

FLEETCOR TECHNOLOGIES INC

Form 424B3

June 07, 2012

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**Filed Pursuant to Rule 424(b)(3)
Registration Number 333-180069**

**SUBJECT TO COMPLETION,
DATED JUNE 7, 2012**

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUPPLEMENT

To Prospectus dated March 13, 2012

6,750,000 Shares

Common Stock

This prospectus supplement relates to the shares of common stock of FleetCor Technologies, Inc. being sold by the selling stockholders identified in this prospectus supplement. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol FLT. The last reported sale price of our common stock on the New York Stock Exchange on June 6, 2012 was \$38.54 per share.

Investing in our common stock involves risks. See Risk Factors on page S-4 of this prospectus supplement and any risk factors described in the documents we incorporate by reference.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

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The underwriter has agreed to purchase the common stock from the selling stockholders at a price of \$ _____ per share, which will result in \$ _____ of proceeds to the selling stockholders before expenses. The underwriter may offer the shares of common stock from time to time for sale in one or more transactions on the New York Stock Exchange, in the over the counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices.

Citigroup

Prospectus Supplement dated June _____, 2012.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document has two parts, a prospectus supplement and an accompanying prospectus dated March 13, 2012. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. Under this shelf registration process, the selling stockholders named in a prospectus supplement over time may offer and sell our common stock in one or more offerings or resales.

The accompanying prospectus provides you with a general description of our common stock, which the selling stockholders may offer pursuant to this prospectus supplement. This prospectus supplement, which describes certain matters relating to us and the specific terms of this offering of shares of our common stock, adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference herein. Any statement that we make in the accompanying prospectus will be modified or superseded by any inconsistent statement made by us in this prospectus supplement. Please carefully read this prospectus supplement, the accompanying prospectus and any applicable pricing supplement, in addition to the information contained in the documents we refer to under the heading **Where You Can Find More Information**.

In this prospectus, unless indicated otherwise or the context otherwise requires, **we**, **us**, **our** and **FleetCor** refer to FleetCor Technologies, Inc., the issuer of the common stock, and its subsidiaries.

We have not authorized anyone to give you any information or to make any representations about our common stock or any offers by our selling stockholders, other than those contained in this prospectus supplement, the accompanying prospectus or any free writing prospectus prepared by us. If you are given any information or representation about these matters that is not discussed in this prospectus supplement, the accompanying prospectus or any free writing prospectus, you must not rely on that information. This prospectus supplement and the accompanying prospectus is not an offer to sell anywhere or to anyone where or to whom the selling stockholders are not permitted to offer to sell securities under applicable law.

You should not assume that the information incorporated by reference or provided in this prospectus supplement, the accompanying prospectus or any free writing prospectus prepared by us is accurate as of any date other than the date on the front cover of those documents. Our business, financial condition, results of operations and prospects may have changed since that date.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act; provided, however, that we are not incorporating by reference any information furnished (but not filed) under Item 2.02 or Item 7.01 of any Current Report on Form 8-K:

- (a) Annual Report on Form 10-K for the year ended December 31, 2011;
- (b) Quarterly Report on Form 10-Q for the quarter ended March 31, 2012;
- (c) Definitive Proxy Statement on Schedule 14A filed with the SEC on April 23, 2012 (excluding those portions that were not incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2011);

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- (d) Current Reports on Form 8-K filed on February 8, 2012, March 13, 2012, March 15, 2012, May 1, 2012, May 23, 2012 and June 7, 2012 and Current Report on Form 8-K/A filed on February 27, 2012; and
- (e) The description of our common stock, \$0.001 par value per share, set forth in the registration statement on Form 8-A filed with the SEC on December 10, 2010, including any amendment or report filed with the SEC for the purpose of updating this description.

You may request a copy of these filings at no cost, by writing to or telephoning us at the following address:

FleetCor Technologies, Inc.

Attention: General Counsel

5445 Triangle Parkway, Suite 400

Norcross, Georgia 30092-2575

(770) 449-0479

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary does not contain all the information that may be important to purchasers of our common stock. You should carefully read the entire prospectus supplement, the accompanying prospectus and the financial statements, notes to financial statements and other information incorporated by reference in this prospectus supplement before making any investment decision.

Our Company

FleetCor is a leading independent global provider of specialized payment products and services to businesses, commercial fleets, major oil companies, petroleum marketers and government entities in countries throughout North America, Latin America and Europe. Our payment programs enable our customers to better manage and control employee spending and provide card-accepting merchants with a high volume customer base that can increase their sales and customer loyalty. In 2011, we processed more than 215 million transactions on our proprietary networks and third-party networks. We believe that our size and scale, geographic reach, advanced technology and our expansive suite of products, services, brands and proprietary networks contribute to our leading industry position.

We provide our payment products and services in a variety of combinations to create customized payment solutions for our customers and partners. In order to deliver our payment programs and services and process transactions, we own and operate proprietary closed-loop networks through which we electronically connect to merchants and capture, analyze and report customized information. We also use third-party networks to deliver our payment programs and services in order to broaden our card acceptance and use. To support our payment products, we also provide a range of services, such as issuing and processing, as well as specialized information services that provide our customers with value-added functionality and data. Our customers can use this data to track important business productivity metrics, combat fraud and employee misuse, streamline expense administration and lower overall fleet operating costs.

We market our payment products directly to a broad range of commercial fleet customers, including vehicle fleets of all sizes and government fleets. Among these customers, we provide our products and services predominantly to small and medium commercial fleets. We believe these fleets represent an attractive segment of the global commercial fleet market given their relatively high use of less efficient payment products, such as cash and general purpose credit cards. We also manage commercial fleet card programs for major oil companies, such as British Petroleum (including its subsidiary Arco), Chevron and Citgo, and over 800 petroleum marketers.

These companies collectively maintain hundreds of thousands of end-customer relationships with commercial fleets. We refer to these major oil companies and petroleum marketers with whom we have strategic relationships as our partners.

Our Products and Services

We sell a range of customized fleet and lodging payment programs directly and indirectly through partners, such as major oil companies and petroleum marketers. We provide our customers with various card products that typically function like a charge card to purchase fuel, lodging and related products and services at participating locations. We support these cards with specialized issuing, processing and information services that enable us to manage card accounts, facilitate the routing, authorization, clearing and settlement of transactions, and provide value-added functionality and data including customizable card-level controls and productivity analysis tools. Depending on our customer's and partner's needs, we provide these services in a variety of outsourced solutions ranging from a comprehensive end-to-end solution (encompassing issuing, processing and network services) to

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limited back office processing services. In addition, we offer a telematics solution in Europe that combines global positioning, satellite tracking and other wireless technology to allow fleet operators to monitor the capacity utilization and movement of their vehicles and drivers. Furthermore, we offer prepaid fuel and food vouchers and cards in Mexico that may be used as a form of payment in restaurants, grocery stores and gas stations.

Recent Developments

We continue to actively pursue acquisitions of businesses with attractive business models in our current markets and other attractive markets. We recently announced our agreement to acquire CTF Technologies, Inc. (CTF), a provider of fuel payment processing systems in Brazil, for \$180 million. In addition, we have entered into an agreement to acquire another company and a non-binding letter of intent to acquire a third company, both located outside of the United States. The aggregate purchase price for these two additional acquisitions would be approximately \$70 million in cash, which we expect would be funded with cash on hand and borrowings under our credit facilities. The acquisitions of CTF and the other company under contract are subject to customary closing conditions and are expected to close in the second quarter. The acquisition under letter of intent remains subject to the satisfactory completion of due diligence, negotiation and resolution of business and legal issues, negotiation and completion of a mutually satisfactory definitive agreement and corporate approvals by the parties.

Corporate Information

FleetCor's predecessor company was organized in the United States in 1986. Our principal executive offices are located at 5445 Triangle Parkway, Suite 400, Norcross, Georgia 30092-2575, and our telephone number at that address is (770) 449-0479. Our website is located at www.fleetcor.com. The information on, or accessible through, our website is not part of this prospectus supplement unless specifically incorporated by reference herein.

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The Offering

Common stock offered by the selling stockholders	6,750,000 shares.
Common stock outstanding before and after this offering	83,087,791 shares.(1)
Use of proceeds	We will not receive any proceeds from the sale of any shares of our common stock offered by any selling stockholder.
Dividend policy	We currently expect to retain all future earnings, if any, for use in the operation and expansion of our business. We have never declared or paid any dividends on our common stock and do not anticipate paying cash dividends to holders of our common stock in the foreseeable future. In addition, our credit agreement restricts our ability to pay dividends. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and covenants in our existing financing arrangements and any future financing arrangements.
New York Stock Exchange symbol	FLT.

(1) Based on shares outstanding as of April 30, 2012.

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RISK FACTORS

An investment in our common stock involves risk. Before investing in our common stock, you should carefully consider the information included in or incorporated by reference into this prospectus supplement, including the risk factors set forth in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Any such risks could materially and adversely affect our business, financial condition or results of operations. However, the risks incorporated by reference herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. In such a case, the trading price of our common stock could decline and you may lose all or part of your investment in our company.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement and the documents incorporated herein by reference are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results, in contrast with statements that reflect historical facts. In some cases, we have identified such forward-looking statements with typical conditional words such as anticipate, intend, believe, estimate, plan, seek, project or expect, may, will, would, could or should, the negative of these terms or other comparable terminology.

These forward-looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. We have based these forward-looking statements largely on our current expectations and projections about future events. Forward-looking statements are subject to many uncertainties and other variable circumstances, including those discussed in this prospectus supplement under the heading Risk Factors and in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated by reference in this prospectus supplement, many of which are outside of our control, that could cause our actual results and experience to differ materially from any forward-looking statement. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this prospectus supplement and the documents incorporated herein by reference speak only as of the date they were made. We do not undertake, and specifically decline, any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of any shares of our common stock offered by any selling stockholder.

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Our common stock is traded on the New York Stock Exchange under the symbol FLT. Shares of our common stock commenced trading on December 15, 2010. On April 30, 2012 there were 83,087,791 shares of our common stock outstanding, held by approximately 72 stockholders of record. On June 6, 2012, the closing price of our common stock was \$38.54. The following table sets forth the high and low sales prices per share of our common stock for the periods indicated:

	High Sale Price	Low Sale Price
2012:		
Second Quarter (through June 6, 2012)	\$ 41.30	\$ 35.69
First Quarter	\$ 40.00	\$ 29.81
2011:		
Fourth Quarter	\$ 30.40	\$ 25.43
Third Quarter	\$ 30.35	\$ 24.28
Second Quarter	\$ 38.00	\$ 28.78
First Quarter	\$ 35.13	\$ 28.75
2010:		
Fourth Quarter (beginning December 15, 2010)	\$ 31.43	\$ 24.50

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The table below sets forth information with respect to the beneficial ownership of our shares of common stock held by the selling stockholders as of April 30, 2012.

In the table below, the percentage of shares beneficially owned is based on 83,087,791 shares of our common stock outstanding as of April 30, 2012, determined in accordance with Rule 13d-3 of the Exchange Act. Under such rule, beneficial ownership includes any shares over which the stockholder has sole or shared voting power or investment power and also any shares which the stockholder has the right to acquire within sixty days of such date through the exercise of any options or other rights. Unless otherwise indicated below, each stockholder has sole voting and investment power with respect to the shares of common stock shown as beneficially owned.

	Number of Shares Beneficially Owned		Percentage of Shares Outstanding		Number of Shares to be Sold in The Offering
	Before Offering	After Offering	Before Offering	After Offering	
Selling Stockholders					
Summit Partners(1)(3)	19,040,170	15,040,170	22.92	18.10	4,000,000
Bain Capital Fund VIII, LLC and related entities(2)(3)	9,331,332	7,331,332	11.23	8.82	2,000,000
Ronald F. Clarke(4)	4,607,747	3,857,747	5.44	4.55	750,000

- (1) Represents 225,013 shares held by Summit VI Advisors Fund, L.P., 345,470 shares held by Summit VI Entrepreneurs Fund, L.P., 10,819,367 shares held by Summit Ventures VI-A, L.P., 4,512,109 shares held by Summit Ventures VI-B, L.P., 90,592 shares held by Summit Investors VI, L.P., 280,130 shares held by Summit Subordinated Debt Fund II, L.P., 1,722,176 shares held by Summit Partners Private Equity Fund VII-A, L.P., 1,034,365 shares held by Summit Partners Private Equity Fund VII-B, L.P., 9,909 shares held by Summit Investors I, LLC and 1,039 shares held by Summit Investors I (UK), L.P. In this offering, each of the Summit Partners entities will sell the following number of shares of common stock: Summit VI Advisors Fund, L.P., 47,271; Summit VI Entrepreneurs Fund, L.P., 72,577; Summit Ventures VI-A, L.P., 2,272,956; Summit Ventures VI-B, L.P., 947,914; Summit Investors VI, L.P., 19,032; Summit Subordinated Debt Fund II, L.P., 58,850; Summit Partners Private Equity Fund VII-A, L.P., 361,798; Summit Partners Private Equity Fund VII-B, L.P., 217,302; Summit Investors I, LLC, 2,082; Summit Investors I (UK), L.P. 218. Summit Partners, L.P. is (i) the managing member of Summit Partners VI (GP), LLC, which is the general partner of Summit Partners VI (GP), L.P., which is the general partner of each of Summit Ventures VI-A, L.P., Summit Ventures VI-B, L.P., Summit VI Advisors Fund, L.P., Summit VI Entrepreneurs Fund, L.P. and Summit Investors VI, L.P., (ii) the managing member of Stamps, Woodsum & Co. IV, which is the managing member of Summit Partners SD II, LLC, which is the general partner of Summit Subordinated Debt Fund II, L.P., (iii) the managing member of Summit Partners PE VII, LLC, which is the general partner of Summit Partners PE VII, L.P., which is the general partner of Summit Partners Private Equity Fund VII-A, L.P. and Summit Partners Private Equity Fund VII-B, L.P., and (iv) the manager of Summit Investors Management, LLC, which is manager of Summit Investors I, LLC and the general partner of Summit Investors I (UK), L.P. Summit Partners, L.P., through a two-person investment committee composed of Martin J. Mannion and Bruce R. Evans, has voting and dispositive authority over the shares held by the Summit Partners entities, and therefore may beneficially own such shares. Mr. Mannion and Mr. Evans, as members of the two-person investment committee, have voting and dispositive authority over the shares held by the Summit Partners entities, and therefore may beneficially own the shares. Each of the Summit Partners entities, Mr. Mannion and Mr. Evans disclaim beneficial ownership of the shares, except, in each case, to the extent of such person or entity's pecuniary interest therein. The address for each of these entities is 222 Berkeley Street, 18th Floor, Boston, MA 02116. Entities affiliated with Summit Partners hold private equity investments in one or more broker dealers, and as a result Summit Partners is an affiliate of a

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broker dealer. However, affiliates of Summit Partners acquired the securities to be sold in this offering in the ordinary course of business for investment for their own account and not as a nominee or agent and, at the time of that purchase, had no contract, undertaking, agreement, understanding or arrangement, directly or indirectly, with any person to sell, transfer, distribute or grant participations to such person or to any third person with respect to those securities.

- (2) Includes (a) 8,958,931 shares held by Bain Capital Fund VIII, LLC, whose sole member is Bain Capital Fund VIII, L.P., whose general partner is Bain Capital Partners VIII, L.P., whose general partner is Bain Capital Investors, LLC (BCI), (b) 205,895 shares held by BCIP Associates III, LLC, whose sole member is BCIP Associates III, whose managing general partner is BCI, (c) 96,518 shares held by BCIP T Associates III, LLC, whose sole member is BCIP Trust Associates III, whose managing general partner is BCI, (d) 16,258 shares held by BCIP Associates III-B, LLC, whose sole member is BCIP Associates III-B, whose managing general partner is BCI, (e) 51,348 shares held by BCIP T Associates III-B, LLC, whose sole member is BCIP Trust Associates III-B, whose managing general partner is BCI and (f) 2,382 shares held by BCIP Associates-G, whose managing general partner is BCI. As a result of the relationships described above, BCI may be deemed to own the shares held by entities in the foregoing sentence (the Bain Capital Entities). BCI disclaims beneficial ownership of such shares except to the extent of its pecuniary interest therein. Voting and investment determinations with respect to the shares held by the Bain Capital Entities are made by an investment committee comprised of the following managing directors of BCI: Andrew Balson, Steven Barnes, Joshua Bekenstein, John Connaughton, Todd Cook, Paul Edgerley, Christopher Gordon, Blair Hendrix, Jordan Hitch, Jon Kilgallon, Lew Klessel, Matthew Levin, Ian Loring, Philip Loughlin, Seth Meisel, Mark Nunnally, Stephen Pagliuca, Ian Reynolds, Mark Verdi and Stephen Zide. As a result, and by virtue of the relationships described in this footnote, the investment committee of BCI may be deemed to exercise voting and dispositive power with respect to the shares held by the Bain Capital Entities. The investment committee of BCI disclaims ownership of such shares except to the extent of its pecuniary interest therein. In this offering each of the Bain Capital Entities will sell the following number of shares of common stock: (a) Bain Capital Fund VIII, LLC, 1,920,181; (b) BCIP Associates III, LLC, 44,130; (c) BCIP T Associates III, LLC, 20,687; (d) BCIP Associates III-B, LLC, 3,485; (e) BCIP T Associates III-B, LLC, 11,006; and (f) BCIP Associates-G, 511. The address for each of these entities is John Hancock Tower, 200 Clarendon Street, Boston, MA 02116. Certain partners and other employees of the Bain Capital Entities may make a contribution of shares of common stock to one or more charities prior to this offering. In such case, a recipient charity, if it chooses to participate in the offering, will be the selling stockholder with respect to the donated shares.
- (3) Each of the selling stockholders is a party to the sixth amended and restated registration rights agreement, as amended. See Description of Capital Stock Registration Rights in the accompanying prospectus.
- (4) Includes options to purchase 1,661,464 shares vested or vesting within 60 days of April 30, 2012.

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UNDERWRITING

Citigroup Global Markets Inc. is acting as underwriter of the offering. Subject to the terms and conditions stated in the underwriting agreement dated June 1, 2012, the underwriter has agreed to purchase, and the selling stockholders have agreed to sell to the underwriter, all 6,750,000 shares of common stock offered hereby.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares included in this offering is subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all the shares if it purchases any of the shares.

The underwriter may receive from purchasers of the shares normal brokerage commissions in amounts agreed with such purchasers. The underwriter proposes to offer the shares of common stock from time to time for sale in one or more transactions on the New York Stock Exchange, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by it and subject to its right to reject any order in whole or in part. The underwriter may effect such transactions by selling shares of common stock to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriter and/or purchasers of shares of common stock for whom they may act as agents or to whom they may sell as principal. The difference between the price at which the underwriter purchases shares and the price at which the underwriter resells such shares may be deemed underwriting compensation.

The selling stockholders, other than any recipient charities, have agreed that, for a period of 60 days from the date of the underwriting agreement, they will not, without the prior written consent of the underwriter, sell, dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock, subject to specified exceptions. The underwriter in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

In addition, pursuant to our Insider Trading Compliance Policy, the window for sales of our common stock by directors and senior officers is currently closed and we have agreed in the underwriting agreement, subject to certain limited exceptions, that we will not open the window or otherwise waive any applicable restrictions on such sales of common stock with respect to such senior officers and directors, in each case until after the second full trading day following our release of second quarter earnings. However, certain transactions, including sales of our common stock by officers and directors pursuant to trading plans permitted under Exchange Act Rule 10b5-1, will remain permitted during this period.

The shares are listed on the New York Stock Exchange under the symbol FLT.

We and the selling stockholders estimate that the total expenses of this offering, excluding any underwriting discounts and commissions, will be approximately \$500,000. All such expenses will be paid by the selling stockholders.

In connection with the offering, the underwriter may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

Short sales involve secondary market sales by the underwriter of a greater number of shares than it is required to purchase in the offering.

Covering transactions involve purchases of shares in the open market after the distribution has been completed in order to cover short positions.

Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

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Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriter for its own account, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriter may conduct these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise. If the underwriter commences any of these transactions, it may discontinue them at any time.

The underwriter is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The underwriter and its affiliates have in the past performed, or may in the future perform, commercial banking, investment banking and/or advisory services for us from time to time for which they have received or will receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments.

We and the selling stockholders have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus supplement may not be made to the public in that relevant member state other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of securities to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriter with a view to the final

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placement of the shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the shares, other than the underwriter, is authorized to make any further offer of the shares on behalf of the sellers or the underwriter.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

released, issued, distributed or caused to be released, issued or distributed to the public in France; or

used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;

to investment services providers authorized to engage in portfolio management on behalf of third parties; or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or

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may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The shares offered in this prospectus supplement have not been registered under the Securities and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,
shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

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LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus will be passed upon for us by our counsel, King & Spalding LLP. Certain matters with respect to the selling stockholders will be passed upon by Ropes & Gray LLP and Kirkland & Ellis LLP. The underwriter has been represented in this offering by Cravath, Swaine & Moore LLP.

EXPERTS

The consolidated financial statements of FleetCor Technologies, Inc. and subsidiaries at December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011, and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2011 have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The carve out financial statements of Allstar Business Solutions Limited, Card Payment Services Division as of and for the year ended December 31, 2010 incorporated in this prospectus supplement by reference to the Current Report on Form 8-K/A filed on February 27, 2012 have been included herein in reliance upon the report of Mazars LLP, an independent auditor, and upon the authority of such firm as experts in accounting and auditing.

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PROSPECTUS

Common Stock

The selling stockholders to be named in a prospectus supplement may offer and sell shares of the common stock of FleetCor Technologies, Inc. from time to time in amounts, at prices and on terms that will be determined at the time of the offering.

This prospectus describes the general manner in which the shares of our common stock may be offered and sold by the selling stockholders. The specific manner in which shares of common stock may be offered and sold will be described in a supplement to this prospectus.

You should carefully read this prospectus and any accompanying prospectus supplement, together with the documents we incorporate by reference, before you invest in our common stock.

Investing in our common stock involves risks. See the section entitled **Risk Factors on page 3 of this prospectus and any risk factors described in any applicable prospectus supplement and in the documents we incorporate by reference.**

Our common stock is listed on the New York Stock Exchange under the symbol FLT. The last reported sale price of our common stock on the New York Stock Exchange on March 12, 2012 was \$37.20 per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 13, 2012.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we have filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Using this process, selling stockholders may offer shares of our common stock in one or more offerings or resales.

This prospectus provides you with a general description of the common stock selling stockholders may offer. Each time selling stockholders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement and any free writing prospectus may also add to, update, supplement or clarify information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. Please carefully read this prospectus, any applicable prospectus supplement and any applicable pricing supplement, in addition to the information contained in the documents we refer to under the heading **Where You Can Find More Information**.

In this prospectus, unless indicated otherwise or the context otherwise requires, we, us, our and FleetCor refer to FleetCor Technologies, Inc., the issuer of the common stock, and its subsidiaries.

We have not authorized anyone to give you any information or to make any representations about our common stock or any offers by our selling stockholders, other than those contained in this prospectus, applicable prospectus supplements or any free writing prospectus prepared by us. You should only rely on information incorporated by reference or provided in this prospectus, any applicable prospectus supplement or any free writing prospectus. This prospectus is not an offer to sell anywhere or to anyone where or to whom the selling stockholders are not permitted to offer to sell securities under applicable law.

You should not assume that the information incorporated by reference or provided in this prospectus, any applicable prospectus supplement or any free writing prospectus prepared by us is accurate as of any date other than the date on the front cover of those documents. Our business, financial condition, results of operations and prospects may have changed since that date.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and we file annual, quarterly and current reports and other information with the SEC. You can read our SEC filings, including the registration statement and all filed exhibits and schedules thereto, over the Internet at the SEC's website at www.sec.gov. To receive copies of public records not posted to the SEC's web site at prescribed rates, you may complete an online form at <http://www.sec.gov>, send a fax to (202) 772-9337 or submit a written request to the SEC, Office of FOIA/PA Operations, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Our SEC filings are also available in the investor relations portion of our website at investor.fleetcor.com. The information on, or accessible through, our website is not part of this prospectus unless specifically incorporated by reference herein.

The SEC allows us to incorporate by reference into this prospectus the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act; provided, however, that we are not incorporating by reference any information furnished (but not filed) under Item 2.02 or Item 7.01 of any Current Report on Form 8-K:

- (a) Annual Report on Form 10-K for the year ended December 31, 2011;

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- (b) Definitive Proxy Statement on Schedule 14A filed with the SEC on April 25, 2011 (excluding those portions that were not incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2010);
- (c) Current Reports on Form 8-K filed on February 8, 2012 and March 13, 2012 and Current Report on Form 8-K/A filed on February 27, 2012; and
- (d) The description of our common stock, \$0.001 par value per share, set forth in the registration statement on Form 8-A filed with the SEC on December 10, 2010, including any amendment or report filed with the SEC for the purpose of updating this description.

You may request a copy of these filings at no cost, by writing to or telephoning us at the following address:

Warrant liability

499,993

63,384

Total liabilities

1,681,920

394,367

Commitments and contingencies

Stockholders' deficit

Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued and outstanding

-

-

Common stock, \$0.001 par value, 100,000,000 shares authorized, 43,520,563 and 43,062,231 shares issued and outstanding

43,521

43,062

Additional paid-in capital

46,525,778

46,497,642

Deficit accumulated during the development stage

(48,136,853)

(46,708,017)

Total stockholders' deficit

(1,567,554)

(167,313)

Total liabilities and stockholders' deficit

\$
114,366

\$
227,054

See accompanying notes to the unaudited condensed financial statements.

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NILE THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended September 30,		Nine months ended September 30,		Period from August 1, 2005 (incpetion) through September 30, 2013
	2013	2012	2013	2012	
Income:					
Grant income	\$ -	\$ -	\$ -	\$ -	\$ 482,235
Collaboration income	-	-	-	195,500	1,550,000
Total income	-	-	-	195,500	2,032,235
Operating expenses:					
Research and development	30,882	179,142	130,002	976,945	31,149,822
General and administrative	261,083	397,170	908,178	1,339,159	18,846,049
Total operating expenses	291,965	576,312	1,038,180	2,316,104	49,995,871
Loss from operations	(291,965)	(576,312)	(1,038,180)	(2,120,604)	(47,963,636)
Other income (expense):					
Interest income	57	309	200	1,149	795,392
Interest expense	(68,282)	-	(155,345)	-	(1,429,079)
Other income (expense)	11,737	9,771	(235,511)	428,410	460,470
Total other income (expense)	(56,488)	10,080	(390,656)	429,559	(173,217)
Net loss	\$ (348,453)	\$ (566,232)	\$ (1,428,836)	\$ (1,691,045)	\$ (48,136,853)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)	
Weighted-average common shares outstanding	43,366,125	43,062,231	43,164,642	41,912,961	

See accompanying notes to the unaudited condensed financial statements.

NILE THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY
PERIOD FROM AUGUST 1, 2005 (INCEPTION) TO SEPTEMBER 30, 2013
(unaudited)

	COMMON STOCK		ADDITIONAL	DEFICIT	TOTAL
	SHARES	AMOUNT	PAID-IN	DURING THE	STOCKHOLDERS'
			CAPITAL	DEVELOPMENT	EQUITY
				STAGE	(DEFICIT)
Issuance of common shares to founders	13,794,132	\$ 13,794	\$ (8,794)	\$ -	\$ 5,000
Founders shares returned to treasury	(1,379,419)	-	-	-	-
Net loss	-	-	-	(10,043)	(10,043)
Balance at December 31, 2005	12,414,713	13,794	(8,794)	(10,043)	(5,043)
Issuance of common shares pursuant to licensing agreement	1,379,419	-	500	-	500
Issuance of stock options for services	-	-	10,000	-	10,000
Net loss	-	-	-	(2,581,972)	(2,581,972)
Balance at December 31, 2006	13,794,132	13,794	1,706	(2,592,015)	(2,576,515)
Issuance of common shares pursuant to licensing agreement	63,478	64	182,172	-	182,236
Issuance of common shares pursuant to licensing agreement	350,107	350	999,650	-	1,000,000
Common shares sold in private placement, net of issuance costs of \$102,000	6,957,914	6,958	19,865,789	-	19,872,747
Warrants issued in connection with note conversion	-	-	288,000	-	288,000
Conversion of notes payable upon event of merger	1,684,085	1,684	4,349,481	-	4,351,165
Note discount arising from beneficial conversion feature	-	-	483,463	-	483,463
Reverse merger transaction	-	-	-	-	-
Elimination of accumulated deficit	-	-	(234,218)	-	(234,218)
Previously issued SMI stock	1,250,000	1,250	232,968	-	234,218
Employee stock-based compensation	-	-	1,902,298	-	1,902,298
Non-employee stock-based compensation	-	-	(667)	-	(667)
Net loss	-	-	-	(10,302,795)	(10,302,795)
Balance at December 31, 2007	24,099,716	24,100	28,070,642	(12,894,810)	15,199,932
Warrants issued in satisfaction of accrued liabilities	-	-	334,992	-	334,992
Employee stock-based compensation	-	-	2,436,603	-	2,436,603

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Non-employee stock-based compensation	-	-	13,687	-	13,687
Issuance of common shares pursuant to licensing agreement	49,689	50	249,950	-	250,000
Net loss	-	-	-	(13,131,596)	(13,131,596)
Balance at December 31, 2008	24,149,405	24,150	31,105,874	(26,026,406)	\$ 5,103,618
Employee stock-based compensation	-	-	1,772,597	-	1,772,597
Non-employee stock-based compensation	-	-	473,584	-	473,584
Units sold in private placement, net of issuance costs of \$282,773	2,691,394	2,691	3,284,484	-	3,287,175
Stock option and warrant exercises	245,025	245	217,228	-	217,473
Net loss	-	-	-	(7,872,297)	(7,872,297)
Balance at December 31, 2009	27,085,824	27,086	36,853,767	(33,898,703)	2,982,150
Employee stock-based compensation	-	-	1,142,552	-	1,142,552
Non-employee stock-based compensation	-	-	(19,249)	-	(19,249)
Units sold in private placement, net of issuance costs of \$715,801	7,475,000	7,475	4,509,224	-	4,516,699
Stock option and warrant exercises	68,970	69	6,138	-	6,207
Net loss	-	-	-	(6,031,491)	(6,031,491)
Balance at December 31, 2010	34,629,794	34,630	42,492,432	(39,930,194)	2,596,868
Employee stock-based compensation	-	-	785,587	-	785,587
Non-employee stock-based compensation	-	-	20,740	-	20,740
Stock option and warrant exercises	82,437	82	13,666	-	13,748
Units sold in private placement, net of issuance costs of \$201,434	5,000,000	5,000	2,293,566	-	2,298,566
Net loss	-	-	-	(4,884,786)	(4,884,786)
Balance at December 31, 2011	39,712,231	39,712	45,605,991	(44,814,980)	830,723
Employee stock-based compensation	-	-	312,690	-	312,690
Units sold in private placement, net of issuance costs of \$145,793	3,350,000	3,350	1,190,857	-	1,194,207
Warrants issued in connection with offering	-	-	(611,896)	-	(611,896)
Net loss	-	-	-	(1,893,037)	(1,893,037)
Balance at December 31, 2012	43,062,231	43,062	46,497,642	(46,708,017)	(167,313)
Warrants exchanged for common stock	458,332	459	13,291	-	13,750
	-	-	14,845	-	14,845

Employee stock-based
compensation

Net loss	-	-	-	(1,428,836)	(1,428,836)
Balance at September 30, 2013	43,520,563	\$ 43,521	\$ 46,525,778	\$ (48,136,853)	\$ (1,567,554)

See accompanying notes to the unaudited condensed financial statements.

NILE THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended September 30, 2013	2012	Period from August 1, 2005 (inception) through September 30, 2013
Cash flows from operating activities			
Net loss	\$ (1,428,836)	\$ (1,691,045)	\$ (48,136,853)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	1,353	4,806	328,257
Stock-based compensation	14,845	305,243	10,632,995
Conversion of warrants to common stock	13,750	-	13,750
Warrant liability	233,209	(431,046)	(315,303)
Write-off of intangible assets	-	-	106,830
Warrants issued in connection with note conversion	-	-	288,000
Note discount arising from beneficial conversion feature	-	-	483,463
Loss on disposal of assets	1,307	-	38,031
Noncash interest expense	147,696	-	498,861
Changes in operating assets and liabilities			
Prepaid expenses and other current assets	86,937	115,456	(37,975)
Other non-current assets	47,403	-	(4,535)
Accounts payable	156,329	(227,787)	339,245
Accrued expenses and other current liabilities	365,958	4,309	497,886
Due to related party	1,861	(30,826)	18,000
Net cash used in operating activities	(358,188)	(1,950,890)	(35,249,348)
Cash flows from investing activities			
Purchase of property and equipment	-	-	(130,855)
Proceeds from sale of assets	-	-	2,500
Cash paid for intangible assets	-	-	(345,591)
Net cash used in investing activities	-	-	(473,946)
Cash flows from financing activities			
Proceeds from issuance of notes payable	382,500	-	5,882,500
Repayment of notes payable	-	-	(1,500,000)
Proceeds from exercise of stock options and warrants	-	-	237,428
Proceeds from sale of common stock to founders	-	-	5,000
Proceeds from sale of common stock in private placement, net	-	1,194,207	31,169,394
Net cash provided by financing activities	382,500	1,194,207	35,794,322

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Net (decrease) increase in cash and cash equivalents	24,312	(756,683)	71,028
Cash and cash equivalents at beginning of period	46,716	1,039,190	-
Cash and cash equivalents at end of period	\$ 71,028	\$ 282,507	\$ 71,028
Supplemental schedule of cash flows information:			
Cash paid for interest	\$ -	\$ -	\$ 150,000
Supplemental schedule of non-cash investing and financing activities:			
Warrants issued in satisfaction of accrued liability	\$ -	\$ -	\$ 334,992
Warrants issued to placement agent and investors in connection with private placements		\$ -	\$ 5,721,000
Warrants issued to investors in connection with registered direct offering	\$ -	\$ 611,896	\$ 611,896
Conversion of notes payable and interest to common stock	\$ -	\$ -	\$ 4,351,165
Common shares of SMI issued in reverse merger transaction	\$ -	\$ -	\$ 1,250

See accompanying notes to the unaudited condensed financial statements.

Nile Therapeutics, Inc
(A Development Stage Company)
Notes to Condensed Financial Statements

1. DESCRIPTION OF BUSINESS

Nile Therapeutics, Inc. (“Nile” or the “Company”) engages in research and development of innovative products for the treatment of cardiovascular diseases. Nile’s lead compound is cenderitide, a chimeric natriuretic peptide currently in development for the treatment of heart failure patients in the post-acute period. The Company is also developing CU-NP, a pre-clinical rationally designed natriuretic peptide that consists of amino acid chains identical to those produced by the human body, specifically the ring structure of C-type Natriuretic Peptide (“CNP”) and the N- and C-termini of Urodilatin (“URO”).

The Company was incorporated in the State of Nevada on June 17, 1996 and reincorporated in Delaware on February 9, 2007, at which time its name was SMI Products, Inc. (“SMI”). On September 17, 2007, the Company completed a merger transaction whereby Nile Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of SMI, merged with and into Nile Therapeutics, Inc., a privately held Delaware corporation (“Old Nile”), with Old Nile becoming a wholly-owned subsidiary of SMI. Immediately following the merger described above, Old Nile was merged with and into the Company, with the Company remaining as the surviving corporation to that merger. In connection with that short-form merger, the Company changed its name to “Nile Therapeutics, Inc.” All costs incurred in connection with the SMI merger transactions have been expensed. Upon completion of these merger transactions, the Company adopted Old Nile’s business plan.

On July 7, 2013, the Company entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with Capricor, Inc. (“Capricor”), a privately held company incorporated in Delaware, and Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of the Company (“Merger Sub”), pursuant to which Merger Sub, subject to certain conditions contained in the Merger Agreement, will merge with and into Capricor and Capricor will become a wholly-owned subsidiary of the Company (the “Merger”). The Merger Agreement was amended on September 27, 2013. Upon completion of the Merger, each outstanding share of Capricor common stock, and each security convertible into Capricor common stock, will automatically convert into the right to receive a number of shares of the Company’s common stock, or, as applicable, securities convertible into the Company’s common stock, such that, after giving effect to the Merger, the holders of Capricor capital stock immediately prior to the Merger will hold, in the aggregate, 90% of the total number of shares of the Company’s common stock on a fully-diluted basis. Capricor is a company whose mission is to improve the treatment of heart disease by commercializing cardiac stem cell therapies for patients.

The Merger Agreement contains customary representations and warranties by the Company and Capricor with respect to their businesses and the transactions contemplated by the Merger Agreement. Closing of the Merger is conditioned on, among other things, accuracy of such representations and warranties, approval of the Merger Agreement by the requisite number of Capricor’s stockholders, conversion of each share of Capricor preferred stock into Capricor common stock, and stockholder approval of an amendment to the Company’s Certificate of Incorporation authorizing a reverse split of the Company’s common stock at a ratio not to exceed 1-for-100. In addition, the closing of the Merger is conditioned on the Company amending its technology license agreement with the Mayo Foundation and evidence of payment or other satisfaction in full (including releases) of accrued liabilities and obligations of the Company (with the exception of obligations not to exceed the aggregate amount of \$100,000, which may remain outstanding through the effective time of the Merger). The Merger Agreement may be terminated for certain reasons, including by either party if the closing thereof does not occur prior to November 15, 2013. The Merger Agreement also contains other customary terms and provisions as are common in similar agreements.

The Company's executive officers will resign and will be replaced by the current officers of Capricor. Following completion of the planned merger, Capricor will continue its focus on developing its product pipeline and the Company expects that the combined company will also eventually continue the development of cenderitide and CU-NP. See Note 3, below.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is a development stage enterprise since it has not yet generated any revenue from the sale of products and, through September 30, 2013, its efforts have been principally devoted to developing its licensed technologies, and raising capital. Accordingly, the accompanying condensed financial statements have been prepared in accordance with the provisions of Accounting Standards Codification ("ASC") 915, "Development Stage Entities."

The accompanying unaudited Condensed Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q adopted under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of Nile's management, the accompanying Condensed Financial Statements contain all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. The interim results for the period ended September 30, 2013 are not necessarily indicative of results for the full 2013 fiscal year or any other future interim periods. Because the 2007 merger with SMI was accounted for as a reverse acquisition under generally accepted accounting principles, the financial statements for periods prior to September 17, 2007 reflect only the operations of Old Nile.

Nile Therapeutics, Inc
(A Development Stage Company)
Notes to Condensed Financial Statements

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These unaudited Condensed Financial Statements have been prepared by management and should be read in conjunction with the Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Estimates and assumptions principally relate to services performed by third parties but not yet invoiced, estimates of the fair value and forfeiture rates of stock options issued to employees and consultants, and estimates of the probability and potential magnitude of contingent liabilities. Actual results could differ from those estimates.

Collaboration Income

In February 2011, the Company entered into a collaboration agreement whereby the Company was reimbursed for work performed on behalf of the collaborator upon the achievement of certain milestones. The Company recorded all of these expenses as research and development expenses and the reimbursements upon the achievement of the milestones as income (Note 5).

The Company recognizes milestone payments as income upon achievement of the milestone only if (1) the milestone payment is non-refundable, (2) substantive effort is involved in achieving the milestone, (3) the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone and (4) the milestone is at risk for both parties. If any of these conditions are not met, the Company defers the milestone payment and recognizes it as income over the remaining estimated period of performance under the contract as the Company completes its performance obligations.

Research and Development

Research and development costs are charged to expense as incurred. Research and development includes employee costs, fees associated with operational consultants, contract clinical research organizations, contract manufacturing organizations, clinical site fees, contract laboratory research organizations, contract central testing laboratories, licensing activities, and allocated office, insurance, depreciation, and facilities expenses. The Company accrues for costs incurred as the services are being provided by monitoring the status of the trial and the invoices received from its external service providers. The Company adjusts its accruals in the period when actual costs become known. Costs related to the acquisition of technology rights for which development work is still in process are charged to operations as incurred and considered a component of research and development costs.

Fair Value of Financial Instruments

The Company measures fair value in accordance with generally accepted accounting principles. Fair value measurements are applied under other accounting pronouncements that require or permit fair value measurements. Financial instruments included in the Company's balance sheets consist of cash and cash equivalents, accounts payable, accrued expenses, due to related parties, and warrant liability. The carrying amounts of these instruments reasonably approximate their fair values due to their short-term maturities.

Warrant Liability

The Company accounts for the warrants issued in connection with the March 2013 convertible note issuance (Note 6) and the April 2012 financing (Note 8) in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that the Company classifies the warrant instrument as a liability at its fair value and adjust the instrument to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. The fair value of warrants issued by the Company, in connection with the April 2012 financing, have been estimated by management using a binomial options pricing model. The binomial option pricing model is a generally accepted valuation model used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company's future expected stock prices, and their resulting probabilistic valuation. In connection with the March 2013 convertible note issuance, the Company estimated the fair value of the embedded derivative warrant liability by using the Black-Scholes option-pricing model.

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3. LIQUIDITY, CAPITAL RESOURCES AND MANAGEMENT'S PLANS

As discussed above under Note 1, on July 7, 2013, the Company entered into a merger agreement with Capricor. Following completion of the planned merger, the Company anticipates that the combined company, under the leadership of Capricor's management, will eventually continue the development of cenderitide and CU-NP (Note 5), in addition to Capricor's current research and development programs.

The Company does not have the capital resources available to continue the development of our product development programs or to otherwise remain in business. For more than 12 months, we have sought either additional financing to fund such activities or a collaboration or other strategic agreement with another company that would provide the capital needed to fund further development of the Company's product candidates. Prior to our entry into the Capricor merger agreement, the Company had been unsuccessful in securing such additional capital. The planned merger with Capricor is subject to several conditions, including the approval of stockholders of a reverse split of the Company's common stock at a ratio not to exceed 1-for-100. If such conditions are not satisfied, the Company may be unable to complete the planned merger. In that case, the Company would be forced to liquidate.

The Company has experienced net losses since its inception and has an accumulated deficit of approximately \$48.1 million at September 30, 2013. Cash resources as of September 30, 2013 were approximately \$0.1 million, compared to \$0.05 million as of December 31, 2012. Based on its currently available cash resources, including the proceeds from the additional Notes (see Note 12), the Company believes that it only has sufficient capital to fund its minimal operating expenses until the middle of the fourth quarter of 2013. The Company will need to raise additional capital to fund any clinical development and to otherwise continue operations beyond the middle of the fourth quarter of 2013. Additionally, the Company will need substantial additional financing in the future until it can achieve profitability, if ever. The Company's continued operations will depend on its ability to raise additional funds through various potential sources, such as equity and debt financing, or to license its product candidates to another pharmaceutical company. The Company will continue to fund operations from cash on hand and through sources of capital similar to those previously described. The Company cannot assure that it will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's Condensed Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments that might result from the inability of the Company to continue as a going concern.

4. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similarly to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted loss per share as their effect is anti-dilutive. There are no potentially dilutive securities as of September 30, 2013 and 2012.

For the three and nine months ended September 30, 2013 and 2012, warrants and options to purchase 9,861,400 and 16,762,331 shares, respectively, have been excluded from the computation of potentially dilutive securities,

respectively, as their exercise prices are greater than the average market price per common share for the periods ended September 30, 2013 and September 30, 2012, respectively.

5. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY

License Agreements

Cenderitide

On January 20, 2006, the Company entered into an exclusive, worldwide, royalty-bearing license agreement, or the Cenderitide License Agreement, with Mayo Foundation for Medical Education and Research (“Mayo”) for the rights to issued patents, patent applications and know-how relating to the use of cenderitide in all therapeutic indications. The Company was also entitled to rights to improvements to cenderitide that arose out of the laboratory of Dr. John Burnett, the co-inventor of cenderitide, until January 19, 2009.

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5. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY (Continued)

Under the terms of the Cenderitide License Agreement, the Company paid Mayo an up-front cash payment, reimbursed it for past patent expenses and issued to Mayo 1,379,419 shares of common stock. Additionally, the Company agreed to make contingent cash payments up to an aggregate of \$31.9 million upon successful completion of specified clinical and regulatory milestones relating to cenderitide. This aggregate amount is subject to increase upon the receipt of regulatory approval for each additional indication of cenderitide as well as for additional compounds or analogues contained in the intellectual property. In July 2008, the Company made a milestone payment of \$400,000 to Mayo upon the dosing of the first patient in a Phase 2 trial. Based on the current stage of research the Company does not expect to make any milestone payments for the year ending December 31, 2013. Pursuant to the Cenderitide License Agreement, the Company will pay Mayo an annual maintenance fee and a percentage of net sales of licensed products, as well as \$50,000 per year for the consulting services of Dr. Burnett while serving as chairman of the Company's Scientific Advisory Board.

In addition to the potential milestone payments discussed above, the Cenderitide License Agreement requires the Company to issue shares of common stock to Mayo for an equivalent dollar amount of grants received in excess of \$300,000, but not to exceed \$575,000. For the period from August 1, 2005 (inception) through September 30, 2013, the Company received \$482,235 in grant income for which it has issued to Mayo 63,478 shares of common stock. No such grant income has been received or shares issued since the year ended December 31, 2008.

The Cenderitide License Agreement, unless earlier terminated, will continue in full force and effect until January 20, 2026. However, to the extent any patent covered by the license is issued with an expiration date beyond January 20, 2026, the term of the agreement will continue until such expiration date. Mayo may terminate the agreement earlier (i) for the Company's material breach of the agreement that remains uncured after 90 days' written notice, (ii) the Company's insolvency or bankruptcy, or (iii) if the Company challenges the validity or enforceability of any of the patents in any manner. The Company may terminate the agreement without cause upon 90 days' written notice.

As of September 30, 2013, the Company was not in compliance with several terms of the Cenderitide License Agreement, including, but not limited to, provisions requiring the Company to pay the Mayo Foundation an annual maintenance fee and actively pursue the development of cenderitide. The Company is in discussions with the Mayo Foundation to amend the agreement, but the Company cannot guarantee that it will be able to reach an agreement with Mayo that allows the Company to maintain its rights to cenderitide. The Company currently owes Mayo approximately \$154,100 in fees and expense reimbursements related to the Cenderitide License Agreement, all of which is included in accounts payable. The Company is currently negotiating with Mayo to amend its license agreements relating to cenderitide and CU-NP in order to satisfy and/or modify the Company's outstanding obligations to Mayo. The Company anticipates that it will conclude such negotiations prior to completing its planned merger with Capricor.

CU-NP

On June 13, 2008, the Company entered into an exclusive, worldwide, royalty-bearing license agreement, or the CU-NP License Agreement, with Mayo for the rights to intellectual property and to develop commercially CU-NP for all therapeutic indications. The Company was also entitled to rights to improvements to CU-NP that arose out of the laboratory of Dr. John Burnett and Dr. Candace Lee, the inventors of CU-NP, until June 12, 2011.

Under the terms of the CU-NP License Agreement, the Company made an up-front cash payment to Mayo and agreed to make future contingent cash payments up to an aggregate of \$24.3 million upon achievement of specific clinical and regulatory milestones relating to CU-NP, including a milestone payment due in connection with the initiation of the first Phase 2 clinical trial of the licensed product. This aggregate amount of \$24.3 million is subject to increase upon the receipt of regulatory approval for each additional indication of CU-NP, as well as for additional compounds or analogues contained in the intellectual property. Based on the current stage of research the Company does not expect to make any milestone payments for the year ending December 31, 2013. Pursuant to the agreement, the Company must also pay Mayo an annual maintenance fee and a percentage of net sales of licensed products.

In addition to these cash payments payable with respect to the CU-NP License Agreement, the Company also agreed to issue shares of its common stock and warrants to Mayo. In June 2008, the Company issued 49,689 shares of common stock to Mayo having a fair market value as of June 13, 2008 equal to \$250,000. This amount has been recorded in research and development expenses in the accompanying Condensed Statements of Operations.

The CU-NP License Agreement, unless earlier terminated, will continue in full force and effect until June 13, 2028. However, to the extent any patent covered by the license is issued with an expiration date beyond June 13, 2028, the term of the agreement will continue until such expiration date. Mayo may terminate the agreement earlier (i) for the Company's material breach of the agreement that remains uncured after 90 days written notice, (ii) the Company's insolvency or bankruptcy, (iii) if the Company challenges the validity or enforceability of any of the patents in any manner, or (iv) upon receipt of notice from the Company that it has terminated all development efforts under the agreement. The Company may terminate the agreement without cause upon 90 days' written notice.

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5. INTANGIBLE ASSETS AND INTELLECTUAL PROPERTY (Continued)

As of September 30, 2013, the Company was not in compliance with several terms of the CU-NP License Agreement, including, but not limited to, provisions requiring the Company to pay the Mayo Foundation an annual maintenance fee and actively pursue the development of CU-NP. The Company is in discussions with the Mayo Foundation to amend the agreement, but the Company cannot guarantee that it will be able to reach an agreement with Mayo that allows the Company to maintain its rights to CU-NP. As of September 30, 2013, the Company owed Mayo approximately \$39,300 in fees and expense reimbursements related to the CU-NP License Agreement, all of which is included in accounts payable.

Collaboration Agreement

In February 2011, the Company entered into a Clinical Trial Funding Agreement with Medtronic, Inc. Pursuant to the agreement, Medtronic provided the funding and equipment necessary for the Company to conduct a Phase 1 clinical trial to assess the pharmacokinetics and pharmacodynamics of cenderitide when delivered to heart failure patients through continuous subcutaneous infusion using Medtronic's diabetes pump technology.

Under the agreement, the Company agreed not to enter into an agreement with a third party to develop or commercialize cenderitide or any drug/device combination developed under the agreement until the earlier of: (i) three months following delivery to Medtronic of a final database with respect to the Phase 1 trial; and (ii) 15 months after the date of the agreement. The final database was delivered to Medtronic on November 19, 2011.

The agreement also provided that intellectual property conceived in or otherwise resulting from the performance of the Phase 1 clinical trial shall be jointly owned by Nile and Medtronic (the "Joint Intellectual Property"), and that Nile shall pay royalties to Medtronic based on the net sales of any Nile product, the manufacture, use or sale of which is covered or claimed in one or more issued patents constituting Joint Intellectual Property. The agreement further provided that, if the parties fail to enter into a definitive commercial license agreement with respect to cenderitide, then each party shall have a right of first negotiation to license exclusive rights to any Joint Intellectual Property. As of September 30, 2013, three filed patent applications are considered Joint Intellectual Property.

Pursuant to its terms, the agreement expired in February 2012, following the completion of the Phase 1 clinical trial and the delivery of data and reports related to the study. The Company received the final reimbursement of \$195,500 in February 2012 and a total of \$1,550,000 over the life of the agreement. All amounts are recorded as collaboration income in the Company's Condensed Statement of Operations.

6. CONVERTIBLE NOTES PAYABLE

On March 15, 2013, the Company entered into a convertible note purchase agreement with certain accredited investors pursuant to which the Company agreed to sell an aggregate principal amount of up to \$500,000 of secured convertible promissory notes (the "2013 Notes") for an aggregate original issue price of \$425,000, representing a 15% original issue discount. The closing of the private placement also occurred on March 15, 2013, and resulted in the sale of the 2013 Notes in the aggregate principal amount of \$450,000 for an aggregate original issue price of \$382,500. The original issue discount is \$67,500 and is being amortized to interest expense over the term of the 2013 Notes. As of September 30, 2013, the unamortized balance of this original issue discount is \$30,699.

The 2013 Notes, which have a maturity date of March 15, 2014, do not bear interest and may be prepaid without penalty upon 30 days' written notice, on the terms set forth in the Notes. The 2013 Notes are secured by a blanket lien on our assets pursuant to a security agreement dated March 15, 2013.

The 2013 Notes contain an optional conversion feature that enables the Holder to convert all outstanding shares into shares of the Company's common stock at a conversion price per share equal to the average daily Closing Price over the ten consecutive trading days preceding the date of such prepayment notice. The optional conversion feature goes into effect only if the Company chooses to prepay the Notes in whole or in part without penalty upon 30 days' prior written notice to the Holder (and conversion must occur within this 30 day period).

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6. CONVERTIBLE NOTES PAYABLE (Continued)

On September 27, 2013, the Company and the holders of the Notes entered into an amendment to the Notes, which provided, among other things, that upon a Change of Control as described above, the conversion price applicable to the Notes and the exercise price applicable to the warrants issuable upon a Change of Control will be equal to the average dollar volume weighted average price ("VWAP") of the Company's common stock for each trading day during the period from July 8, 2013 to September 30, 2013. The average VWAP during such period is approximately \$0.045 per share. Additionally, pursuant to the amendment, upon a conversion of the Notes in connection with a Change of Control, the holders confirmed that all obligations under the Notes would be deemed satisfied in full and released the Company from any claims relating to the Notes.

Pursuant to the terms of the 2013 Notes, upon a Change of Control (as defined in the 2013 Notes) in which either (i) the outstanding shares of the Company's common stock are exchanged for securities of another corporation, or (ii) the Company issues shares of common stock, with no securities or other consideration paid or payable to holders of our common stock (e.g., a merger transaction in which the Company acquires another corporation in exchange for shares of our common stock), then (A) the entire unpaid principal under the applicable 2013 Note shall automatically convert, as of immediately prior to the effective time of the Change of Control, into shares of the Company's common stock at a conversion price per share equal to approximately \$0.045 on the effective date of the Change of Control, and (B) the Company shall also issue to each 2013 Note holder a five-year warrant entitling the holder to purchase, at an exercise price equal to approximately \$0.045, that number of shares of our common stock obtained by dividing (a) the sum of the outstanding principal under the applicable Note by (b) approximately \$0.045. Upon a Change of Control other than as described in the preceding sentence, the Company shall pay to each 2013 Note holder an amount in cash equal to 175% of the principal amount then outstanding under the applicable Note. Upon payment of such amount to the 2013 Note holders, all of the obligations under the Notes shall be deemed paid and satisfied in full.

The warrants issuable upon a Change of Control are considered an embedded derivative and were bifurcated from the notes and accounted for separately at fair value. The fair value of the warrants was \$203,400 on March 15, 2013, the date of issuance, and were recorded as additional debt discount (Note 7). The Company will revalue the warrants on a quarterly basis until the warrants are issued or the 2013 Notes are repaid in full. As of September 30, 2013, the fair value of the warrants was \$393,200. Following the entry into, and subsequent amendment of the merger agreement with Capricor (Note 1), management have estimated the probability of issuance to be 95% as of September 30, 2013. Management used the following assumptions for the Black-Scholes valuation of the 2013 Notes on March 15, 2013 and September 30, 2013:

	March 15, 2013		September 30, 2013	
Stock Price :	\$	0.09	\$	0.05
Strike Price :	\$	0.09	\$	0.05
Risk-free Rate:		0.84	%	1.39
Volatility		148	%	153
Term		5 years		5 years
Probability of issuance:		50	%	95

The discount is being amortized to interest expense over the one year term of the 2013 Notes. As of September 30, 2013, the unamortized balance of this note discount is \$92,505.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines fair value as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value estimates presented in the table below are based on information available to the Company as of September 30, 2013.

The accounting standard regarding fair value measurements discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company has determined the fair value of certain liabilities using the market approach. The following table presents the Company's fair value hierarchy for these assets measured at fair value on a recurring basis as of September 30, 2013:

	Fair Value September 30, 2013	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Warrant liability - April 2012 issuance	\$ 106,793	\$ -	\$ -	\$ 106,793
Warrant liability - 2013 Notes	393,200	-	-	393,200
Total	\$ 499,993	\$ -	\$ -	\$ 499,993

The fair value of the warrant liability relating to the 2013 Notes (Note 6) was estimated by management using the Black-Scholes option-pricing model. The changes in the fair value of the warrant liability are recorded in other income (expense) on the Condensed Statements of Operations.

The fair value of the warrant liability relating to the warrants issued in conjunction with the April 2012 financing (Note 8b) was estimated by management using a binomial option pricing model. The binomial option pricing model is a generally accepted valuation model used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of the Company's future expected stock prices, and their resulting probabilistic valuation. The changes in the fair value of the warrant liability are recorded in other income (expense) on the Condensed Statements of Operations.

The following table provides a summary of changes in fair value of the Company's liabilities, as well as the portion of losses included in income attributable to unrealized appreciation that relate to those liabilities held at September 30, 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Warrant Liability
Balance at January 1, 2013	\$ 63,384
Purchases, sales and settlements: Derivatives issued	203,400
Total gains or losses Unrealized appreciation	233,209
Balance at September 30, 2013	\$ 499,993

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8. STOCKHOLDERS' DEFICIT

On July 7, 2013, the Company entered into an Agreement and Plan of Merger and Reorganization with Capricor, Inc., a Delaware corporation ("Capricor"), and Bovet Merger Corp., a wholly-owned subsidiary of the Company. Pursuant to this agreement, Bovet Merger Corp. will merge with and into Capricor, with Capricor remaining as the surviving corporation and a wholly-owned subsidiary of the Company. In connection with this merger transaction, the current stockholders of Capricor will receive in exchange for their shares of Capricor stock a number of shares of the Company's common stock such that, following the merger, the former Capricor stockholders will hold 90% of the outstanding shares of the Company's common stock on a fully-diluted basis

(a) Common Stock

On April 4, 2012, the Company closed an offering with certain purchasers pursuant to which it sold an aggregate of 3,350,000 shares of the Company's common stock to such purchasers for a purchase price of \$0.40 per share. In addition, for each share purchased, each purchaser also received three-fourths of a five-year warrant to purchase an additional share of common stock at an exercise price of \$0.50 per share, which resulted in the issuance of warrants to purchase an aggregate of 2,512,500 shares of the Company's common stock. The warrants contain non-standard anti-dilution features (Note 8b) and as result will be classified as a liability on the Company's Condensed Balance Sheet.

The total gross proceeds from the offering were \$1.34 million, before deducting selling commissions and other offering expenses of approximately \$0.14 million. In connection with the offering, the Company engaged Roth Capital Partners, LLC, or Roth, to serve as placement agent. Pursuant to the terms of the placement agent agreement, the Company paid Roth a cash fee equal to seven percent of the gross proceeds received by the Company, or approximately \$0.11 million, plus a non-accountable expense allowance of \$35,000. Richard B. Brewer, the Company's former Executive Chairman, Joshua A. Kazam, the Company's former President and Chief Executive Officer and a director, Daron Evans, the Company's Chief Financial Officer, and Hsiao Lieu, M.D., the Company's former Executive VP of Clinical Development, participated in the offering on the same terms as the unaffiliated purchasers, and collectively purchased 275,000 shares of common stock and warrants to purchase 206,250 shares of common stock for an aggregate purchase price of \$110,000.

On August 1, 2013, the Company entered into warrant exchange agreements with each holder of the warrants to purchase an aggregate of 2,750,000 shares of common stock that were issued in connection with the Company's June 2011 private placement. Pursuant to such agreements, each such holder received 0.1667 shares of the Company's common stock for each warrant share purchasable under the warrants held by such holder. The Company issued total number of 458,332 shares of its common stock pursuant to the warrant exchange agreements with a fair value of \$13,750. The Company recorded the fair value of the shares as additional expense in the condensed statements of operations.

(b) Warrants

In connection with the April 2012 financing, as discussed above, the Company issued a total of 2,512,500 warrants, each of which has a term of five years and represents the right to purchase one share of the Company's common stock at an exercise price of \$0.50 per share. The warrants contain non-standard anti-dilution features, such that, in the event the Company issues common shares at a price below the current exercise price of the warrants, the exercise price of the warrants will be adjusted based on the lower issuance price. Because of this anti-dilution provision and the

inherent uncertainty as to the probability of future common share issuances, the Black-Scholes option pricing model the Company uses for valuing stock options could not be used. Management used a binomial option pricing model to determine the warrant liability to be approximately \$0.6 million on the date of issuance and \$0.1 million at September 30, 2013. The binomial option pricing model (Note 7) is used for the valuation of the warrant liability, which will be revised on a quarterly basis until the warrants are exercised or they expire with the changes in fair value recorded in other income (expense) on the Condensed Statements of Operations.

Significant assumptions used at September 30, 2013 for the warrants included a weighted average term of 3.50 years, volatility of 153%, and a risk-free interest rate of 1.39%.

The 2012 warrants provide that, upon certain fundamental corporate transactions, such as a merger transaction involving the Company, the warrant holders can elect to receive a cash amount equal to the Black-Scholes value of the warrant, as described in such warrants. As of September 30, 2013, the aggregate Black-Scholes value of such warrants was approximately \$110,550. Following the completion of the quarter ended September 30, 2013, the Company and holders of 2012 warrants to purchase 2,503,125 shares entered into agreements pursuant to which such holders agreed to receive, upon the completion of the Merger with Capricor, an equal number of shares of common stock in exchange for the surrender and cancellation of their warrants, including cancellation of their right to receive the cash payment of the Black-Scholes value of the warrants upon completion of the Merger.

In connection with the 2011 Offering, the Company issued a total of 2,500,000 Warrants, each of which has a term of five years and represents the right to purchase one share of the Company's common stock at an exercise price of \$0.60 per share. In addition, the Company issued the Placement Agents a five-year warrant to purchase 250,000 shares of the Company's common stock at an exercise price of \$0.60 per share. As discussed above, as a result of the exchange agreement, all of the warrants issued in connection with the 2011 offering have been cancelled.

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8. STOCKHOLDERS' EQUITY (Continued)

At September 30, 2013, the Company had outstanding warrants to purchase an aggregate of 2,904,695 shares of its common stock that were originally issued on July 15, 2009 in connection with the Company's private placement of common stock and warrants (the "2009 Warrants"). The 2009 Warrants have exercise prices ranging from \$1.25 to \$2.28 per share. On November 13, 2013, the Company entered into warrant exchange agreements with holders of 2009 Warrants to purchase 1,484,695 shares. Under the terms of these agreements, the Company issued to such holders approximately 0.01102 shares of common stock for each share of common stock underlying their 2009 Warrants for a total issuance of 16,360 shares of common stock. Upon such issuance, all rights of such holders under their 2009 Warrants terminated.

Below is a table that summarizes all outstanding warrants to purchase shares of the Company's common stock as of September 30, 2013.

Grant Date	Warrants Issued	Exercise Price Range	Weighted Average Exercise Price	Expiration Date	Exercised	Warrants Outstanding
7/15/2009	2,909,695	\$ 1.25-2.28	\$ 1.64	7/14/2014	5,000	2,904,695
4/21/2010	2,632,500	\$ 0.94	\$ 0.94	4/20/2015	-	2,632,500
4/4/2012	2,512,500	\$ 0.50	\$ 0.50	4/3/2017	-	2,512,500
	8,054,695		\$ 1.13		5,000	8,049,695

9. STOCK OPTION PLAN

The Company's Amended and Restated 2005 Stock Option Plan (the "Plan") was initially adopted by the Board of Directors on August 10, 2005. The Plan authorized a total of 2,000,000 shares of common stock for issuance. On September 17, 2007, pursuant to the merger with SMI, the Plan was amended and each share of common stock then subject to the Plan was substituted with 2,758,838 shares of common stock, resulting in an aggregate of 5,517,676 shares available under the Plan. On July 26, 2010, the Company's stockholders approved an amendment to the Plan increasing the total number of shares authorized for issuance thereunder to 9,500,000. Under the Plan, incentives may be granted to officers, employees, directors, consultants, and advisors. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options, (b) stock appreciation rights, (c) stock awards, (d) restricted stock and (e) performance shares. The Plan is administered by the Board of Directors, or a committee appointed by the Board, which determines the recipients and types of awards to be granted, as well as the number of shares subject to the awards, the exercise price and the vesting schedule. The term of stock options granted under the Plan cannot exceed ten years. Currently, stock options are granted with an exercise price equal to the closing price of the Company's common stock on the date of grant, and generally vest over a period of one to four years.

For the three and nine months ended September 30, 2013 and September 30, 2012, the Company did not issue any employee stock options.

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9. STOCK OPTION PLAN (Continued)

A summary of the status of the options issued under the Plan at September 30, 2013, and information with respect to the changes in options outstanding is as follows:

	Shares Available for Grant	Outstanding Stock Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Balance at January 1, 2013	4,537,522	4,571,046	\$ 1.24	
Options granted under the Plan	-	-	\$ -	
Options exercised	-	-	\$ -	
Options forfeited	2,759,341	(2,759,341)	\$ 1.38	
Balance at September 30, 2013	7,296,863	1,811,705	\$ 1.02	\$ -
Exercisable at September 30, 2013		1,811,705	\$ 1.02	\$ -

The following table summarizes information about stock options outstanding at September 30, 2013:

Range of Exercise Prices	Outstanding		Exercisable		
	Shares	Weighted- Average Remaining Contractual Life	Weighted-Average Exercise Price	Total Shares	Weighted- Average Exercise Price
\$ 0.09 to \$0.57	696,533	3.38	\$ 0.45	696,533	\$ 0.45
\$ 0.68 to \$0.93	835,172	2.67	\$ 0.85	835,172	\$ 0.85
\$ 1.77 to \$4.50	280,000	5.17	\$ 2.94	280,000	\$ 2.94
Total	1,811,705	3.33	\$ 1.02	1,811,705	\$ 1.02

Share-based compensation is recognized only for those awards that are ultimately expected to vest; therefore, the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, if necessary, in future periods if actual forfeitures differ from estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

Employee stock-based compensation costs for the three and nine months ended September 30, 2013 and 2012 and for the cumulative period from August 1, 2005 (inception) through September 30, 2013 are as follows:

	Three months ended September 30,		Nine months ended September 30,		Period from August 1, 2005 (inception) through September 30,
	2013	2012	2013	2012	2013
General and administrative	\$ -	\$ 51,210	14,845	\$ 237,957	\$ 6,822,795
	-	-	-	67,286	1,551,203

Research and
development

Total	\$ -	\$ 51,210	14,845	\$ 305,243	\$ 8,373,998
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The fair value of shares vested under the Plan for the three and nine months ended September 30, 2013 and 2012 and for the period from August 1, 2005 (inception) through September 30, 2013 were \$0, \$14,862, \$217,101, \$625,961 and \$7,620,918 respectively.

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Notes to Condensed Financial Statements

9. STOCK OPTION PLAN (Continued)

At September 30, 2013, there were no unrecognized estimated employee (including directors) compensation costs related to stock options. All employee options outstanding were fully vested as of September 30, 2013.

Common stock, stock options or other equity instruments issued to non-employees (including consultants and all members of the Company's Scientific Advisory Board) as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

The Company did not incur stock-based compensation costs for services by non-employees for the three and nine months ended September 30, 2013 and 2012, and has expensed a total of \$498,095 for the cumulative period from August 1, 2005 (inception) through September 30, 2013. These amounts were included in research and development and general and administrative expenses in the accompanying Condensed Statements of Operations. As of September 30, 2013 all non-employee based options outstanding were fully vested.

On August 9, 2013, holders of options to purchase, at exercise prices ranging from \$0.301 to \$4.50 per share, an aggregate of 1,774,341 shares of the Company's common stock pursuant to the Plan agreed to terminate all of their rights in such stock options effective immediately prior to the effective time of the Company's planned merger with Capricor. Such holders, all of whom are directors or officers of the Company, did not receive any consideration for such agreements.

10. RELATED PARTIES

On June 24, 2009, the Company entered into a services agreement with Two River Consulting, LLC ("TRC") to provide various clinical development, operational and administrative services to the Company, including the part-time services of Joshua A. Kazam as the Company's President and Chief Executive Officer, for a period of one year. Mr. Kazam and Arie S. Belldegrun are each directors of the Company and partners of TRC. David M. Tanen, who served as the Company's Secretary and director until his resignation from both positions on September 24, 2009, is also a partner of TRC. The terms of the services agreement were reviewed and approved by a special committee of the Company's Board of Directors consisting of independent directors (the "Special Committee"). None of the members of the Special Committee had any interest in TRC or the services agreement. As compensation for the services contemplated by the services agreement, the Company agreed to pay to TRC a monthly cash fee of \$65,000 and issued stock options to purchase up to an aggregate of 750,000 shares of the Company's common stock at a price per share equal to \$0.89, the closing sale price of the Company's common stock on June 24, 2009. Twenty-five percent of the stock options vested immediately and the remaining 75% were scheduled to vest pursuant to the achievement of certain milestones relating to the clinical development of cenderitide. On January 5, 2011, the final block of stock options vested. Of the 750,000 original stock options issued, 535,172 stock options vested with a total fair value of \$353,976. In August 2010, the Company and TRC amended the services agreement to extend its term on a month-to-month basis and to provide for the issuance of fully-vested and immediately-exercisable stock options to purchase 250,000 shares of the Company's common stock at an exercise price of \$0.38 per share, which had an estimated fair value of \$82,200 that was expensed on the date of grant. In March 2011, the Company and TRC further amended the services agreement to reduce the level of services to be provided by TRC and to reduce the monthly cash fee payable to TRC to \$31,702, which monthly fee was then reduced to \$30,082 in July 2011 and to \$28,600 in April 2012 when certain services were eliminated. On August 1, 2012, the Company and TRC agreed that, upon the appointment of a full-time President and

Chief Executive Officer during August 2012, the monthly fee payable under the services agreement would be reduced to \$6,000 to reflect the termination of Mr. Kazam's services as President and Chief Executive Officer. Additional operational and clinical development services may be provided by TRC, and billed to the Company, on an hourly basis. The Special Committee reviewed and approved the August 2010, March 2011, and August 2012 amendments to the services agreement.

On occasion, some of the Company's expenses are paid by TRC. No interest is charged by TRC on any outstanding balance owed by the Company. For the three and nine months ended September 30, 2013 and 2012 and for the period from August 1, 2005 (inception) through September 30, 2013, total cash services and reimbursed expenses totaled \$18,000, \$57,600, \$46,407, \$238,346, and \$2,164,776, respectively. As of September 30, 2013 the Company had a payable to TRC of \$18,000 which was still outstanding as of the date of this report.

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11. COMMITMENTS AND CONTINGENCIES

Compensation of President and CEO.

On November 5, 2012, the Company entered into a letter agreement with Darlene Horton, M.D., its President and Chief Executive Officer, pursuant to which Dr. Horton agreed to reduce her monthly salary to \$100 effective November 1, 2012, and defer the balance of her \$28,314 monthly base salary (the “Deferred Salary”) until such time as the Company completes an Interim Financing Event (defined below). The term “Interim Financing Event” means the consummation on or before December 31, 2013, of one or more transactions pursuant to which the Company shall have received, whether by a financing, strategic transaction or another means (or any combination thereof), an aggregate of at least \$1,000,000 in gross proceeds. As of September 30, 2013, the Company has an accrual of \$253,926, representing approximately 11 months of Deferred Salary.

On March 21, 2013, the Company entered into a letter agreement with Dr. Horton, which letter agreement amends certain compensation terms under her existing letter agreement dated August 3, 2012, as previously amended on November 5, 2012.

Dr. Horton’s existing letter agreement provided that if, prior to the date of a “compensation adjustment event,” the Company completed a Change of Control Transaction (as defined in the agreement) and Dr. Horton’s employment was terminated by the Company (or any successor entity) without cause during the period beginning on the effective date of the Change of Control Transaction and ending on the six-month anniversary of such effective date, then she would have been entitled to receive a cash payment equal to 5% of the applicable Change of Control Proceeds (as defined in the agreement). For purposes of the agreement, the term “compensation adjustment event” means the date on which the Company secures sufficient capital, whether by a financing or strategic transaction (or any combination thereof) or another means, in order to enable the Company to initiate and fund to completion a Phase 2 clinical trial of the Company’s cenderitide product candidate.

The March 21, 2013 letter agreement amends the payment terms described in the preceding paragraph and provides that if, prior to December 31, 2013, the Company completes a Change of Control Transaction in which either (i) the outstanding shares of the Company’s common stock are exchanged for securities of another corporation, or (ii) the Company issues shares of its common stock, with no securities or other consideration paid or payable to holders of the Company’s common stock (e.g., a merger transaction in which the Company acquires another corporation in exchange for shares of the Company’s common stock), then Dr. Horton will be entitled to receive, immediately prior to the effective time of the Change of Control Transaction, a number of shares of the Company’s common stock equal to 5% of the shares of the Company’s common stock then outstanding on a fully-diluted basis.

The agreement further provides that if, prior to December 31, 2013, the Company completes a Change of Control Transaction other than as described in the preceding paragraph, then Dr. Horton will be entitled to receive a cash payment, on the date of such Change of Control Transaction, equal to 5% of the applicable Change of Control Proceeds (as defined in the agreement).

Compensation of Chief Financial Officer.

On March 21, 2013, the Company entered into a letter agreement with Daron Evans, its Chief Financial Officer, pursuant to which Mr. Evans agreed to reduce his monthly salary to \$100 effective February 1, 2013, and defer the balance of his \$22,917 monthly base salary until such time as the Company completes an Interim Financing Event.

The term “Interim Financing Event” means the consummation on or before December 31, 2013, of one or more transactions pursuant to which the Company shall have received, whether by a financing, strategic transaction or another means (or any combination thereof), an aggregate of at least \$1,000,000 in gross cash proceeds. As of September 30, 2013, the Company has an accrual of \$182,533, representing approximately 8 months of deferred salary for Mr. Evans.

In addition, the agreement provides that if, prior to December 31, 2013, the Company completes a Change of Control Transaction (as defined in the agreement) in which either (i) the outstanding shares of the Company’s common stock are exchanged for securities of another corporation, or (ii) the Company issues shares of its common stock, with no securities or other consideration paid or payable to holders of the Company’s common stock (e.g., a merger transaction in which the Company acquires another corporation in exchange for shares of the Company’s common stock), then Mr. Evans will be entitled to receive, immediately prior to the effective time of the Change of Control Transaction, a number of shares of the Company’s common stock equal to 4.5% of the shares of the Company’s common stock then outstanding on a fully-diluted basis.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

The agreement further provides that if, prior to December 31, 2013, the Company completes a Change of Control Transaction other than as described in the preceding paragraph, then Mr. Evans will be entitled to receive a cash payment, on the date of such Change of Control Transaction, equal to 4.5% of the applicable Change of Control Proceeds (as defined in the agreement).

In consideration of the foregoing, the agreement provides that the Company shall have no further obligations pursuant to the Severance Benefits Agreement between the Company and Mr. Evans, dated July 24, 2010.

Termination of Lease Agreement.

On February 28, 2013, the Company terminated its office lease at 4 West 4th, Suite 400, San Mateo, CA. There were no penalties or early termination fees incurred as a result of the lease termination.

12. SUBSEQUENT EVENTS

On October 21, 2013, the Company and the holders of the Notes entered into an amendment to the Purchase Agreement pursuant to which the Company sold to such holders additional Notes having an aggregate principal amount of \$120,510. The additional Notes have identical terms and conditions as the Notes previously issued under the Purchase Agreement (see Note 6) and were allocated among the holders on a pro rata basis based on their initial purchase of Notes. In exchange for the issuance of the Notes, the Company received aggregate gross proceeds of \$102,433.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a development stage, biopharmaceutical company developing innovative products for the treatment of cardiovascular and renal diseases, with an initial focus on heart failure. We currently have exclusive rights to develop two drug candidates:

- **Cenderitide** (formerly *CD-NP*), our lead product candidate, is a chimeric natriuretic peptide that we are developing for the treatment of heart failure. To date, we have developed cenderitide for the treatment of patients for up to 90 days following admission for acutely decompensated heart failure, or ADHF. We refer to this setting as the “post-acute” period. In 2011, we completed a 58-patient Phase 1 clinical trial of cenderitide in the post-acute setting. We conducted this clinical trial in collaboration with Medtronic, Inc., delivering cenderitide through continuous intravenous infusion using Medtronic’s pump technology. Following that Phase 1 clinical trial, we had planned to initiate a Phase 2 clinical trial of cenderitide, pending availability of capital resources. However, to date we have been unable to raise the capital necessary to conduct the next phase of development of cenderitide. Any further development of cenderitide is subject to our ability to either raise additional capital or enter into a strategic transaction in which an acquirer or strategic partner provides the capital necessary to continue development activities. In addition to treating heart failure, we believe cenderitide may be useful in several other cardiovascular and renal indications.
- **CU-NP**, is a pre-clinical rationally designed natriuretic peptide that consists of amino acid chains identical to those produced by the human body, specifically the ring structure of C-type natriuretic peptide, or CNP, and the N- and C-termini of Urodilatin, or URO. All development of CU-NP is on hold pending the results of our efforts to pursue strategic alternatives.

We have no product sales to date and we will not generate any product revenue until we receive approval from the U.S. Food and Drug Administration, or the FDA, or equivalent foreign regulatory bodies to begin selling our pharmaceutical product candidates. Developing pharmaceutical products is a lengthy and very expensive process. Even if we obtain the capital necessary for us to continue the development of our product candidates, whether through a strategic transaction or otherwise, we do not expect to complete the development of a product candidate for several years, if ever. To date, most of our development expenses have related to our lead product candidate, cenderitide. As we proceed with the clinical development of cenderitide and as we further develop CU-NP, our second product candidate, our research and development expenses will further increase. To the extent we are successful in acquiring additional product candidates for our development pipeline, our need to finance further research and development activities will continue increasing. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance the development of the products. Our major sources of working capital have been proceeds from private and public sales of our common stock, and debt financings.

On July 7, 2013, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with Capricor, Inc. (“Capricor”), a privately held company based in Los Angeles, CA, and Bovet Merger Corp., a Delaware corporation and our wholly-owned subsidiary (“Merger Sub”), pursuant to which Merger Sub, subject to certain conditions contained in the Merger Agreement, will merge with and into Capricor and Capricor will become a wholly-owned subsidiary of the Company (the “Merger”). The Merger Agreement was amended on September 27, 2013. Upon completion of the Merger, each outstanding share of Capricor common stock, and each security convertible into Capricor common stock, will automatically convert into the right to receive a number of shares of our common stock, or, as applicable, securities convertible into our common stock, such that, after giving effect to the Merger, the holders of Capricor capital stock immediately prior to the Merger will hold, in the aggregate, 90% of the total number of shares of our common stock on a fully-diluted basis. Capricor is a company whose mission is to

improve the treatment of heart disease by commercializing cardiac stem cell therapies for patients.

The Merger Agreement contains customary representations and warranties by us and Capricor with respect to each company's business and the transactions contemplated by the Merger Agreement. Closing of the Merger is conditioned on, among other things, accuracy of such representations and warranties, approval of the Merger Agreement by the requisite number of Capricor's stockholders, conversion of each share of Capricor preferred stock into Capricor common stock, and stockholder approval of an amendment to our Certificate of Incorporation authorizing a reverse split of our common stock at a ratio not to exceed 1-for-100. In addition, the closing of the Merger is conditioned on us entering into an amendment to our technology license agreement with the Mayo Foundation and evidence of payment or other satisfaction in full (including releases) of our accrued liabilities and obligations (with the exception of obligations not to exceed the aggregate amount of \$100,000, which may remain outstanding through the effective time of the Merger). The Merger Agreement may be terminated for certain reasons, including by either party if the closing thereof does not occur prior to November 15, 2013. The Merger Agreement also contains other customary terms and provisions as are common in similar agreements.

We do not have the capital resources available to continue the development of our product development programs or to otherwise remain in business. For more than 12 months, we have sought either additional financing to fund such activities or a collaboration or other strategic agreement with another company that would provide the capital needed to fund further development of our product candidates. Prior to our entry into the Capricor merger agreement, we had have been unsuccessful in securing such additional capital. The planned merger with Capricor is subject to several conditions, including the approval of our stockholders of a reverse split of our common stock at a ratio not to exceed 1-for-100. If such conditions are not satisfied, we may be unable to complete the planned merger. In that case, we would be forced to liquidate the Company.

Research and development, or R&D, expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. We expense our R&D costs as they are incurred.

General and administrative, or G&A, expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, personnel recruiting fees, accounting, legal and other professional fees, business development expenses, rent, business insurance and other corporate expenses.

Our results include non-cash compensation expense as a result of the issuance of stock, stock options, and warrants. We expense the fair value of stock options and warrants over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial performance and product development. Stock-based compensation expense is included in the respective categories of expense in the statements of operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

Results of Operations

General and Administrative Expenses. G&A expenses for the three months ended September 30, 2013 and 2012 were approximately \$0.3 million and \$0.4 million, respectively. This decrease of approximately \$0.1 million for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 was primarily driven by reduced professional service fees due to the Company's minimal operating activities during 2013.

G&A expenses for the nine months ended September 30, 2013 and 2012 were approximately \$0.9 million and \$1.3 million, respectively. The decrease in G&A expenses compared to the same period in 2012 is primarily due to a decrease of approximately \$0.1 million in stock compensation costs and a decrease of approximately \$0.1 million in reduced professional fees due the reduced use outside management consultants during the first quarter of 2013 compared to the same period of 2012. Additionally, there was a decrease of approximately \$0.1 million in general operating expenses during the nine months ended September 30, 2013 as compared to the same period in 2012. This was primarily due to reduced operating activities in 2013 as we cut as many costs as possible to preserve remaining funds.

Research and Development Expenses. R&D expenses for the three months ended September 30, 2013 and 2012 were approximately \$0.03 million and \$0.2 million, respectively. This decrease of approximately \$0.1 million over the same period of 2012 is primarily due to the fact that during the third quarter of 2012, we still had some development activities of cenderitide ongoing, while during the third quarter of 2013, we had almost no development activities as we have wound down development of our products.

R&D expenses for the nine months ended September 30, 2013 and 2012 were approximately \$0.1 million and \$1.0 million, respectively. This decrease of approximately \$0.9 million over the same period of 2012 is primarily due to the fact that during the nine months ended September 30, 2012, we were still conducting some clinical development activities of cenderitide while during 2013, we had almost no development activities as we have wound down development of our products. This resulted in a decrease of approximately \$0.7 million in development costs. Additionally, we had a reduction of approximately \$0.2 million in compensation costs, including stock compensation, due to having no R&D employees during the nine months ended September 30, 2013, compared to one employee during the same period in 2012.

Cenderitide . Since acquiring our rights to cenderitide in 2006, we have incurred approximately \$19.9 million in expenses directly relating to the program through September 30, 2013. All development of cenderitide is on hold pending the results of our efforts to pursue strategic alternatives, including our planned merger with Capricor. Subject to our planned merger with Capricor, we expect that development of cenderitide will eventually continue by the combined company.

CU-NP . Since acquiring our rights to CU-NP in September 2008, we have incurred a total of approximately \$0.7 million through September 30, 2013. All development of CU-NP is on hold pending the results of our efforts to pursue strategic alternatives, including our planned merger with Capricor. Subject to our planned merger with Capricor, we expect that development of CU-NP will eventually continue by the combined company.

Our expenditures on current and future clinical development programs, particularly our cenderitide program, are expected to be substantial, and to increase particularly in relation to our available capital resources. In addition, assuming we complete our planned merger with Capricor, the research and development expenditures of the resulting company will increase substantially with the addition of Capricor's R&D programs. However, these planned expenditures are subject to many uncertainties, including the results of clinical trials and whether we develop any of our drug candidates with a partner or independently. As a result of such uncertainties, we cannot predict with any significant degree of certainty the duration and completion costs of our research and development projects or whether, when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. The duration and cost of clinical trials may vary significantly over the life of a project as a result of unanticipated events arising during clinical development and a variety of factors, including:

- the number of trials and studies in a clinical program;
- the number of patients who participate in the trials;
- the number of sites included in the trials;
- the rates of patient recruitment and enrollment;
- the duration of patient treatment and follow-up;
- the costs of manufacturing our drug candidates; and
- the costs, requirements, timing of, and the ability to secure regulatory approvals.

Interest Income. Interest income for the three and nine months ended September 30, 2013 and 2012 was approximately \$57, \$309, \$200 and \$1,149, respectively. This decrease in interest income in 2013 over the same periods in 2012 is primarily due to lower average cash balances in 2013 than 2012 levels.

Collaboration Income. As a result of our February 2011 collaboration agreement with Medtronic pursuant to which Medtronic reimbursed us for R&D expenditures that we made in connection with our Phase 1 trial of cenderitide, we recognized income of \$0, \$0, \$0 and \$0.2 million for the three and nine months ended September 30, 2013 and 2012, respectively. All amounts due under the agreement were paid as of February 2012 at which time the agreement expired.

Interest Expense. Interest expense for the three and nine months ended September 30, 2013 and 2012 were approximately \$0.1 million, \$0.2 million, \$0 and \$0, respectively. This increase in interest expense is due to the convertible notes issued in March 2013. During 2012, there were no interest bearing notes outstanding.

Other Income (Expense). Other expense for the three months ended September 30, 2013 was approximately \$0.01 million due primarily to an approximately \$0.01 million increase in the warrant liability in connection with the 2013 convertible notes during the three months ended September 30, 2013.

Other expense for the nine months ended September 30, 2013 was approximately \$0.2 million due primarily to an approximately \$0.2 million increase in the warrant liability in connection with the 2013 convertible notes issued in March 2013. This increase in the warrant liability valuation was driven primarily by the increased probability of issuance as a result of the announced merger with Capricor, Inc. There was no such warrant liability in connection with the convertible notes during the nine months ended September 30, 2012 as the notes were not issued until 2013. During the nine months ended September 30, 2012, there was other income of approximately \$0.4 million as a result of a decrease in the warrant liability relating to the April 2012 warrants. This decrease in the warrant liability during the nine months ended September 30, 2012 was primarily driven by a decrease in the Company's stock price.

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of September 30, 2013 and December 31, 2012 and our net decrease in cash and cash equivalents for the nine months ended September 30, 2013 and 2012 (the amounts stated are expressed in thousands):

Liquidity and capital resources	September 30, 2013	December 31, 2012
Cash and cash equivalents	\$ 71	\$ 47
Working capital deficiency	\$ (1,073)	\$ (159)
Stockholders' equity (deficit)	\$ (1,568)	\$ (167)
	Nine Months Ended September 30,	
Cash flow data	2013	2012
Cash used in:		
Operating activities	\$ (372)	\$ (1,951)
Investing activities	-	-
Cash provided by:		
Financing activities	396	1,194
Net increase (decrease) in cash and cash equivalents	\$ 24	\$ (757)

Our total cash resources as of September 30, 2013 was \$0.1 million compared to \$0.05 million as of December 31, 2012. As of September 30, 2013, we had approximately \$1.7 million in liabilities, of which, approximately \$0.5 million represented a noncash warrant liability, and \$1.1 million in net working capital deficit. We incurred a net loss of approximately \$1.4 million and had negative cash flow from operating activities of approximately \$0.4 million for the nine months ended September 30, 2013. Since August 1, 2005 (inception) through September 30, 2013, we have incurred an aggregate net loss of approximately \$48.1 million, while negative cash flow from operating activities has amounted to \$35.3 million. To the extent we obtain sufficient capital and are able to continue developing our product candidates, we expect to continue to incur substantial and increasing losses, which will continue to generate negative net cash flows from operating activities as we expand our technology portfolio and engage in further research and development activities, particularly the conducting of pre-clinical studies and clinical trials.

We need substantial additional capital in order to continue the development of cenderitide, for which the next step is a Phase 2 trial. We estimate that this Phase 2 trial will cost approximately \$15 million to \$20 million and take approximately 30 months to complete. During the last 12 months, we have attempted, unsuccessfully, to complete a financing transaction that would provide us with the capital necessary to fund the Phase 2 trial, and it is doubtful that we will ever be able to complete such a financing transaction. We have also pursued, and continue to pursue, alternative strategic transactions that would provide for the means to continue development of cenderitide. Such alternatives could include collaborating with another biotechnology or pharmaceutical company to further develop cenderitide, or engaging in a merger or other corporate transaction in which the control of cenderitide's development would be assumed by a purchaser of our company. As discussed above, in July 2013, we entered into a merger agreement with Capricor, a privately-held biotechnology company focused on the development of cardiac stem cell therapeutics to repair damaged heart muscle. Although the resulting company will be primarily focused on the development of Capricor's current technologies, we believe the resulting company will also be able to eventually continue the development of our cenderitide and CU-NP programs. Other than our merger agreement with Capricor, we have not been able to secure an agreement or other commitment from any collaboration partner with respect to the continued development of our cenderitide and CU-NP programs. All of further clinical and other development activities for our cenderitide and CU-NP programs are on hold pending the completion of our planned merger with Capricor, and thereafter at such time as the resulting company has the additional capital needed to fund such activities.

From inception through September 30, 2013, we have financed our operations through public and private sales of our equity and debt securities. As we have not generated any revenue from operations to date, and we do not expect to generate revenue for several years, if ever, we will need to raise substantial additional capital in order to fund our immediate general corporate activities and, thereafter, to fund our research and development, including our long-term plans for clinical trials and new product development. We may seek to raise additional funds through various potential sources, such as equity and debt financings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure such additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs. Moreover, to the extent that we raise additional funds by issuing equity securities, our stockholders may experience additional significant dilution, and debt financing, if available, may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us.

On March 15, 2013, we entered into a convertible note purchase agreement with certain purchasers under which we agreed to sell secured convertible promissory notes to such purchasers in consideration for an aggregate purchase price of \$382,500. See “ Financing Activities,” below. We believe that the net proceeds from this offering, together with our existing cash resources, only provides us with sufficient capital to fund our minimal operating expenses until the middle of the third quarter of 2013. Further, beyond our general corporate activities, we need substantial additional capital to fund our planned Phase 2 clinical trial of cenderitide. If we are unable to obtain the capital necessary for us to continue the development of our product candidates, whether through a financing, strategic or other transaction, we will be forced to cease operations altogether.

Our estimates regarding the sufficiency of our financial resources are based on assumptions that may prove to be wrong. We may need to obtain additional funds sooner than planned or in greater amounts than we currently anticipate. The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- the progress of our research activities;
- the number and scope of our research programs;
- the progress of our pre-clinical and clinical development activities;
- the progress of the development efforts of parties with whom we have entered into research and development agreements;
- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- the cost involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- the cost and timing of regulatory approvals.

Financing Activities

March 2013 Financing. On March 15, 2013, we entered into a convertible note purchase agreement with certain accredited investors pursuant to which we agreed to sell an aggregate principal amount of up to \$500,000 of secured convertible promissory notes (the “Notes”) for an aggregate original issue price of \$425,000, representing a 15% original issue discount. The closing of the private placement also occurred on March 15, 2013, and resulted in the sale of Notes in the aggregate principal amount of \$450,000 for an aggregate original issue price of \$382,500.

On October 21, 2013, the Company and the holders of the Notes entered into an amendment to the Purchase Agreement pursuant to which the Company sold to such holders additional Notes having an aggregate principal amount of \$120,510. The additional Notes have identical terms and conditions as the Notes described above and were allocated among the holders on a pro rata basis based on their initial purchase of Notes. In exchange for the issuance of the Notes, the Company received aggregate gross proceeds of \$102,433.

The Notes, which have a maturity date of March 15, 2014, do not bear interest and may be prepaid by us without penalty upon 30 days’ written notice, on the terms set forth in the Notes. The Notes are secured by a blanket lien on our assets pursuant to a security agreement dated March 15, 2013.

On September 27, 2013, the Company and the holders of the Notes entered into an amendment to the Notes, which provided, among other things, that upon a Change of Control as described above, the conversion price applicable to the Notes and the exercise price applicable to the warrants issuable upon a Change of Control will be equal to the average dollar volume weighted average price (“VWAP”) of the Company’s common stock for each trading day during the period from July 8, 2013 to September 30, 2013. The average VWAP during such period is approximately \$0.045 per share. Additionally, pursuant to the amendment, upon a conversion of the Notes in connection with a Change of Control, the holders confirmed that all obligations under the Notes would be deemed satisfied in full and

released the Company from any claims relating to the Notes.

The 2013 Notes contain an optional conversion feature that enables the Holder to convert all outstanding shares into shares of the Company's common stock at a conversion price per share equal to the average daily Closing Price over the ten consecutive trading days preceding the date of such prepayment notice. The optional conversion feature goes into effect only if the Company chooses to prepay the Notes in whole or in part without penalty upon 30 days' prior written notice to the Holder (and conversion must occur within this 30 day period).

Upon a Change of Control (as defined in the Notes) in which either (i) the outstanding shares of our common stock are exchanged for securities of another corporation, or (ii) we issue shares of common stock, with no securities or other consideration paid or payable to holders of our common stock (e.g., a merger transaction in which we acquire another corporation in exchange for shares of our common stock), then (A) the entire unpaid principal under the applicable Note shall automatically convert, as of immediately prior to the effective time of the Change of Control, into shares of our common stock at a conversion price per share equal to approximately \$0.045 on the effective date of the Change of Control, and (B) we shall also issue to each Note holder a five-year warrant entitling the holder to purchase, at an exercise price equal to approximately \$0.045, that number of shares of our common stock obtained by dividing (a) the sum of the outstanding principal under the applicable Note by (b) approximately \$0.045.

Upon a Change of Control other than as described in the preceding paragraph, we shall pay to each Note holder an amount in cash equal to 175% of the principal amount then outstanding under the applicable Note. Upon payment of such amount to the Note holders, all of the obligations under the Notes shall be deemed paid and satisfied in full.

April 2012 Financing. On April 4, 2012, we closed an offering with certain purchasers pursuant to which we sold an aggregate of 3,350,000 shares of our common stock to such purchasers for a purchase price of \$0.40 per share. In addition, for each share purchased, each purchaser also received three-fourths of a five-year warrant to purchase an additional share of common stock at an exercise price of \$0.50 per share, which resulted in the issuance of warrants to purchase an aggregate of 2,512,500 shares of our common stock. The total gross proceeds from the offering were \$1.34 million, before deducting selling commissions and other offering expenses of approximately \$0.2 million. In connection with the offering, we engaged Roth Capital Partners, LLC, or Roth, to serve as placement agent. Pursuant to the terms of the placement agent agreement, we paid Roth a cash fee equal to seven percent of the gross proceeds received by us, or approximately \$0.1 million, plus a non-accountable expense allowance of \$35,000. Richard B. Brewer, our Executive Chairman, Joshua A. Kazam, our former President and Chief Executive Officer and a director, Daron Evans, our Chief Financial Officer, and Hsiao Lieu, M.D., our former Executive VP of Clinical Development, participated in the offering on the same terms as the unaffiliated purchasers, and collectively purchased 275,000 shares of common stock and warrants to purchase 206,250 shares of common stock for an aggregate purchase price of \$110,000.

The offer and sale of the shares and warrants was made pursuant to our shelf registration statement on Form S-3 (SEC File No. 333-165167), which became effective on March 12, 2010. Pursuant to the subscription agreements that we entered into with the purchasers in the April 2012 financing, we agreed to file, within 15 business days after the closing of the offering, a registration statement covering the issuance of the shares of our common stock upon exercise of the warrants and the subsequent resale of such shares (the “Additional Registration Statement”), and to cause such registration statement to be declared effective within 90 days following the closing of the offering. In the event the Additional Registration Statement was not declared effective by the SEC within such 90-day period, we agreed to pay liquidated damages to each purchaser in the amount of 1% of such purchaser’s aggregate investment amount for each 30-day period until the Additional Registration Statement is declared effective, subject to an aggregate limit of 12% of such purchaser’s aggregate investment amount. The Additional Registration Statement was filed on April 25, 2012 and was declared effective by the SEC on May 7, 2012.

License Agreement Commitments

Cenderitide License Agreement

Pursuant to our license agreement with the Mayo Foundation for Medical Education and Research (“Mayo”) for cenderitide, in July 2008 we made a milestone payment of \$400,000 to Mayo upon the dosing of the first patient in a Phase 2 trial. Subsequent milestones achieved will require us to make additional milestone payments to Mayo. We agreed to make contingent cash payments up to an aggregate of \$31.9 million upon successful completion of specified clinical and regulatory milestones relating to cenderitide. This aggregate amount is subject to increase upon the receipt of regulatory approval for each additional indication of cenderitide as well as for additional compounds or analogues contained in the intellectual property.

The cenderitide license agreement, unless earlier terminated, will continue in full force and effect until January 20, 2026. However, to the extent any patent covered by the license is issued with an expiration date beyond January 20, 2026, the term of the agreement will continue until such expiration date. Mayo may terminate the agreement earlier (i) for our material breach of the agreement that remains uncured after 90 days’ written notice to us, (ii) our insolvency or bankruptcy, or (iii) if we challenge the validity or enforceability of any of the patents in any manner. We may terminate the agreement without cause upon 90 days’ written notice.

As of September 30, 2013, we were not in compliance with several terms of the cenderitide license agreement, including, but not limited to, provisions requiring us to pay Mayo an annual maintenance fee and actively pursue the development of cenderitide. We are in discussions with the Mayo Foundation to amend the agreement, but we cannot guarantee that we will be able to reach an agreement with Mayo that allows us to maintain our rights to cenderitide.

See “Item 1A. Risk Factors We are not in compliance with various provisions of our license agreements with the Mayo Foundation. If we are unable to renegotiate these agreements, then we will lose our rights to cenderitide and CU-NP.”

CU-NP License Agreement

On June 13, 2008, we entered into a second license agreement with Mayo pursuant to which we acquired the rights to CU-NP. Under the terms of the agreement, Mayo granted to us a worldwide, exclusive license for the rights to commercially develop CU-NP for all therapeutic indications. We also had the rights to improvements to CU-NP and know-how that arose out of the laboratory of Dr. John Burnett and Dr. Candace Lee, the inventors of CU-NP and employees of the Mayo Clinic, prior to June 12, 2011.

Under the terms of the CU-NP license agreement, we made an up-front cash payment to Mayo and agreed to make future contingent cash payments up to an aggregate of \$24.3 million upon achievement of specific clinical and regulatory milestones relating to CU-NP, including a milestone payment due in connection with the initiation of the first Phase 2 clinical trial of the licensed product. This aggregate amount of \$24.3 million is subject to increase upon the receipt of regulatory approval for each additional indication of CU-NP, as well as for additional compounds or analogues contained in the intellectual property. Pursuant to the agreement, we must also pay Mayo an annual maintenance fee and a percentage of net sales of licensed products.

The CU-NP License Agreement, unless earlier terminated, will continue in full force and effect until June 13, 2028. However, to the extent any patent covered by the license is issued with an expiration date beyond June 13, 2028, the term of the agreement will continue until such expiration date. Mayo may terminate the agreement earlier (i) for our material breach of the agreement that remains uncured after 90 days' written notice to us, (ii) our insolvency or bankruptcy, (iii) if we challenge the validity or enforceability of any of the patents in any manner, or (iv) or upon receipt of notice from us that we have terminated all development efforts under the agreement. We may terminate the agreement without cause upon 90 days' written notice.

As of September 30, 2013, we were not in compliance with several terms of the CU-NP license agreement, including, but not limited to, provisions requiring us to pay Mayo an annual maintenance fee and actively pursue the development of CU-NP. We are in discussions with the Mayo Foundation to amend the agreement, but we cannot guarantee that we will be able to reach an agreement with Mayo that allows us to maintain our rights to cenderitide. See "Item 1A. Risk Factors We are not in compliance with various provisions of our license agreements with the Mayo Foundation. If we are unable to renegotiate these agreements, then we will lose our rights to cenderitide and CU-NP."

Collaboration Agreement

In February 2011, we entered into a Clinical Trial Funding Agreement with Medtronic, Inc. Pursuant to the agreement, Medtronic provided the funding and equipment necessary for us to conduct a Phase 1 clinical trial to assess the pharmacokinetics and pharmacodynamics of cenderitide when delivered to heart failure patients through continuous subcutaneous infusion using Medtronic's diabetes pump technology.

Under the agreement, we agreed not to enter into an agreement with a third party to develop or commercialize cenderitide or any drug/device combination developed under the agreement until the earlier of: (i) three months following delivery to Medtronic of a final database with respect to the Phase 1 trial; and (ii) 15 months after the date of the agreement. The final database was delivered to Medtronic on November 19, 2011.

The agreement also provided that intellectual property conceived in or otherwise resulting from the performance of the Phase I clinical trial shall be jointly owned by the us and Medtronic (the "Joint Intellectual Property"), and that we shall pay royalties to Medtronic based on the net sales of any Nile product, the manufacture, use or sale of which is covered or claimed in one or more issued patents constituting Joint Intellectual Property. The agreement further provided that, if the parties fail to enter into a definitive commercial license agreement with respect to cenderitide, then each party shall have a right of first negotiation to license exclusive rights to any Joint Intellectual Property. As of May 2012, three filed patent applications are considered Joint Intellectual Property.

Pursuant to its terms, the agreement expired in February 2012, following the completion of the Phase 1 clinical trial and the delivery of data and reports related to such study. We received the final reimbursement of \$195,500 in February 2012 and a total of \$1,550,000 over the life of the agreement. All amounts are recorded as collaboration income in our Condensed Statement of Operations.

Merger Agreement with Capricor, Inc.

On July 7, 2013, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Capricor, Inc. ("Capricor"), a privately held company incorporated in Delaware, and Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ("Merger Sub"), pursuant to which Merger Sub, subject to certain conditions contained in the Merger Agreement, will merge with and into Capricor and Capricor will become a wholly-owned subsidiary of the Company (the "Merger"). The Merger Agreement was amended on September 27, 2013. Upon completion of the Merger, each outstanding share of Capricor common stock, and each security convertible into Capricor common stock, will automatically convert into the right to receive a number of shares of the Company's common stock, or, as applicable, securities convertible into the Company's common stock,

such that, after giving effect to the Merger, the holders of Capricor capital stock immediately prior to the Merger will hold, in the aggregate, 90% of the total number of shares of the Company's common stock on a fully-diluted basis. Capricor is a company whose mission is to improve the treatment of heart disease by commercializing cardiac stem cell therapies for patients.

The Merger Agreement contains customary representations and warranties by the Company and Capricor with respect to their businesses and the transactions contemplated by the Merger Agreement. Closing of the Merger is conditioned on, among other things, accuracy of such representations and warranties, approval of the Merger Agreement by the requisite number of Capricor's stockholders, conversion of each share of Capricor preferred stock into Capricor common stock, and stockholder approval of an amendment to the Company's Certificate of Incorporation authorizing a reverse split of the Company's common stock at a ratio not to exceed 1-for-100. In addition, the closing of the Merger is conditioned on the Company amending its technology license agreement with the Mayo Foundation and evidence of payment or other satisfaction in full (including releases) of accrued liabilities and obligations of the Company (with the exception of obligations not to exceed the aggregate amount of \$100,000, which may remain outstanding through the effective time of the Merger). The Merger Agreement may be terminated for certain reasons, including by either party if the closing thereof does not occur prior to November 15, 2013. The Merger Agreement also contains other customary terms and provisions as are common in similar agreements.

Off -Balance Sheet Arrangements

There were no off-balance sheet arrangements as of September 30, 2013.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis, including research and development and clinical trial accruals, and stock-based compensation estimates. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our financial statements and accompanying notes.

Collaboration Income

In February 2011, we entered into a collaboration agreement whereby we were reimbursed for work performed on behalf of the collaborator upon the achievement of certain milestones. We recorded all of these expenses as research and development expenses and the reimbursements upon the achievement of the milestones as income.

We recognize milestone payments as income upon achievement of the milestone only if (1) the milestone payment is non-refundable, (2) substantive effort is involved in achieving the milestone, (3) the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone and (4) the milestone is at risk for both parties. If any of these conditions are not met, we defer the milestone payment and recognize it as income over the remaining estimated period of performance under the contract as we complete our performance obligations.

Research and Development Expenses and Accruals

R&D expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for pre-clinical, clinical, and manufacturing development, legal expenses resulting from intellectual property prosecution, contractual review, and other expenses relating to the design, development, testing, and enhancement of our product candidates. Except for capitalized patent expenses, R&D costs are expensed as incurred. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables.

Our cost accruals for clinical trials and other R&D activities are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and CROs, clinical study sites, laboratories, consultants, or other clinical trial vendors that perform the activities. Related contracts vary significantly in length, and may be for a fixed amount, a variable amount based on actual costs incurred, capped at a certain limit, or for a combination of these elements. Activity levels are monitored through close communication with the CROs and other clinical trial vendors, including detailed invoice and task completion review, analysis of expenses against budgeted amounts, analysis of work performed against approved contract budgets and payment schedules, and recognition of any changes in scope of the services to be performed. Certain CRO and significant clinical trial vendors provide an estimate of costs incurred but not invoiced at the end of each quarter for each individual trial. The estimates are reviewed and discussed with the CRO or vendor as necessary, and are included in R&D expenses for the related period. For clinical study sites, which are paid periodically on a per-subject basis to the institutions performing the clinical study, we accrue an estimated amount based on subject screening and enrollment in each quarter. All estimates may differ significantly from the actual amount subsequently invoiced, which may occur several months

after the related services were performed.

In the normal course of business we contract with third parties to perform various R&D activities in the on-going development of our product candidates. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, and the completion of portions of the clinical trial or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expense accruals related to clinical trials and other R&D activities are recognized based on our estimate of the degree of completion of the event or events specified in the specific contract.

No adjustments for material changes in estimates have been recognized in any period presented.

Stock-Based Compensation

Our results include non-cash compensation expense as a result of the issuance of stock, stock options and warrants. We have issued stock options to employees, directors, consultants and Scientific Advisory Board members under our Amended and Restated 2005 Stock Option Plan.

We expense the fair value of stock-based compensation over the vesting period. When more precise pricing data is unavailable, we determine the fair value of stock options using the Black-Scholes option-pricing model. This valuation model requires us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the weighted-average period of time that the options granted are expected to be outstanding, the volatility of our common stock, the risk-free interest rate and the estimated rate of forfeitures of unvested stock options.

Stock options or other equity instruments to non-employees (including consultants and all members of our Scientific Advisory Board) issued as consideration for goods or services received by us are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is periodically remeasured as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable service periods.

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based or performance-based conditions. Performance-based conditions generally include the attainment of goals related to our financial and development performance. Stock-based compensation expense is included in the respective categories of expense in the Statements of Operations. We expect to record additional non-cash compensation expense in the future, which may be significant.

Warrant Liability

We account for the warrants issued in connection with the April 2012 financing and the embedded derivative warrant liability contained in the 2013 Notes in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that we classify the warrant instrument as a liability at its fair value and adjust the instrument to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. The fair value of warrants issued in connection with the April 2012 financing has been estimated by management using a binomial options pricing model. The binomial option pricing model is a generally accepted valuation model used to generate a defined number of stock price paths in order to develop a reasonable estimate of the range of our future expected stock prices, and their resulting probabilistic valuation. The fair value of the embedded derivative warrant liability contained in the 2013 Notes was estimated by management using Black-Scholes option-pricing model.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. The goal of our investment policy is to place our investments with highly rated credit issuers and limit the amount of credit exposure to any one issuer. We seek to improve the safety and likelihood of preservation of our invested funds by limiting default risk and market risk. Our policy is to mitigate default risk by investing in high credit quality securities and currently do not hedge interest rate exposure. Due to our policy to only make investments with short-term maturities, we do not believe that an increase in market rates would have any material negative impact on the value of our investment portfolio.

As of September 30, 2013, our portfolio consisted primarily of bank savings and checking accounts and we did not have any investments with significant exposure to the subprime mortgage market issues. Based on our investment portfolio and interest rates at September 30, 2013, we believe that a decrease in interest rates would not have a significant impact on the fair value of our cash and cash equivalents of approximately \$0.1 million.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

An investment in our common stock involves significant risk. You should carefully consider the information described in the following risk factor, together with the other information appearing elsewhere in this report, before making an investment decision regarding our common stock. You should also consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Annual Report”), and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, under the captions in such reports entitled “Item 1A. Risk Factors.” If any of the risks described below or in such prior reports actually occur, our business, financial conditions, results of operation and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or a part of your investment in our common stock. Moreover, the risks described below and in our prior reports are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, operating results, prospects or financial condition.

Our ability to continue as a going concern is substantially, if not entirely, dependent on our ability to complete our planned merger with Capricor.

We do not have the capital resources available to continue the development of our product development programs or to otherwise remain in business. For more than 12 months, we have sought either additional financing to fund such activities or a collaboration or other strategic agreement with another company that would provide the capital needed to fund further development of our product candidates. Prior to our entry into the Capricor merger agreement, we have been unsuccessful in securing such additional capital. The planned merger with Capricor is subject to several conditions, including the approval of our stockholders of a reverse split of our common stock at a ratio not to exceed 1-for-100. If such conditions are not satisfied, we may be unable to complete the planned merger. In that case, we would be forced to liquidate the company and you would likely lose your entire investment in our common stock.

Capricor’s technology is not yet proven, and Capricor is still in an early stage of its product development.

Capricor has not completed the development of any products and may not have products to sell commercially for many years, if at all. Its potential products will require substantial additional research and development time and expense, as well as extensive clinical trials and perhaps additional preclinical testing, prior to commercialization, which may never occur. There can be no assurance that products will be developed successfully, perform in the manner anticipated, or be commercially viable.

Capricor has a limited operating history, and has experienced losses.

Capricor has a limited operating history and it expects a number of factors to cause its operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict its future performance. Capricor’s operations to date have been primarily limited to organizing and staffing its company, developing its technology, and undertaking preclinical studies and clinical trials of its product candidates. Capricor has not yet obtained regulatory approvals for any of its product candidates. Consequently, any predictions made about Capricor’s future success or viability may not be as accurate as they could be if it had a longer operating history. Specifically, Capricor’s financial condition and operating results have varied significantly in the past and will continue to fluctuate from quarter-to-quarter and year-to-year in the future due to a variety of factors, many of which are beyond its control. Capricor has a history of

net losses, expects to continue to incur substantial and increasing net losses for the foreseeable future, and may never achieve or maintain profitability.

Item 2. Unregistered Sales of Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.**Warrant Exchange Agreements**

On August 1, 2013, the Company entered into warrant exchange agreements with each holder of the warrants to purchase an aggregate of 2,750,000 shares of common stock that were issued in connection with the Company's June 2011 private placement. Pursuant to such agreements, each such holder received 0.1667 shares of the Company's common stock for each warrant share purchasable under the warrants held by such holder. The Company issued total number of 458,332 shares of its common stock pursuant to the warrant exchange agreements. As a result, all of the warrants issued in connection with the 2011 private placement have been cancelled. The shares of common stock issued in consideration for the exchange of such warrants was not registered under the Securities Act of 1933, as amended (the "Securities Act") at the time of sale. For these issuances, the Company relied upon the exemption from federal registration under Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder, based on the Company's belief that the offer and sale of such shares did not involve a public offering, as each purchaser of such securities was an "accredited investor" and no general solicitation was used.

Termination of Options under 2005 Stock Option Plan

In August 2013, the holders of options to purchase, at exercise prices ranging from \$0.301 to \$4.50 per share, an aggregate of 1,774,341 shares of the Company's common stock pursuant to the Company's 2005 Stock Option Plan, as amended, agreed to terminate all of their rights in such stock options effective immediately prior to the effective time of the Company's planned merger with Capricor. Such holders, all of whom are directors or officers of the Company, did not receive any consideration for such agreements.

Voting Results of Special Meeting of Stockholders

On November 12, 2013, we held a special meeting of stockholders (the "Special Meeting") in San Francisco, California. At the Special Meeting, our stockholders voted on four proposals, each of which is described in more detail in our definitive proxy statement on Schedule 14A as filed with the SEC on October 10, 2013 (the "Proxy Statement"). The results of the matters presented at the Special Meeting, based on the presence in person or by proxy of holders of 23,083,844 shares of the Company's common stock entitled to vote, are described below.

Proposal 1: To authorize the amendment of our certificate of incorporation to effect a combination (reverse split) of our common stock at a ratio not to exceed 1:100, and to reduce the total number of shares of common stock that we are authorized to issue from 100 million to 50 million and reduce the total number of shares of preferred stock that we are authorized to issue from 10 million to 5 million. The proposal was approved as follows:

For	Against	Abstain	Broker Non-Vote
22,196,268	882,241	5,335	0

Proposal 2: To authorize the amendment of our certificate of incorporation to change our name from "Nile Therapeutics, Inc." to "Capricor Therapeutics, Inc." This proposal was approved as follows:

For	Against	Abstain	Broker Non-Vote
22,607,358	466,161	10,325	0

Proposal 3: To approve adjournments of the Special Meeting, if necessary, to solicit additional proxies if there are insufficient votes to approve Proposals 1 and 2. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Vote
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22,143,340	910,381	30,123	0
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Proposal 4: To approve, on a nonbinding, advisory basis, the “golden parachute” compensation that may be paid or become payable to our named executive officers in connection with the consummation of the our proposed merger transaction with Capricor, Inc. This proposal was approved as follows:

For	Against	Abstain	Broker Non-Vote
20,558,247	1,836,081	689,516	0

Stock Issuances

On November 13, 2013, the Company entered into warrant exchange agreements with holders of common stock purchase warrants to purchase an aggregate of 1,484,695 shares of the Company’s common stock, which were originally issued in connection with the Company’s private placement of common stock and warrants completed on July 15, 2009. Pursuant to the terms of these agreements, the Company issued to such holders approximately 0.01102 shares of common stock for each share of common stock underlying their warrants for a total issuance of 16,360 shares of common stock. Upon such issuance, all rights of such holders under their warrants terminated. The shares of common stock issued in consideration for the exchange of such warrants was not registered under the Securities Act of 1933, as amended (the “Securities Act”) at the time of sale. For these issuances, the Company relied upon the exemption from federal registration under Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder, based on the Company’s belief that the offer and sale of such shares did not involve a public offering, as each purchaser of such securities was an “accredited investor” and no general solicitation was used.

Item 6. Exhibits.

Exhibit No.	Exhibit Description
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Nile Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Balance Sheets as of September 30, 2013 and December 31, 2012, (ii) Condensed Statements of Operations for the three and nine months ended September 30, 2013 and September 30, 2012, and for the period from August 1, 2005 (inception) through September 30, 2013, (iii) Condensed Statement of Stockholders' Equity for the period from August 1, 2005 (inception) through September 30, 2013, (iv) Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and September 30, 2012, and for the period from August 1, 2005 (inception) through September 30, 2013, and (v) Notes to Condensed Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on

NILE THERAPEUTICS, INC.

Date: November 14, 2013	By:	/s/ Darlene Horton, M.D. Darlene Horton, M.D. Chief Executive Officer (Principal Executive Officer)
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Date: November 14, 2013	By:	/s/ Daron Evans Daron Evans Chief Financial Officer (Principal Financial and Accounting Officer)
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INDEX TO EXHIBITS FILED WITH THIS REPORT

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