revenue Code, may result in the affected award being recharacterized as a non-statutory stock option. The effects of any recharacterization modification for purposes of income tax accounting are recognized on a prospective basis.

## Stock-Based Compensation

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees, officers, and directors based on the estimated fair values of the awards as of grant date. The Company values equity instruments and stock options granted to employees and non-employee directors using the

Black-Scholes valuation model. The value of the portion of the award that is ultimately expected to vest is recorded as expense over the requisite service periods.

#### Basic and Diluted Net Loss per Share of Common Stock

The Company calculates net loss per common share in accordance with ASC 260, Earnings Per Share ("Topic 260"). Basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period.

The following potentially dilutive shares of common stock have not been included in the computation of diluted net loss per share for all periods as the result would be anti-dilutive:

|   | December 31, |           |
|---|--------------|-----------|
|   | 2017         | 2016      |
| Warrants to purchase Series C-1 Preferred                                   | 14,033       | 14,033    |
| Warrants to purchase common stock associated with June 2016 Public Offering | 4,218,750    | 4,218,750 |
| Warrants to purchase common stock associated with Loan Agreement            | 122,435      | 122,435   |
| Stock options   | 3,075,994    | 1,819,444 |



## Segment and Geographic Information

Operating segments are defined as components of an enterprise (business activity from which it earns revenue and incurs expenses) about which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. The CODM reviews consolidated operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company views its operations and manages its business as one operating segment. All assets of the Company were held in the United States for the years ended December 31, 2017 and 2016.

Although all operations are based in the United States, the Company generated a portion of its revenue from R-Pharm outside of the United States. All of the Company's revenue was generated from a non-refundable upfront payment received under a licensing and collaboration arrangement with a partner located in Russia. All sales, including sales outside of the United States, are denominated in United States dollars.

## Effect of Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606, or ASU 2014-09. ASU 2014-09 establishes the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the new revenue recognition model to contracts with customers, an entity: (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract(s); (3) determines the transaction price; (4) allocates the transaction price to the performance obligations in the contract(s); and (5) recognizes revenue when (or as) the entity satisfies a performance obligation. The accounting standards update applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The accounting standards update also requires significantly expanded quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers, or ASU 2016-10. The new guidance is an update to ASC 606 and provides clarity on: identifying performance obligations and licensing implementation. For public companies, ASU 2016-10 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. As the Company has not yet received regulatory approval for any products, the impact of this standard is not expected to be material. However, the new standard will require the Company to estimate variable consideration associated with the prior sale of intellectual property to Cypralis, which we expect will be fully constrained under the accounting model that applies to variable consideration. Additionally, the Company is finalizing its evaluation of the accounting for the arrangement with R-Pharm and other third party collaborators, as well as the implementation method that will be applied upon adoption.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases, or ASU 2016-02. The new guidance requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. For public companies, ASU 2016-02 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact that the implementation of ASU 2016-02 will have on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation, or ASU 2016-09. The new guidance is an update to ASC 718 and simplifies several aspects of the accounting for share-based transactions. For public companies, ASU 2016-09 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The Company adopted ASU 2016-09 in the three month period ended March 31, 2017, and ASU 2016-09 did not materially impact the Company's financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation, or ASU 2017-09. The new guidance is an update to ASC 718 and simplifies the modification accounting for share-based payment awards. For public companies, ASU 2017-09 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company is currently evaluating the impact that the implementation of ASU 2017-09 will have on the Company's financial statements.

### 3. Short-term Investments

The following table summarizes the held-to-maturity securities held at December 31, 2017 (in thousands):

|                                | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|--------------------------------|----------------|------------------|-------------------|------------|
| As of December 31, 2017        |                |                  |                   |            |
| U.S. government securities     | 11,462         | 74               | (79)              | 11,457     |
| Commercial paper               | 11,962         | —                | —                 | 11,962     |
| Overnight repurchase agreement | 9,000          | —                | —                 | 9,000      |
| Total short-term investments   | \$ 32,424      | 74               | (79)              | \$ 32,419  |

As of December 31, 2017, the Company has \$32.4 million of held-to-maturity investments with contractual maturities less than one year. The gross unrealized gains and losses for the Company's commercial paper and overnight repurchase agreement are not significant. The Company carries short-term investments at amortized cost. The fair value of the short-term investments is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets.

### 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

|   | December 31, |       |
|---|--------------|-------|
|   | 2017         | 2016  |
| Prepaid SCY-078 development services            | \$384        | \$153 |
| Prepaid insurance                               | 279          | 243   |
| Other prepaid expenses                          | 62           | 71    |
| Other receivable due from R-Pharm               | 251          | 233   |
| Other current assets                            | 91           | 41    |
| Total prepaid expenses and other current assets | \$1,067      | \$741 |

### 5. Accrued Expense

Accrued expenses consisted of the following (in thousands):

|   | December 31, |         |
|---|--------------|---------|
|   | 2017         | 2016    |
| Accrued research and development expenses | \$609        | \$318   |
| Accrued employee bonus compensation       | 763          | 730     |
| Employee withholdings                     | 29           | 22      |
| Other accrued expenses                    | 304          | 198     |
| Total accrued expenses                    | \$1,705      | \$1,268 |

### 6. Borrowings

On September 30, 2016, the Company entered into the Loan Agreement with Solar, in its capacity as administrative and collateral agent and as lender. Pursuant to the Loan Agreement, Solar is providing the Company with a 48-month secured Term Loan in the amount of \$15.0 million. The Term Loan bears interest at a floating rate equal to the LIBOR rate in effect plus 8.49% and the Company is required to make interest-only payments on the Term Loan

beginning November 1, 2016 and continuing through March 1, 2018. Beginning April 1, 2018 (the “Amortization Date”), the Company is required to make monthly payments of interest plus equal monthly principal payments from the Amortization Date through the Maturity Date of the Term Loan. If the Company receives certain positive clinical data prior to March 31, 2018, and receives unrestricted net cash proceeds of not less than \$20.0 million after September 8, 2016, from certain financing, licensing, or other non-dilutive agreements, the Amortization Date is extended for an additional six months (extending the interest-only time period by six months). However, the ultimate term of the Term Loan is not extended and the equal monthly payments of principal will be calculated based on the remaining term of the Term Loan. The obligations under the Loan Agreement are secured by a lien on substantially all assets of the Company other than its intellectual property, which is subject to a negative pledge.

The Loan Agreement contains customary affirmative covenants, including covenants regarding the payment of taxes and other obligations, maintenance of insurance, reporting requirements and compliance with applicable laws and regulations. Further, the Loan Agreement contains customary negative covenants limiting the ability of the Company, among other things, to incur debt, grant liens, make investments, make acquisitions, make certain restricted payments and sell assets, subject to certain exceptions, and maintain certain minimum liquidity requirements. Upon the occurrence and during the continuance of an event of default, the lenders may declare all outstanding principal and accrued but unpaid interest under the Loan Agreement immediately due and payable and may exercise the other rights and remedies provided for under the Loan Agreement and

related loan documents. The events of default under the Loan Agreement include payment defaults, cross defaults with certain other agreements, breaches of covenants or representations and warranties, the occurrence of a material adverse effect and certain bankruptcy events. The Company has the right to prepay the Term Loan in whole at any time and the Loan Agreement contains customary prepayment and closing fees.

Pursuant to the Loan Agreement, on September 30, 2016 (the "Closing Date"), the Company issued to Solar a warrant (the "Solar Warrant") to purchase an aggregate of up to 122,435 shares of the Company's common stock at an exercise price of \$3.6754 per share. The Solar Warrant will expire five years from the date of the grant. The Solar Warrant is classified as equity and was recorded at its relative fair value at issuance in the stockholders' equity section of the balance sheet (See Note 8).

Future principal debt payments on the currently outstanding Term Loan payable as of December 31, 2017 are as follows (in thousands):

|  |           |
|--|-----------|
| 2018   | 4,500     |
| 2019   | 6,000     |
| 2020   | 4,500     |
| Total principal payments                     | 15,000    |
| Final fee due at maturity                    | 750       |
| Total principal and final fee payment        | 15,750    |
| Unamortized discount and debt issuance costs | (1,098 )  |
| Less current portion                         | (4,349 )  |
| Loan payable, long term                      | \$ 10,303 |

## 7. Commitments and Contingencies

### Leases

On July 13, 2015, the Company entered into a sublease (the "Sublease") that became effective July 22, 2015, to sublet certain premises consisting of 10,141 square feet of space (the "Subleased Premises") located at 101 Hudson Street, Jersey City, New Jersey from Optimer Pharmaceuticals, Inc. The term of the Sublease commenced on August 1, 2015 (the "Commencement Date") and is scheduled to expire on July 30, 2018. No base rent was due under the Sublease until one month after the Commencement Date. Under the Sublease, the Company is obligated to pay monthly base rent of approximately twenty-five thousand dollars per month, which amount increases by 3% annually on each anniversary of the Commencement Date. In addition, the Company was required to fund a security deposit with the sublandlord in the amount of \$0.1 million.

Rent expense was approximately \$0.3 million for the years ended December 31, 2017 and 2016. Future minimum lease payments for all operating leases as of December 31, 2017 are as follows (in thousands):

|            |        |
|------------|--------|
| 2018       | \$ 182 |
| Thereafter | —      |
| Total      | \$ 182 |

### License Arrangements with Potential Future Expenditures

As of December 31, 2017, the Company had a license arrangement with Merck Sharp & Dohme Corp., or Merck, as amended, that involves potential future expenditures. Under the license arrangement, executed in May 2013, the Company exclusively licensed from Merck its rights to SCY-078 in the field of human health. In January 2014, Merck assigned the patents related to SCY-078 that it had exclusively licensed to the Company. SCY-078 is the Company's lead product candidate. Pursuant to the terms of the license agreement, Merck is eligible to receive milestone payments from the Company that could total \$19.0 million upon occurrence of specific events, including initiation of a Phase 3 clinical study, new drug application, and marketing approvals in each of the U.S., major European markets, and Japan. In addition, Merck is eligible to receive tiered royalties from the Company based on a percentage of worldwide net sales of SCY-078. The aggregate royalties are mid- to high-single digits.

In December 2014, the Company and Merck entered into an amendment to the license agreement that deferred the remittance of a milestone payment due to Merck, such that no amount would be due upon initiation of the first Phase 2 clinical trial of a product containing the SCY-078 compound (the "Deferred Milestone"). The amendment also increased, in an amount equal to the Deferred Milestone, the milestone payment that would be due upon initiation of the first Phase 3 clinical trial of a product containing the SCY-078 compound. In December 2016 and January 2018, the Company entered into second and third amendments to the license agreement with Merck which clarified what would constitute the initiation of a Phase 3 clinical trial

for the purpose of milestone payment. Except as described above, all other terms and provisions of the license agreement remain in full force and effect.

The Company has two additional licensing agreements for other compounds that could require it to make payments of up to \$2.3 million upon achievement of certain milestones by the Company.

#### Clinical Development Arrangement

The Company has entered into, and expects to continue to enter into, contracts in the normal course of business with various third parties who support its clinical trials, preclinical research studies, and other services related to its development activities. The scope of the services under these agreements can generally be modified at any time, and the agreement can be terminated by either party after a period of notice and receipt of written notice.

#### Legal Proceeding

On March 8, 2017, a purported stockholder class action lawsuit was filed in the United States District Court for the District of New Jersey against the Company and certain of its current and former officers, captioned Gibson v. Scynexis, Inc., et al. The action was filed on behalf of a putative class of all persons who purchased or otherwise acquired the Company's securities (1) pursuant or traceable to the Company's IPO, or (2) on the open market between May 2, 2014, and March 2, 2017. It asserts claims for violation of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks, among other things, compensatory damages and attorneys' fees and costs on behalf of the putative class. The Company believes that the claims lack merit and intends to defend the litigation vigorously.

ASC Topic 450, Contingencies, requires a loss contingency to be accrued by a charge to operating results if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Legal costs in connection with a loss contingency are expensed as incurred. As of December 31, 2017, the Company has not recognized a liability associated with the class action lawsuit contingency.

#### 8. Stockholders' Equity

##### Authorized, Issued, and Outstanding Common Shares

The Company's common stock has a par value of \$0.001 per share and consists of 125,000,000 authorized shares as of December 31, 2017 and 2016, respectively; 28,971,651 and 24,609,411 shares were issued and outstanding as of December 31, 2017 and 2016, respectively.

##### Shares Reserved for Future Issuance

The Company had reserved shares of common stock for future issuance as follows:

|   | December 31, |           |
|---|--------------|-----------|
|   | 2017         | 2016      |
| Outstanding stock options   | 3,075,994    | 1,819,444 |
| Outstanding Series C-1 Preferred warrants                                   | 14,033       | 14,033    |
| Warrants to purchase common stock associated with June 2016 Public Offering | 4,218,750    | 4,218,750 |
| Warrants to purchase common stock associated with Loan Agreement            | 122,435      | 122,435   |
| For possible future issuance under 2014 Equity Incentive Plan (Note 10)     | 492,382      | 668,921   |

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|  |           |           |
|--|-----------|-----------|
| For possible future issuance under 2014 Employee Stock Purchase Plan (Note 10) | 83,617    | 72,338    |
| For possible future issuance under 2015 Inducement Plan (Note 10)              | 5,000     | 165,000   |
| Total common shares reserved for future issuance                               | 8,012,211 | 7,080,921 |

### Liquidation Rights

In the event of any liquidation or dissolution of the Company, the holders of the common stock are entitled to the remaining assets of the Company legally available for distribution.

### Dividends and Voting Rights

The holders of the common stock are entitled to receive dividends if and when declared by the Company. Under the terms of the Company's Loan Agreement with Solar, the Company may not pay any dividends or other distributions on capital stock other than dividends payable solely in capital stock without the consent of Solar. The holders of the common stock have the right to one vote per share.



## Preferred Stock

On May 7, 2014, the Company amended and restated its articles of incorporation relating to its approved capital structure. The Company's board of directors has authorized the Company, subject to limitations prescribed by Delaware law, to issue up to 5,000,000 shares of preferred stock with a par value of \$0.001 per share in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions. The Company's board of directors can also increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders. The Company's board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. There were no shares of preferred stock issued and outstanding as of December 31, 2017 and 2016.

## Warrants Associated with Convertible Preferred Stock Issuances

In July 2006, the Company issued warrants to purchase 196,923 shares of Series C-1 Preferred Stock, which converted into the right to purchase 14,033 shares of common stock in connection with our IPO, however, we refer to these warrants as our Series C-1 Preferred warrants. The Series C-1 Preferred warrants were issued in conjunction with a loan financing agreement with an original exercise price of \$3.25 per share of Series C-1 Preferred, which converted into an exercise price of \$45.61 per share of common stock in connection with our IPO. These warrants remain outstanding as of December 31, 2017 and will expire on May 7, 2019, which is the five year anniversary of the Company's IPO. The fair value at the date of grant for these instruments was \$0.5 million, which was recorded as a debt discount. The debt discount related to these warrants was fully amortized as of December 31, 2010. The Company determined that the warrants should be recorded as a derivative liability and stated at fair value at each reporting period. As of December 31, 2017 and 2016, the fair value of the warrant derivative liability was zero.

## Warrants Associated with June 2016 Public Offering

On June 21, 2016, the Company completed the June 2016 Public Offering of its common stock and warrants pursuant to the Company's effective Shelf Registration (see Note 1). Each purchaser received a warrant to purchase 0.45 of a share for each share purchased in the June 2016 Public Offering. There is not expected to be any trading market for the warrants. Each warrant was exercisable immediately upon issuance, will expire five years from the date of issuance, and has an exercise price of \$3.00 per share. The warrants contain a provision where the warrant holder has the option to receive cash, equal to the Black-Scholes fair value of the remaining unexercised portion of the warrant, as cash settlement in the event that there is a fundamental transaction (contractually defined to include various merger, acquisition or stock transfer activities). Due to this provision, ASC 480, Distinguishing Liabilities from Equity requires that these warrants be classified as liabilities. The fair values of these warrants have been determined using the Black-Scholes valuation model, and the changes in the fair value are recorded in the accompanying statements of operations. During the year ended December 31, 2017, the Company recorded a gain of \$2.7 million due to the change in fair value of the warrant liability. As of December 31, 2017, the fair value of the warrant liability was \$3.9 million.

## Warrant Associated with Loan Agreement

Pursuant to the Loan Agreement, on the Closing Date the Company issued to Solar the Solar Warrant to purchase an aggregate of up to 122,435 shares of the Company's common stock at an exercise price of \$3.6754 per share. The Solar Warrant will expire five years from the date of the grant. The Solar Warrant was classified as equity and recorded at its relative fair value at issuance in the stockholders' equity section of the balance sheet.



## 9. Income Taxes

The Company's financial statements include total tax benefit of \$0 on net losses before taxes of \$25.1 million and \$30.0 million for the years ended December 31, 2017 and 2016, respectively. Reconciliations of the differences between the benefit for income taxes and income taxes at the statutory U.S. federal income tax rate is as follows (dollars in thousands):

|   | 2017       |                          | 2016        |                          |
|---|------------|--------------------------|-------------|--------------------------|
|   | Amount     | Percent of Pretax Income | Amount      | Percent of Pretax Income |
| Income taxes from continuing operations at statutory rate | \$(8,520 ) | 34.0 %                   | \$(10,196 ) | 34.0 %                   |
| State income taxes  | (1,075 )   | 4.3 %                    | (1,287 )    | 4.3 %                    |
| State effect of permanent items                           | (112 )     | 0.4 %                    | —           | —                        |
| Stock-based compensation                                  | 35         | (0.1 )%                  | 215         | (0.8 )%                  |
| Deferred rate change                                      | 23,776     | (94.9 )%                 | —           | —                        |
| R&D tax credits   | —          | —                        | (955 )      | 3.2 %                    |
| Warrants issuance   | (928 )     | 3.7 %                    | 730         | (2.4 )%                  |
| Other   | 828        | (3.3 )%                  | 719         | (2.4 )%                  |
| Increase in valuation allowance                           | (14,004)   | 55.9 %                   | 10,774      | (35.9 )%                 |
| Total income tax benefit                                  | \$—        | — %                      | \$—         | — %                      |

The components of deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

|   | December 31, |          |
|---|--------------|----------|
|   | 2017         | 2016     |
| Current deferred tax assets:                  |              |          |
| Accrued expenses                              | \$182        | \$215    |
| Stock-based compensation                      | 1,309        | 1,664    |
| Other   | 49           | 39       |
|   | 1,540        | 1,918    |
| Noncurrent deferred tax assets (liabilities): |              |          |
| Net operating loss carryforwards              | 40,504       | 53,173   |
| Research and development credits              | 3,230        | 4,185    |
|   | 43,734       | 57,358   |
| Total deferred tax assets                     | 45,274       | 59,276   |
| Valuation allowances                          | (45,274)     | (59,276) |
| Net deferred tax assets                       | \$—          | \$—      |

As of December 31, 2017 and 2016, the Company had available federal net operating loss ("NOL") carryforwards of approximately \$171.5 million and \$144.4 million, respectively, North Carolina net economic loss ("NEL") carryforwards of approximately \$111.0 million, respectively, and New Jersey NOL carryforwards of approximately

\$55.4 million and \$28.3 million, respectively. The federal NOL and North Carolina NEL carryforwards begin to expire in 2022 and 2017, respectively. The New Jersey NOL carryforwards begin to expire in 2037. As of December 31, 2017, the Company had available federal research and development credit carryforwards of \$3.1 million and North Carolina credit carryforwards of \$0.2 million, which begin to expire in 2022 and 2017, respectively.

On December 22, 2017, the President signed into law the "Tax Cuts and Jobs Act." The new tax reform has the following effects on the company: (1) permanently reduces the maximum corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017 (2) allows temporary 100% expensing for certain business assets and property placed in service after September 27, 2017 and before January 1, 2023 (3) disallows NOL carrybacks but allows for the indefinite carryforward of those NOLs which applies to losses arising in tax years beginning after December 31, 2017 and (4) limits NOL deductions for each year equal to the lesser of the available carryover or 80% of a taxpayer's pre-NOL deduction taxable income. This applies to losses arising in tax years beginning after December 31, 2017. As a result of the new enacted tax rate, the Company adjusted its deferred tax assets as of December 31, 2017 by applying the new 21% rate, which resulted in a decrease to the deferred tax assets and a decrease to the valuation allowance of approximately \$14.0 million. As of December 31, 2017 and 2016, the Company has concluded that it is more likely than not that the Company will not realize the benefit of its deferred tax assets due to its history of losses. Accordingly, the net deferred tax assets have been fully reserved.

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of greater than 50% within a three-year period results in an annual limitation on the Company's ability to utilize its NOL

carryforwards created during the tax periods prior to the change in ownership. The Company has determined that ownership changes have occurred and as a result, a portion of the Company's NOL carryforwards are limited. Because the Company has incurred cumulative net operating losses since inception, all tax years remain open to examination by U.S. federal and state income tax authorities.

The Company adopted FASB Accounting Standards Codification 740-10-25-5, Income Taxes, formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, as amended, on January 1, 2009. The difference between the tax benefit recognized in the financial statements and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits as of December 31, 2017 and 2016 (in thousands):

|   | December<br>31, |       |
|---|-----------------|-------|
|   | 2017            | 2016  |
| Unrecognized tax benefit—January 1            | \$623           | \$623 |
| Additions for tax positions of current period | —               | —     |
| Additions for tax positions of prior periods  | —               | —     |
| Deferred rate change                          | (187)           | —     |
| Unrecognized tax benefit—December 31          | \$436           | \$623 |

None of the unrecognized tax benefits would, if recognized, affect the effective tax rate because the Company has recorded a valuation allowance to fully offset federal and state deferred tax assets. The Company has no tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the coming year. The Company has \$0 provided for interest and penalties associated with uncertain tax positions.

#### 10. Stock-based Compensation

##### 2009 Stock Option Plan

The Company had a share-based compensation plan (the "2009 Stock Option Plan") under which the Company granted options to purchase shares of common stock to employees, directors, and consultants as either incentive stock options or nonqualified stock options. Incentive stock options could be granted with exercise prices not less than 100% to 110% of the fair market value of the common stock. Options granted under the plan generally vest over three to four years and expire in 10 years from the date of grant.

##### 2014 Equity Incentive Plan

In February 2014, the Company's board of directors adopted the 2014 Equity Incentive Plan, or the 2014 Plan, which was subsequently ratified by its stockholders and became effective on May 2, 2014 (the "Effective Date"). The 2014 Plan, as amended on June 18, 2014 and February 25, 2015, is the successor to and continuation of the 2009 Stock Option Plan. As of the Effective Date, no additional awards will be granted under the 2009 Stock Option Plan, but all stock awards granted under the 2009 Stock Option Plan prior to the Effective Date will remain subject to the terms of the 2009 Stock Option Plan. All awards granted on and after the Effective Date will be subject to the terms of the 2014 Plan. The 2014 Plan provides for the grant of the following awards: (i) incentive stock options, (ii) nonstatutory

stock options, (iii) stock appreciation rights, (iv) restricted stock awards, (v) restricted stock unit awards, and (vi) other stock awards. Employees, directors, and consultants are eligible to receive awards. Options granted under the plan generally vest over three to four years and expire in 10 years from the date of grant.

Under the 2014 Plan, after giving effect to the increases to the share reserve approved by the Company's stockholders in September 2014, and June 2015, but excluding the automatic increases discussed below, the aggregate number of shares of common stock that could be issued from and after the Effective Date (the "share reserve") could not exceed the sum of (i) 1,122,731 new shares, (ii) the shares that represented the 2009 Stock Option Plan's available reserve on the Effective Date, and (iii) any returning shares from the 2009 Stock Option Plan. Under the 2014 Plan, the share reserve will automatically increase on January 1st of each year, for a period of not more than 10 years, commencing on January 1, 2015, and ending on January 1, 2024, in an amount equal to 4.0% of the total number of shares of capital stock outstanding on December 31st of the preceding calendar year. The board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than would otherwise occur.

Pursuant to the terms of the 2014 Plan, on January 1, 2017 and 2016, the Company automatically added 984,376 and 556,223 shares to the total number shares of common stock available for future issuance under the 2014 Plan, respectively. As of December 31, 2017, there were 492,382 shares of common stock available for future issuance under the 2014 Plan.

## 2015 Inducement Plan

On March 26, 2015, the Company's board of directors adopted the 2015 Inducement Plan (the "2015 Plan"). The 2015 Plan provides for the grant of nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to persons not previously employees or directors of the Company, or following a bona fide period of non-employment, as an inducement material to the individuals' entering into employment with the Company within the meaning of NASDAQ Listing Rule 5635(c)(4). The 2015 Plan has a share reserve covering 450,000 shares of common stock. During the year ended December 31, 2017, there were 160,000 granted options of the Company's common stock under the 2015 Inducement Plan. As of December 31, 2017, there were 5,000 shares of common stock available for future issuance under the 2015 Plan.

## Option Valuation Method

The fair value of a stock option is estimated using an option-pricing model that takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. The Company has used the simplified method in calculating the expected term of all option grants based on the vesting period. Compensation costs related to share-based payment transactions are recognized in the financial statements upon satisfaction of the requisite service or vesting requirements and forfeitures are recorded as incurred.

The Company has elected to use the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable rather than for use in estimating the fair value of stock options subject to vesting and transferability restrictions. Using the Black-Scholes option-pricing model, the weighted-average fair value of options granted during 2017 and 2016 was \$1.39 and \$2.57 per option, respectively. The aggregate fair value of options granted during 2017 and 2016 was \$1.8 million and \$1.3 million, respectively. The assumptions used to estimate fair value and the resulting grant date fair values are as follows:

|   | Employees                   |         | Non-employee<br>Directors   |         |
|---|-----------------------------|---------|-----------------------------|---------|
|   | Years Ended<br>December 31, |         | Years Ended<br>December 31, |         |
|   | 2017                        | 2016    | 2017                        | 2016    |
| Expected dividend yield                   | —                           | —       | —                           | —       |
| Weighted average expected volatility      | 51.38 %                     | 67.18 % | 53.86 %                     | 67.61 % |
| Weighted average risk-free interest rate  | 2.07 %                      | 1.48 %  | 2.01 %                      | 1.41 %  |
| Weighted average expected term (in years) | 6.04                        | 6.08    | 5.37                        | 5.30    |
| Forfeiture rate                           | —                           | 5.00 %  | —                           | 5.00 %  |

The activity for the 2009 Plan, 2014 Plan and 2015 Plan for the years ended December 31, 2017 and 2016 is summarized as follows:

| Number | Weighted- | Weighted- | Aggregate |
|--------|-----------|-----------|-----------|
|--------|-----------|-----------|-----------|

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|  | of        | Average  | Average         | Intrinsic     |
|--|-----------|----------|-----------------|---------------|
|  | Shares    | Exercise | Remaining       | Value (\$000) |
|  |           | Price    | Contractual     |               |
|  |           |          | Life (in years) |               |
| Outstanding — January 1, 2016                  | 1,379,727 | \$ 8.71  | 7.18            | \$ —          |
| Granted  | 497,978   | 4.23     |                 |               |
| Exercised                                      | —         | —        |                 |               |
| Canceled                                       | (58,261 ) | 7.47     |                 |               |
| Outstanding — December 31, 2016                | 1,819,444 | \$ 7.52  | 6.98            | \$ 32         |
| Exercisable — December 31, 2016                | 1,022,515 | \$ 8.59  | 5.51            | \$ 15         |
| Vested or expected to vest — December 31, 2016 | 1,779,597 | \$ 7.55  | 6.94            | \$ 31         |
| Outstanding — January 1, 2017                  | 1,819,444 | \$ 7.52  | 6.98            | \$ 32         |
| Granted  | 1,256,770 | \$ 2.80  |                 |               |
| Exercised                                      | —         |          |                 |               |
| Canceled                                       | (220 )    | \$ 9.64  |                 |               |
| Outstanding — December 31, 2017                | 3,075,994 | \$ 5.59  | 7.23            | \$ 151        |
| Exercisable — December 31, 2017                | 1,602,114 | \$ 7.19  | 5.78            | \$ 15         |
| Vested or expected to vest —December 31, 2017  | 3,075,994 | \$ 5.59  | 7.23            | \$ 151        |



The intrinsic values in the table above represent the total intrinsic value (the difference between the Company's closing stock price as of December 31, 2017 and 2016, and the exercise price multiplied by the number of options).

The total fair value of shares vested during the years ended December 31, 2017 and 2016 was \$1.6 million and \$1.5 million, respectively.

As of December 31, 2017, there was approximately \$2.9 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.15 years.

Restricted stock unit ("RSU") activity under the 2014 Plan for the year ended December 31, 2017, is summarized as follows:

|                                 | Weighted<br>Average<br>Grant Date |            |
|---------------------------------|-----------------------------------|------------|
|                                 | Number of                         | Fair Value |
|                                 | Shares                            | Per Share  |
| Non-vested at December 31, 2016 | —                                 | —          |
| Granted                         | 64,365                            | \$ 2.70    |
| Vested                          | —                                 | —          |
| Forfeited                       | —                                 | —          |
| Non-vested at December 31, 2017 | 64,365                            | \$ 2.70    |

The fair value of RSUs is based on the market price of the Company's common stock on the date of grant. RSUs are only issued to non-executive employees and vest 25% annually over a four year period from the date of grant. Upon vesting, the RSUs are net share settled to cover the required withholding tax with the remaining shares issued to the holder. The Company recognizes compensation expense for such awards ratably over the corresponding vesting period.

#### 2014 Employee Stock Purchase Plan

In February 2014, the Company's board of directors adopted the 2014 Employee Stock Purchase Plan ("ESPP"), which was subsequently ratified by the Company's stockholders and became effective on May 2, 2014. The purpose of the ESPP is to provide means by which eligible employees of the Company and of certain designated related corporations may be given an opportunity to purchase shares of the Company's common stock, and to seek and retain services of new and existing employees and to provide incentives for such persons to exert maximum efforts for the success of the Company. Common stock that may be issued under the ESPP will not exceed 47,794 shares, plus the number of shares of common stock that are automatically added on January 1st of each year for a period of ten years, commencing on January 1, 2015 and ending on January 1, 2024, in an amount equal to the lesser of (i) 0.8% of the total number of shares of outstanding common stock on December 31 of the preceding calendar year, and (ii) 29,411 shares of common stock. Similar to the 2014 Plan, the board of directors may act prior to January 1st of a given year to provide that there will be no increase in the share reserve or that the increase will be a lesser number of shares than would otherwise occur. The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code.

During the years ended December 31, 2017 and 2016, the Company issued 18,132 and 7,356 shares of common stock under the ESPP, respectively. During the years ended December 31, 2017 and 2016, the number of shares of common stock available for issuance under the ESPP was automatically increased by 29,411 shares. As of December 31, 2017, there were 83,617 shares of common stock available for future issuance under the ESPP.

#### Compensation Cost

The compensation cost that has been charged against income for stock awards under the 2009 Stock Option Plan, the 2014 Plan, and the ESPP was \$1.7 million and \$1.2 million for the years ended December 31, 2017 and 2016, respectively. The total income tax benefit recognized in the statements of operations for share-based compensation arrangements was \$0 for the years ended December 31, 2017 and 2016, respectively. Cash received from options exercised was \$0 for both the years ended December 31, 2017 and 2016.

Stock-based compensation expense related to stock options is included in the following line items in the accompanying statements of operations (in thousands):

|  | Years Ended<br>December 31, |         |
|--|-----------------------------|---------|
|  | 2017                        | 2016    |
| Research and development, net          | \$458                       | \$299   |
| Selling, general and administrative    | 1,204                       | 911     |
| Total stock-based compensation expense | \$1,662                     | \$1,210 |

## 11. Fair Value Measurements

The carrying amounts of certain financial instruments, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable, and accrued expenses approximate their respective fair values due to the short-term nature of such instruments.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period, pursuant to the policy described in Note 2. This determination requires significant judgments to be made. The following table summarizes the conclusions reached as of December 31, 2017 and 2016 for financial instruments measured at fair value on a recurring basis (in thousands):

|                          | Balance         | Fair Value Hierarchy Classification    |   |   |
|--------------------------|-----------------|--|---|---|
|                          |                 | Quoted Prices in Active                |   |   |
|                          |                 | Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>December 31, 2016</b> |                 |  |   |   |
| Cash on deposit          | \$9,767         | \$9,767                                | —                                       | —   |
| Money market funds       | 25,889          | 25,889                                 | —                                       | —   |
| <b>Total assets</b>      | <b>\$35,656</b> | <b>\$35,656</b>                        | <b>—</b>                                | <b>—</b>                                  |
| Warrant liability        | \$6,601         | —                                      | —                                       | \$ 6,601                                  |
| <b>Total liabilities</b> | <b>\$6,601</b>  | <b>\$—</b>                             | <b>—</b>                                | <b>\$ 6,601</b>                           |
| <b>December 31, 2017</b> |                 |  |   |   |
| Cash on deposit          | \$1,316         | \$1,316                                | —                                       | —   |
| Money market funds       | 10,153          | 10,153                                 | —                                       | —   |
| <b>Total assets</b>      | <b>\$11,469</b> | <b>\$11,469</b>                        | <b>—</b>                                | <b>—</b>                                  |
| Warrant liability        | \$3,872         | —                                      | —                                       | \$ 3,872                                  |
| <b>Total liabilities</b> | <b>\$3,872</b>  | <b>—</b>                               | <b>—</b>                                | <b>\$ 3,872</b>                           |

The Company measures cash equivalents at fair value on a recurring basis. The fair value of cash equivalents is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets.

Level 3 financial liabilities consist of the warrant liability for which there is no current market such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. The Company uses the Black-Scholes option valuation model to value the Level 3 warrant liability at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company’s stock price, contractual terms, maturity, risk free rates, as well as volatility.

A reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows (in thousands):

|                               | December 31, 2017 |
|-------------------------------|-------------------|
| Balance - January 1, 2017     | \$ 6,601          |
| Gain adjustment to fair value | (2,729 )          |
| Balance - December 31, 2017   | \$ 3,872          |

#### 12. Employee Benefit Plan

The Company has a 401(k) retirement plan, which covers all U.S. employees scheduled for and working more than 20 hours per week. The Company may provide a discretionary match with a maximum amount of 50% of the first 6% of eligible participant's compensation, which vests ratably over four years. Contributions under the plan were approximately \$0.1 million for the years ended December 31, 2017 and 2016.

### 13. Significant Agreements

#### R-Pharm Collaboration Arrangement

In August 2013, the Company entered into a development, license, and supply agreement (the “original agreement”) with R-Pharm, granting it exclusive rights to develop and commercialize SCY-078, the Company's lead antifungal compound, in the field of human health in Russia and certain smaller non-core markets. The Company received an upfront payment of \$1.5 million, the unamortized portion of which comprises its deferred revenue balance as of December 31, 2017, and is entitled to receive payments on contingent events, including 1) a development milestone payment of \$3.0 million upon the first registration of SCY-078 in any country covered by the agreement; 2) sales-based payments of up to \$15.0 million upon R-Pharm’s achievement of specified targets for cumulative net sales of SCY-078; and 3) percentage royalties of up to the mid-teens on SCY-078 net sales.

The Company deferred the upfront payment received and is recognizing it over the estimated relationship period of 70 months, which includes the product development period and an additional period during which the Company is required to participate in a product development committee. The development milestone payment is considered substantive and will be recognized when R-Pharm achieves certain specified milestones.

The sales-based payments will not be recognized until the Company 1) receives the payments, and 2) has no continuing performance obligations. If the Company has any continuing performance obligations when the sales-based payments are received, those payments will be deferred and recognized over the remaining period of continuing performance obligations. Royalties will be recognized when payment is received.

The original agreement also included terms whereby R-Pharm would reimburse the Company for certain research and development costs associated with Phase 2 and Phase 3 clinical trials of oral SCY-078 and the development of an IV formulation of SCY-078. However, these cost reimbursement terms required that the clinical trials and the IV formulation development follow a global development plan that was agreed upon by both parties in August 2013. Subsequent to August 2013, modifications were made to the global development plan that caused the clinical trial cost reimbursement terms in the original agreement to no longer be enforceable. As a result, the Company concluded that persuasive evidence of a cost reimbursement arrangement did not exist under the original agreement with R-Pharm. Further, the IV formulation development cost reimbursement terms in the original agreement did not specify which IV formulation and development costs were reimbursable by R-Pharm. Because of this lack of specificity, the Company concluded that the reimbursable fees due from R-Pharm were not determinable under the original agreement.

In November 2014, the Company entered into a supplemental arrangement with R-Pharm, whereby R-Pharm was informed of the modified IV formulation development plan and R-Pharm agreed to reimburse the Company for specifically identified IV formulation development and manufacturing costs incurred by the Company. The specifically identified costs were defined as all costs incurred by the Company under a separate arrangement between the Company and a third-party service provider, whereby the third-party service provider is performing certain IV formulation and development services. The Company concluded that the original agreement, when combined with the November 2014 supplemental arrangement, provided persuasive evidence of a cost reimbursement arrangement between the Company and R-Pharm as of December 31, 2014. Therefore, the Company has recognized receivables due from R-Pharm and has received reimbursement payments from R-Pharm. The presentation and disclosure associated with this cost reimbursement receivable is in accordance with the Company's research and development expenses accounting policy described in Note 2.

### 14. Subsequent Events

Pursuant to the terms of the 2014 Plan (see Note 10), on January 1, 2018, the Company automatically added 1,158,866 shares to the total number shares of common stock available for future issuance under the 2014 Plan. Pursuant to the terms of the 2014 ESPP (see Note 10), on January 1, 2018, the Company automatically

added 29,411 shares to the total number shares of common stock available for future issuance under the 2014 ESPP.

On March 1, 2018, the Company entered into a long-term lease agreement for approximately 19,275 square feet of office space in Jersey City, New Jersey. The lease term is eleven years from the commencement date which is the later of July 1, 2018 or the substantial completion of certain improvements to the leased space, with total lease payments of \$7.3 million over the lease term. The Company has the option to renew for two consecutive five-year periods from the end of the first term. Under the lease, the Company must furnish a security deposit in the form of a standby letter of credit in the amount of \$0.3 million, which will be reduced by fifty-five thousand every two years for ten years after the commencement of the lease. The Company plans to renovate the space and will receive a tenant improvement allowance of \$1.3 million. The Company is evaluating the accounting impact of the lease on its financial statements.

On March 6, 2018, the Company entered into an Equity Underwriting Agreement (the “Underwriting Agreement”) with Guggenheim Securities, LLC, representative of the several underwriters (the “Underwriters”) relating to the offering, issuance and sale (the “Offering”) of (a) 17,751,500 shares of the Company’s common stock, par value \$0.001 per share and (b) two series of warrants to purchase up to an aggregate of 21,301,800 shares of the Company’s common stock. The

Series 1 warrants to purchase up to 13,313,625 shares of common stock have a one-year term and an exercise price of \$1.85 per share, and the Series 2 warrants to purchase up to 7,988,175 shares of common stock have a five-year term and an exercise price of \$2.00 per share. There is not expected to be any trading market for the warrants issued in the Offering. Each warrant is exercisable immediately upon issuance, subject to certain limitations on beneficial ownership. The price to the public in the Offering was \$1.69 per share of common stock and accompanying warrants. Pursuant to the Underwriting Agreement, the Underwriters agreed to purchase shares of common stock and accompanying warrants from the Company at a price of \$1.5886 per share, which resulted in approximately \$27.8 million of net proceeds to the Company after deducting the underwriting discount and estimated offering expenses.

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

None.

#### ITEM 9A. CONTROLS AND PROCEDURES

##### Management's Evaluation of our Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

As of December 31, 2017, our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer have concluded based upon the evaluation described above that, as of December 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

##### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Because of these inherent limitations, management does not expect that our internal controls over financial reporting will prevent all error and all fraud. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

This annual report does not include an attestation report of our independent registered public accounting firm regarding our internal control over financial reporting due to an exemption provided by the JOBS Act for emerging growth companies.

#### Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2017, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference from our Proxy Statement, which will be filed with the SEC within 120 days after the end of our 2017 fiscal year pursuant to Regulation 14A for our 2018 Annual Meeting of Stockholders (the “Proxy Statement”), under the captions “Executive Officers of the Company,” “Proposal 1 - Election of Directors,” “Information Regarding the Board and Its Committees,” “Nominating and Corporate Governance Committee,” “Section 16 Beneficial Ownership Reporting Compliance,” and “Code of Business Conduct and Ethics.”

A printed copy of the Proxy Statement will be sent, without charge, to any shareholder who requests it by writing to the Chief Financial Officer of Scynexis, Inc., 101 Hudson Street, Suite 3610, Jersey City, NJ 07302 - 6548.

ITEM 11. EXECUTIVE  
COMPENSATION

The information required by this Item 11 is incorporated herein by reference from the Proxy Statement under the captions “Executive Compensation” and “Director Compensation.”

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

The information required by this Item 12 is incorporated herein by reference from the Proxy Statement, under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference under the captions “Transactions with Related Persons” and “Independence of the Board.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be set forth in our 2018 Proxy Statement under the caption “Principal Accountant Fees and Services.”

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this report:

1. List of Financial Statements

The financial statements required by this item are listed in Item 8, "Financial Statements and Supplementary Data" and incorporated by reference herein.

2. List of Financial Statement Schedules

All schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit

Number Description of Document

- 3.1 Amended and Restated Certificate of Incorporation. (Filed with the SEC as Exhibit 3.1 to our Current Report on Form 8-K, filed with the SEC on May 12, 2014, SEC File No. 001-36365, and incorporated by reference here).
- 3.3 Amended and Restated Bylaws, as amended and as currently in effect. (Filed with the SEC as Exhibit 3.4 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 4.1 Reference is made to Exhibits 3.1 and 3.2.
- 4.2 Fifth Amended and Restated Investor Rights Agreement, dated December 11, 2013 (Filed with the SEC as Exhibit 10.21 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.1 Form of Indemnity Agreement between the Registrant and its directors and officers. (Filed with the SEC as Exhibit 10.1 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.2\* SCYNEXIS, Inc. Stock Option Plan, as amended, and Forms of Stock Option Grant Notice, Stock Option Agreement and Notice of Stock Option Exercise. (Filed with the SEC as Annex B to our Proxy Statement on Schedule 14A, filed with the SEC on August 1, 2014, SEC File No. 001-36365, and incorporated by reference here).
- 10.3\* SCYNEXIS, Inc. 2009 Stock Option Plan, as amended, and Forms of Stock Option Grant Notice, Stock Option Agreement and Notice of Stock Option Exercise. (Filed with the SEC as Exhibit 10.3 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.4\*

SCYNEXIS, Inc. 2014 Equity Incentive Plan, as amended, (Filed with the SEC as Annex A to our proxy statement on Schedule 14A, filed with the SEC on April 22, 2015, SEC File No. 001-36365, and incorporated by reference here).

- 10.5\* SCYNEXIS, Inc. 2014 Employee Stock Purchase Plan. (Filed with the SEC as Exhibit 99.4 to our Registration Statement on Form 8, filed with the SEC on May 16, 2014, SEC File No. 333-196007, and incorporated by reference here).
- 10.6\* Compensation Arrangement with Non-Employee Directors. (Filed with the SEC as Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on November 7, 2016, SEC File No. 001-36365, and incorporated by reference here).
- 10.7\* Form of Stock Option Agreement and Form of Stock Option Grant Notice under the SCYNEXIS, Inc. 2014 Equity Incentive Plan (Filed with the SEC as Exhibit 99.3 to our Registration Statement on Form S-8, filed with the SEC on May 16, 2014, SEC File No. 333-196007, and incorporated by reference here).
- 10.8# Development, License and Supply Agreement, dated August 1, 2013, between SCYNEXIS, Inc. and R-Pharm, CJSC. (Filed with the SEC as Exhibit 10.10 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).

- 10.9# License Agreement, dated August 7, 2012, as amended, between SCYNEXIS, Inc. and Dechra Ltd. (Filed with the SEC as Exhibit 10.11 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.10# Termination and License Agreement, dated May 24, 2013, between SCYNEXIS, Inc. and Merck Sharp & Dohme Corp. (Filed with the SEC as Exhibit 10.12 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.11# Agreement for the Assignment of Patents and Know How concerning Cyclosporin Derivatives, dated June 10, 2005, between SCYNEXIS, Inc. and C-CHEM AG. (Filed with the SEC as Exhibit 10.13 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.12# Exclusive Worldwide License Agreement, dated May 10, 2005, between SCYNEXIS, Inc. and Aventis Pharma S.A. (Filed with the SEC as Exhibit 10.15 to our Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on March 19, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.13 Amendment No. 1 to Exclusive Worldwide License Agreement, dated October 26, 2006, between SCYNEXIS, Inc. and Aventis Pharma S.A. (Filed with the SEC as Exhibit 10.16 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.14\* SCYNEXIS, Inc. 2015 Inducement Award Plan and Form of Stock Option Grant Notice and Stock Option Agreement. (Filed with the SEC as Exhibit 10.34 to our Registration Statement on Form S-1, filed with the SEC on April 9, 2015, SEC File No. 333-203314, and incorporated by reference here).
- 10.15\* Employment Agreement, effective November 1, 2015, between SCYNEXIS, Inc. and Eric Francois. (Filed with the SEC as Exhibit 99.1 to our current report on Form 8-K, filed with the SEC on November 2, 2015, SEC File No. 001-36365, and incorporated by reference here, and incorporated by reference here).
- 10.16\* Engagement Letter, dated July 7, 2015, between CMF Associates, LLC. and SCYNEXIS, Inc. (Filed with the SEC as Exhibit 10.6 to our Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2015, SEC File No. 001-36365, and incorporated by reference here, and incorporated by reference here).
- 10.17 Sublease Agreement, dated July 13, 2015, and effective July 22, 2015, between the Company and Optimer Pharmaceuticals, Inc. (Filed with the SEC as Exhibit 10.2 to our current report on Form 8-K, filed with the SEC on July 23, 2015, SEC File No. 001-36365, and incorporated by reference here).
- 10.18# Commitment to Services Agreement, dated July 17, 2015, between SCYNEXIS, Inc. and Accuratus Lab Services, Inc. (Filed with the SEC as Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2015, SEC File No. 001-36365, and incorporated by reference here).
- 10.19\* Employment Agreement, effective June 1, 2015, between SCYNEXIS, Inc. and David Angulo (Filed with the SEC as Exhibit 10.24 to our Annual Report on Form 10-K, filed with the SEC on March 7, 2016, SEC file No. 001-36365, and incorporated by reference here).
- 10.20\*

Employment Agreement, dated February 5, 2015, between SCYNEXIS, Inc. and Dr. Marco Taglietti. (Filed with the SEC as Exhibit 10.27 to our Annual Report on Form 10-K, filed with the SEC on March 30, 2015, SEC File No. 001-36365, and incorporated by reference here).

- 10.21 Patent Assignment, dated January 28, 2014, between SCYNEXIS, Inc. and Merck Sharpe & Dohme Corp. (Filed with the SEC as Exhibit 10.28 to our Registration Statement on Form S-1, filed with the SEC on February 27, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.22 Addendums to Reimbursement Agreement, dated April 9, 2010, March 17, 2014 and April 29, 2014, between SCYNEXIS, Inc. and Sanofi. (Filed with the SEC as Exhibit 10.31 to our Amendment No. 3 to Registration Statement on Form S-1, filed with the SEC on April 30, 2014, SEC File No. 333-194192, and incorporated by reference here).
- 10.23# Exclusive License Agreement, dated October 29, 2014, between SCYNEXIS, Inc. and Waterstone Pharmaceutical (HK Limited). (Filed with the SEC as Exhibit 10.32 to our Annual Report on Form 10-K, filed with the SEC on March 30 2015, SEC File No. 001-36365, and incorporated by reference here).
- 10.24# Amendment to Termination and License Agreement, dated December 11, 2014, between SCYNEXIS, Inc. and Merck Sharp & Dohme Corp. (Filed with the SEC as Exhibit 10.33 to our Annual Report on Form 10-K, filed with the SEC on March 30, 2015, SEC File No. 001-36365, and incorporated by reference here).

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- 10.25# Second Amendment to License Agreement between SCYNEXIS, Inc. and Merck Sharp & Dohme Corp. dated December 21, 2016 (Filed with the SEC as Exhibit 10.30 to our Annual Report on Form 10-K, filed with the SEC on March 13, 2017, SEC file No. 001-36365, and incorporated by reference here).
- 10.26\* Amendment of Employment Agreement, effective April 18, 2016, between SCYNEXIS, Inc. and Marco Taglietti. (Filed with the SEC as Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2016, SEC File No. 001-36365, and incorporated by reference here).
- 10.27\* Amendment of Employment Agreement, effective April 18, 2016, between SCYNEXIS, Inc. and David Angulo. (Filed with the SEC as Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2016, SEC File No. 001-36365, and incorporated by reference here).
- 10.28 Loan and Security Agreement, dated September 30, 2016, between SCYNEXIS, Inc. and Solar Capital Ltd. (Filed with the SEC as Exhibit 10.1 to our Current Report on Form 8-K, filed with the SEC on October 5, 2016, and incorporated by reference here).
- 10.29\* Compensation arrangements with certain executive officers (Filed with the SEC as Exhibit 10.34 to our Annual Report on Form 10-K, filed with the SEC on March 13, 2017, and in Item 5.02 of our Current Annual Report on Form 8-K, filed with the SEC on February 15, 2018, SEC file No. 001-36365, and incorporated by reference here).
- 10.30 Amendment to Commitment to Services Agreement, dated January 17, 2016, between SCYNEXIS, Inc. and Accuratus Lab Services, Inc. (Filed with the SEC as Exhibit 10.35 to our Annual Report on Form 10-K, filed with the SEC on March 13, 2017, SEC file No. 001-36365, and incorporated by reference here).
- 10.31 Amendment to the Development, License and Supply Agreement, dated August 1<sup>st</sup>, 2013, between SCYNEXIS, Inc. and R-Pharm, CJSC (Filed with the SEC as Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on November 11, 2017, SEC file No. 001-36365, and incorporated by reference here).
- 10.32 Additional Agreement No. 2 to the Development, License and Supply Agreement, dated August 1<sup>st</sup>, 2013, between SCYNEXIS, Inc. and R-Pharm, CJSC (Filed with the SEC as Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on November 11, 2017, SEC file No. 001-36365, and incorporated by reference here).
- 10.33 Additional Agreement No. 3 to the Development, License and Supply Agreement, dated August 1<sup>st</sup>, 2013, between SCYNEXIS, Inc. and R-Pharm, CJSC (Filed with the SEC as Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on November 11, 2017, SEC file No. 001-36365, and incorporated by reference here).
- 10.34 Non-Employee Director Compensation Arrangements.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Power of Attorney (see Signature page).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15d-14(a)

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Schema Linkbase Document

101.CAL XBRL Taxonomy Calculation Linkbase Document

101.DEF XBRL Taxonomy Definition Linkbase Document

101.LAB XBRL Taxonomy Labels Linkbase Document

101.PRE XBRL Taxonomy Presentation Linkbase Document

# Portions of this exhibit have been omitted pursuant to a request for confidential treatment, which portions were omitted and filed separately with the Securities and Exchange Commission.

\* Designates management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SCYNEXIS, INC.

By: /s/ Marco Taglietti M.D.  
 Marco Taglietti, M.D.  
 Chief Executive Officer

(Principal Executive Officer)

Date: March 13, 2018

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Marco Taglietti and Eric Francois Shah, as his true and lawful attorney-in-fact and agent, with full power of substitution for him or her, and in his or her name in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, and any of them or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

| Signature  | Title   | Date           |
|--|---|----------------|
| /s/ Marco Taglietti M.D.<br>Marco Taglietti M.D. | Chief Executive Officer<br>(Principal Executive Officer)                | March 13, 2018 |
| /s/ Eric Francois<br>Eric Francois               | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | March 13, 2018 |
| /s/ Guy Macdonald<br>Guy Macdonald               | Director  | March 13, 2018 |
| /s/ Patrick Machado<br>Patrick Machado           | Director  | March 13, 2018 |
| /s/ David Hastings                               | Director  | March 13, 2018 |



David Hastings

/s/ Steven C. Gilman, Ph.D. Director  
Steven C. Gilman, Ph.D.

March 13, 2018

/s/ Ann F. Hanham, Ph.D. Director  
Ann F. Hanham, Ph.D.

March 13, 2018

/s/ Marion McCourt Director  
Marion McCourt

March 13, 2018