PRESCOTT GROUP CAPITAL MANAGEMENT, L.L.C.
Form 3
November 21, 2018

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person [*]
Â PRESCOTT GROUP CAPITAL MANAGEMENT, L.L.C.

(Last) (First) (Middle)

1924 SOUTH UTICA, SUITE 1120

(Street)

TULSA,Â OKÂ 74104

(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
11/14/2018

3. Issuer Name **and** Ticker or Trading Symbol
Sequential Brands Group, Inc. [SQBG]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock, par value $0.01 per share	6,916,422 [(1)]	I	See Footnote [(2)]

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security	4. Conversion or Exercise	5. Ownership Form of	6. Nature of Indirect Beneficial Ownership (Instr. 5)

		(Instr. 4)			
Date Exercisable	Expiration Date	Title	Amount or Number of Shares	Price of Derivative Security	Derivative Security: Direct (D) or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PRESCOTT GROUP CAPITAL MANAGEMENT, L.L.C. 1924 SOUTH UTICA, SUITE 1120 TULSA,Â OKÂ 74104	Â	Â X	Â	Â
FROHLICH PHIL 1924 SOUTH UTICA, SUITE 1120 TULSA,Â OKÂ 74014	Â	Â X	Â	Â

Signatures

/s/ Phil Frohlich, manager of Prescott Group Capital Management, L.L.C.	11/21/2018
**Signature of Reporting Person	Date
/s/ Phil Frohlich	11/21/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The filing of this Form 3 shall not be construed as an admission that Prescott Group Capital Management, L.L.C. ("Prescott Capital") or Phil Frohlich, the manager of Prescott Capital, is or was for the purposes of Section 16(a) of the Securities Exchange Act of 1934, as amended, or otherwise the beneficial owner of any of the Common Stock, par value $0.01 per share (the "Common Stock"), of Sequential Brands Group, Inc. (the "Issuer") purchased by Prescott Group Aggressive Small Cap Master Fund, G.P. (the "Master Fund") for the accounts of Prescott Group Aggressive Small Cap, L.P. or Prescott Group Aggressive Small Cap II, L.P. (together, the "Small Cap Funds"). Pursuant to Rule 16a-1, both Prescott Capital and Mr. Frohlich disclaim such beneficial ownership.

(2) Prescott Capital holds indirectly the shares of Common Stock of the Issuer through the account of the Master Fund, for which Prescott Capital is the Investment Manager. The Master Fund holds the Common Stock for the accounts of the Small Cap Funds, for which Prescott Capital is the Investment Manager. Prescott Capital receives a portion of the profits in the form of a capital allocation from, and owns a partnership interest in, the Small Cap Funds. Phil Frohlich reports the Common Stock held indirectly by Prescott Capital because, as the manager of Prescott Capital at the time of purchase, he controlled the disposition and voting of the securities.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. none; padding-top: 3pt; padding-right: 0pt; padding-left: 4px; padding-bottom: 3pt; margin-top: 0pt; margin-right: 0pt; margin-left: 0pt; margin-bottom: 0pt">A U.S. federal withholding tax of 30% may apply to dividends and the gross proceeds of a disposition of our common stock paid to a foreign financial institution (as specifically defined by applicable rules), including when the foreign financial institution holds our common stock on behalf of a Non-U.S. Holder, unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). This U.S. federal withholding tax of 30% will also apply to dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless

such entity provides the withholding agent with either a certification that it does not have any substantial direct or indirect U.S. owners or provides information regarding direct and indirect U.S. owners of the entity. The withholding tax described above will not apply if the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from the rules. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes. Holders are encouraged to consult with their own tax advisors regarding the possible implications of this withholding tax on their investment in our common stock.

The withholding provisions described above will generally apply to payments of dividends made on or after July 1, 2014 and to payments of gross proceeds from a sale or other disposition of common stock on or after January 1, 2017.

Federal Estate Tax

An individual who at the time of death is not a citizen or resident of the United States and who is treated as the owner of, or has made certain lifetime transfers of, an interest in our common stock will be required to include the value thereof in his or her taxable estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise. The test for whether an individual is a resident of the United States for federal estate tax purposes differs from the test used for U.S. federal income tax purposes. Some individuals, therefore, may be Non-U.S. Holders for U.S. federal income tax purposes, but not for U.S. federal estate tax purposes, and vice versa.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW, AS WELL AS TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL, NON-U.S. OR U.S. FEDERAL NON-INCOME TAX LAWS.

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UNDERWRITERS

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC and Cowen and Company, LLC are acting as representatives, have severally agreed to purchase, and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. LLC	1,114,647
Cowen and Company, LLC	743,099
William Blair & Company, L.L.C.	371,549
Canaccord Genuity Inc.	247,700
Total:	2,476,995

The underwriters and the representatives are collectively referred to as the underwriters and the representatives, respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $0.594 a share under the public offering price. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

Certain of selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 371,549 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase up to an additional 371,549 shares of common stock.

		Total	
	Per Share	No Exercise	Full Exercise
Public offering price	$ 16.50	$40,870,417	$47,000,976
	$ 0.99	$2,452,225	$2,820,058

Underwriting discounts and commissions to be paid by the selling stockholders			
Proceeds, before expenses, to the selling stockholders	$ 15.51	$38,418,192	$44,180,917

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately $485,000. We have agreed to reimburse the underwriters for expenses relating to clearance of this offering with the Financial Industry Regulatory Authority, Inc. up to $50,000.

Our common stock is listed on the Nasdaq Global Market under the trading symbol CMRX.

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We, all of our directors and officers, the selling stockholders and certain of our other existing stockholders have agreed that, without the prior written consent of the representatives on behalf of the underwriters, we and they will not, during the period ending 90 days after the date of this prospectus (the restricted period):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we have agreed that, without the prior written consent of the representatives on behalf of the underwriters, we will not, during the restricted period, file any registration statement with the SEC relating to the offering of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock (other than on Form S-8 with respect to our equity incentive plans described in this prospectus), and such other person have agreed that they will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of, any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph to do not apply to:

- the sale of the shares to the underwriters;
- the issuance by us of shares of our common stock or other securities convertible into or exercisable for shares of our common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of this prospectus; *provided* that, prior to the issuance of any such shares of common stock within the restricted period, we cause each recipient of such shares to sign and deliver a lock-up letter substantially to the effect of the restrictions described in this and the immediately preceding paragraph (unless such recipient has previously executed and delivered a lock-up letter in such form);
- the issuance by us of shares of our common stock or other securities convertible into or exercisable for shares of our common stock pursuant to our equity incentive plans described in this prospectus; *provided* that, prior to the issuance of any such shares of common stock or other securities where the shares of common stock or other securities vest within the restricted period, we cause each recipient of such shares or other securities to sign and deliver a lock-up letter substantially to the effect of the restrictions described in this and the immediately preceding paragraph;
- (i) the entry into an agreement providing for the issuance by us of shares of our common stock or any security convertible into or exercisable for shares of our common stock in connection with the acquisition by us or any of our subsidiaries of the securities, business, or other assets of another person or entity or pursuant to an employee benefit plan assumed by us in connection with such acquisition, and the issuance of any such securities pursuant to any such agreement, and (ii) the entry into an agreement providing for the issuance of shares of Common Stock or any security convertible into or exercisable for shares of our common stock in connection with joint ventures, commercial relationships or other strategic transactions, and the issuance of any such securities pursuant to any such agreement; *provided* that the aggregate number of shares of common stock that we may sell or issue or agree to sell or issue, or that may be issuable upon conversion or exercise of all other securities that we may sell or issue or agree to sell or issue, pursuant to this bullet point shall not exceed 5% of the total number of shares of our common stock issued and outstanding immediately following the completion of this offering; and *provided further*, that each recipient of shares or other securities issued pursuant to this bullet point shall sign and deliver a lock-up letter substantially to the effect of the restrictions described in this and the immediately preceding paragraph, and we shall enter stop transfer instructions with the our transfer agent and registrar on

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such shares or other securities, which we agree we will not waive or amend without the prior written consent of the representatives;

transfers by a director, officer or stockholder of shares of common stock or any security convertible into common stock as a bona fide gift, by will or intestate succession, or to any trust for the direct or indirect benefit of such director, officer or stockholder and/or their immediate family, or certain distributions by a stockholder of shares of common stock or any security convertible into common stock to partners, members, stockholders or holders of similar equity interests in such stockholder; *provided* that in the case of any such transfer or distribution, (i) each done, transferee or distributee shall sign and deliver a lock-up letter substantially to the effect of the restrictions described in this and the immediately preceding paragraph, and (ii) other than with respect to transfers or distributions by Sanderling Venture Partners V, L.P. and certain of its affiliates involving no more than 150,000 shares of our common stock in the aggregate, no filing under Section 16(a) of the Exchange Act, reporting a reduction in beneficial ownership of shares of common stock, shall be required or shall be voluntarily made during the restricted period;

transactions by a director, officer or stockholder relating to shares of our common stock acquired in open market transactions after the completion of this offering; *provided* that no filing under Section 16(a) of the Exchange Act shall be required or shall be voluntarily made in connection with subsequent dispositions of our common stock acquired in such open market transactions during the restricted period;

the establishment by a director, officer or stockholder of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of our common stock; *provided* that such plan does not provide for the transfer of shares of our common stock during the restricted period and no public announcement or filing under the Exchange Act regarding the establishment of such plan shall be required or shall be voluntarily made by or on behalf of such director, officer or stockholder or us during the restricted period;

transactions by an officer relating to shares of our common stock executed under a trading plan pursuant to Rule 10b5-1 under the Exchange Act in existence as of the date of this prospectus providing for the transfer of shares of our common stock; or

transfers by a director, officer or stockholder to us of shares of our common stock or other securities convertible into or exercisable or exchangeable for our common stock (i) upon a vesting event of our securities or the exercise of options issued pursuant to the our equity incentive plans in full or partial payment of taxes or tax withholding obligations required to be paid or satisfied upon such vesting or exercise, or (ii) in exercise of our right to repurchase or reacquire the securities of such director, officer or stockholder pursuant to agreements that permit us to repurchase or reacquire such securities upon termination of the services of such director, officer or stockholder to us; *provided* that in the case of any transfer pursuant to this bullet point, no filing under Section 16(a) of the Exchange Act, reporting a reduction in beneficial ownership of shares of our common stock, shall be required or shall be voluntarily made during the restricted period.

The representatives, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to

be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We, the selling stockholders and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account 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. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

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

(b) 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 representatives for any such offer; or

(c) In any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to the public in relation to any shares of our common stock 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 any shares of our common stock to be offered so as to

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enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, 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, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

(a) It has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

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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 Cooley LLP, San Diego, California. The underwriters are being represented by Davis Polk & Wardwell LLP, New York, New York.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our financial statements at December 31, 2012 and 2011, and for each of the three years in the period ended December 31, 2012, as set forth in their report. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1, including exhibits and schedules, under the Securities Act, with respect to the shares of common stock being offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all of the information in the registration statement and its exhibits. For further information with respect to us and the common stock offered by this prospectus, we refer you to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You can read our SEC filings, including the registration statement, over the Internet at the SEC s website at *www.sec.gov*. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, NE, Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You may also request a copy of these filings, at no cost, by writing us at 2505 Meridian Parkway, Suite 340, Durham, North Carolina 27713 or telephoning us at (919) 806-1074.

We are subject to the information reporting requirements of the Exchange Act, and we file reports and other information with the SEC. These reports and other information are available for inspection and copying at the public reference room and web site of the SEC referred to above. We also maintain a website at *www.chimerix.com*, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on or accessible through our website is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Chimerix, Inc.

We have audited the accompanying balance sheets of Chimerix, Inc. as of December 31, 2011 and 2012 and the related statements of operations and comprehensive loss, redeemable convertible preferred stock and stockholders deficit and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chimerix, Inc. at December 31, 2011 and 2012 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 8, 2013, except for Note 14,
as to which the date is March 26, 2013

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Chimerix, Inc.

Balance Sheets
(in thousands, except share and per share data)

	December 31, 2011	December 31, 2012	Pro Forma Stockholders' Equity at December 31, 2012 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$13,607	$19,906	$19,906
Short-term investments, available-for-sale	5,918	9,849	9,849
Accounts receivable	4,187	783	783
Prepaid and other current assets	1,048	983	983
Deferred financing costs, current portion	64	33	33
Total current assets	24,824	31,554	31,554
Property and equipment, net of accumulated depreciation	561	407	407
Deposits	22	22	22
Deferred financing costs, less current portion	25	48	48
Total assets	$25,432	$32,031	$32,031
Liabilities, redeemable convertible preferred stock and stockholders deficit			
Current liabilities:			
Accounts payable	$4,120	$1,964	$1,964
Accrued liabilities	2,534	906	906
Loan payable, current portion	160	4,753	4,753
Total current liabilities	6,814	7,623	7,623
Other long-term liabilities		337	337
Loan payable, less current portion	2,441	9,867	9,867
Redeemable convertible preferred stock warrant liability	6,491	7,512	
Total liabilities	15,746	25,339	17,827
Redeemable convertible preferred stock	103,366	107,723	
Stockholders deficit:			
Common stock, $0.001 par value; 89,700,000 shares authorized at December 31, 2011 and 2012; 1,517,465 and 1,533,995 shares issued and outstanding at December 31, 2011 and 2012, respectively and 17,090,085 shares issued and outstanding pro forma (unaudited)	2	3	17
Additional paid-in capital			116,197
Accumulated other comprehensive loss	(4)	(2)	(2)

Accumulated deficit	(93,678)	(101,032)	(102,008)
Total stockholders deficit	(93,680)	(101,031)	14,204
Total liabilities, redeemable convertible preferred stock and stockholders deficit	$25,432	$32,031	$32,031

See accompanying notes.

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Chimerix, Inc.

Statements of Operations and Comprehensive Loss (in thousands, except per share data)

	Year Ended December 31,		
	2010	2011	2012
Revenues:			
Collaboration and licensing revenue	$	$ 55	$ 17,445
Contract and grant revenue	1,715	12,046	16,275
Total revenues	1,715	12,101	33,720
Operating expenses:			
Research and development	21,074	30,108	30,106
General and administrative	5,945	6,985	6,397
	27,019	37,093	36,503
Loss from operations	(25,304)	(24,992)	(2,783)
Other (expense) income:			
Interest expense, net	(154)	(212)	(776)
Fair value adjustments to warrant liability		(385)	(847)
Other income	1		
Net loss	(25,457)	(25,589)	(4,406)
Other comprehensive loss:			
Unrealized gain (loss) on securities available-for-sale		(4)	2
Comprehensive loss	$ (25,457)	$ (25,593)	$ (4,404)
Net loss	$ (25,457)	$ (25,589)	$ (4,406)
Accretion of redeemable convertible preferred stock		(9,565)	(4,357)
Net loss attributable to common stockholders	$ (25,457)	$ (35,154)	$ (8,763)
Per share information:			
Net loss, basic and diluted	$ (17.52)	$ (23.49)	$ (5.75)
Weighted-average shares outstanding, basic and diluted	1,453	1,496	1,525
Pro forma net loss, basic and diluted (unaudited)			$ (0.47)
Weighted-average pro forma shares outstanding, basic and diluted (unaudited)			9,369

See accompanying notes.

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Chimerix, Inc.

Statements of Redeemable Convertible Preferred Stock and Stockholders Deficit (in thousands)

	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Deficit
Balance, December 31, 2009	$ 55,131	$ 2	$ 1,117	$	$ (36,047)	$ (34,928)
Share-based compensation			753			753
Exercise of stock options			25			25
Comprehensive loss:						
Net loss					(25,457)	(25,457)
Total comprehensive loss						(25,457)
Balance, December 31, 2010	55,131	2	1,895		(61,504)	(59,607)
Share-based compensation			966			966
Issuance of redeemable convertible preferred stock	38,670					
Issuance of common stock			89			89
Exercise of stock options			30			30
Dividends on redeemable preferred stock	3,235		(2,980)		(255)	(3,235)
Adjustment of redeemable preferred stock to redemption value	6,330				(6,330)	(6,330)
Comprehensive loss:						
Unrealized loss on investments, net				(4)		(4)
Net loss					(25,589)	(25,589)
Total comprehensive loss						(25,593)
Balance, December 31, 2011	103,366	2		(4)	(93,678)	(93,680)
Share-based compensation			1,396			1,396
Exercise of stock options		1	13			14
Dividends on redeemable preferred stock	3,600		(1,409)		(2,191)	(3,600)
Adjustment of redeemable preferred stock to redemption value	757				(757)	(757)
Comprehensive loss:						
Unrealized gain on investments, net				2		2
Net loss					(4,406)	(4,406)
Total comprehensive loss						(4,404)
Balance, December 31, 2012	$ 107,723	$ 3	$	$ (2)	$ (101,032)	$ (101,031)

See accompanying notes.

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Chimerix, Inc.

Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2010	2011	2012
Operating activities			
Net loss	$(25,457)	$(25,589)	$(4,406)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	213	270	280
Non-cash interest expense	38	50	238
Amortization/accretion of premium/discount on investments	119	118	84
Share-based compensation costs	753	1,055	1,396
Deferred lease obligation	(19)	(4)	
Fair value measurement of redeemable convertible preferred stock warrant liability		385	847
Net change in:			
Accounts receivable	937	(4,187)	3,404
Prepaid and other current assets and deposits	181	(442)	65
Accounts payable and accrued liabilities	1,554	2,065	(3,784)
Net cash used in operating activities	(21,681)	(26,279)	(1,876)
Investing activities			
Purchase of property and equipment	(117)	(321)	(126)
Purchase of short-term investments	(12,094)	(13,640)	(9,907)
Sales of short-term investments	2,925	500	
Maturities of short-term investments	9,050	7,100	5,894
Repayment of loan to officer		125	
Net cash used in investing activities	(236)	(6,236)	(4,139)
Financing activities			
Proceeds from issuance of redeemable convertible preferred stock and warrants		45,000	
Proceeds from exercise of stock options	25	30	14
Proceeds from loan payable	6,000		15,000
Debt discount			(75)
Repayment of loan payable	(1,434)	(1,965)	(2,601)
Stock offering and deferred financing costs	12	(249)	(24)
Net cash provided by financing activities	4,603	42,816	12,314
Increase (decrease) in cash and cash equivalents	(17,314)	10,301	6,299
Cash and cash equivalents:			
Beginning of period	20,620	3,306	13,607
End of period	$3,306	$13,607	$19,906

Supplemental schedule of cash flow information			
Interest payments	$180	$186	$448

See accompanying notes.

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Chimerix, Inc.

Notes to Financial Statements

1. Description of Business

Chimerix, Inc. (the Company) is a biopharmaceutical company committed to the discovery, development and commercialization of novel, oral antiviral therapeutics that are designed to transform patient care in areas of high unmet medical need. The Company s proprietary lipid technology has given rise to two clinical-stage compounds, brincidofovir and CMX157, which have demonstrated the potential for enhanced antiviral activity and safety inconvenient, orally administered dosing regimens. The Company has worldwide rights to its lead product candidate, brincidofovir, and initiated the Phase 3 SUPPRESS study in the third quarter of 2013 for the prevention of cytomegalovirus infection in hematopoietic stem cell transplant recipients. The Company recently completed a Phase 2 trial of brincidofovir as a preemptive therapy for adenovirus infection. Additionally, Chimerix is developing brincidofovir as a medical countermeasure against smallpox under a contract from the Biomedical Advanced Research and Development Authority (BARDA). The Company s second clinical-stage compound, CMX157, is a Phase 1 product candidate for the treatment of HIV and was licensed to Merck, Sharp & Dohme Corp. (Merck) in 2012.

To date, the Company has derived its revenue from the United States government, principally grants from the National Institute of Allergy and Infectious Diseases (NIAID) and a contract with BARDA, and pursuant to the license agreement it entered with Merck in July 2012. See Note 11 to these financial statements for further discussion of these arrangements.

The accompanying financial statements for the years ended December 31, 2010, 2011 and 2012 have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. Since inception in 2000, the Company has not been profitable and has incurred operating losses in each year. The Company has not generated revenue from any product sales to date and will continue to incur significant research and development and other expenses related to its ongoing operations. The Company has funded its operations primarily through the sale and issuance of preferred stock, loans with third parties, grant and contract awards from the United States government and amounts received pursuant to a license agreement with Merck. Net working capital at December 31, 2011 and 2012, was $18.0 million and $23.9 million, respectively. The Company expects to continue to incur losses for the foreseeable future. At December 31, 2012, the Company had capital resources consisting of cash, cash equivalents and short-term investments of $29.8 million.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Unaudited Pro Forma Stockholders Equity (Deficit)

In connection with the Company s initial public offering (IPO), all of the Company s redeemable convertible preferred stock automatically converted into common stock at the applicable conversion ratio then in effect. In addition, in connection with the Company s IPO, the Company issued shares of common stock underlying shares of the Company s Series F preferred stock in respect of the accumulated dividends on the Company s Series F preferred stock. Unaudited pro forma stockholders equity assumes the conversion of all preferred stock into shares of common stock, the issuance of common stock in respect of the accumulated dividends on the Company s Series F preferred stock, and the conversion of all outstanding warrants exercisable for shares of preferred stock into warrants exercisable for a corresponding number of shares of common stock, resulting in the preferred stock warrant liability being reclassified to additional paid-in capital. The unaudited pro forma loss per share of common stock for the year ended December 31, 2012, was computed using the weighted-average number of shares of common stock outstanding, including the pro forma effect of the conversion of all outstanding convertible preferred stock into shares of common stock and the issuance of shares of common stock in respect of the accumulated dividends on the Company s Series F

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

preferred stock as if such conversion and issuance had occurred at the beginning of the respective period. See Note 15 to the these financial statements for further details on the completed IPO.

Use of Estimates

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

Reclassifications

During the second quarter of fiscal year 2013, the Company corrected the classification of its legal fees associated with patents and regulatory, license fees and rent. This resulted in a reclassification of $1.7 million, and $2.4 million and $2.3 million from G&A expense to R&D expenses for the years ended December 31, 2010, 2011 and 2012. Such reclassifications had no effect on net loss or stockholders deficit as previously reported.

Segment Reporting

The Company operates in only one segment. The chief operating decision-maker and management use cash flows as the primary measure to manage the business and do not segment the business for internal reporting or decision making.

Cash and Cash Equivalents

The Company considers any highly liquid instrument with an original maturity of three months or less at acquisition to be a cash equivalent. Cash equivalents consist of money market accounts.

Investments

Investments consist primarily of corporate bonds and commercial paper. The Company invests in high-credit quality investments in accordance with its investment policy which minimizes the possibility of loss.

Available-for-sale securities are carried at fair value as determined by quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders deficit. Realized gains and losses are determined using the specific identification method and transactions are recorded on a settlement date basis in interest income or expense, net. Investments with original maturities beyond three months at date of purchase and which mature at, or less than twelve months from, the balance sheet date are classified as current. Investments with a maturity beyond twelve months from the balance sheet date are classified as long-term. The Company periodically reviews available-for-sale securities for other-than temporary declines in fair value below the cost basis, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any such declines in value judged to be other-than-temporary on available-for-sale securities are reported in interest income or expense, net. There were no such declines in value for the years ended December 31, 2010, 2011 and 2012.

Accounts Receivable

Accounts receivable at December 31, 2011 and 2012, consisted of amounts billed and unbilled under the Company s contract with BARDA. Receivables under the BARDA contract are recorded as qualifying research activities are conducted and invoices from the Company s vendors are received. The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance based on its history of collections and write-offs

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

and the current status of all receivables. The Company does not accrue interest on trade receivables. If accounts become uncollectible, they will be written off through a charge to the allowance for doubtful accounts. The Company has not recorded an allowance for doubtful contract receivable as management believes all receivables are fully collectible.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. The Company is exposed to credit risk, subject to federal deposit insurance, in the event of default by the financial institutions holding its cash and cash equivalents to the extent of amounts recorded on the balance sheets. Accounts receivable represent amounts due from an agency of the federal government.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company s financial instruments, including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values due to the short-term nature of such instruments. The carrying amount of borrowings under the Company s loan payable approximates its fair value based on the determination that the stated rate on such loan payable is consistent with current interest rates for similar borrowing arrangements available to the Company.

For assets and liabilities recorded at fair value, it is the Company s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, fair value measurements cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the calculated current or future fair values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. These levels are:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and models for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects changes in classification between levels will be rare.

The Company has cash equivalents consisting of money market accounts and commercial paper whose value is based on using quoted market prices. Accordingly, these securities are classified as Level 1.

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

At December 31, 2011 and 2012, the Company had short-term investments, comprised of corporate bonds and commercial paper, for which quoted prices are not available that were valued using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Accordingly, these securities are classified as Level 2.

The warrants issued for Series F redeemable convertible preferred stock are categorized as Level 3 as there are significant unobservable inputs. The valuation of the warrants reflects a two stage process. Using a contingent claims model in combination with the Company s Series F financing which occurred in February 2011, the fair value of total equity and all components of the Company s capital structure, including the warrants, is determined as of the time of the financing event. Using this value as a starting point, a series of equity values and associated probabilities are calculated using simulation methodologies that incorporate both Monte Carlo and risk neutral frameworks. Based on assessments of expected returns and volatilities consistent with market practice, a distribution of equity values was produced which covered the range of values that an informed market participant might expect. These outcomes were organized into ranges and a probability calculated based on the percent of the total falling into each range. This process created a range of equity values. Using a contingent claims framework, each equity value is allocated to the various components of the capital structure including the warrants. Each warrant value is weighted by its respective probability to determine the final fair value of the warrants as of December 31, 2011 and 2012. The key unobservable inputs used in the determination of the December 31, 2012 fair value are (i) volatility 79%, (ii) range of implied fair value of the Series F redeemable convertible preferred stock $2.19 to $2.85, (iii) time to liquidity 8 months to 5 years, and (iv) range of probabilities of liquidity event outcomes 2% to 31%.

There was no material remeasurement to fair value of financial assets and liabilities that are not measured at fair value on a recurring basis.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements at December 31, 2011		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
	(In thousands)			
Cash equivalents	$9,326	$9,326	$	$
Short-term investments	5,918		5,918	
Redeemable convertible preferred stock warrant liability	6,491			6,491

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

		Fair Value Measurements at December 31, 2012		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$ 17,687	$ 16,381	$ 1,306	$
Short-term investments	9,849		9,849	
Redeemable convertible preferred stock warrant liability	7,512			7,512

Below is a table that presents a reconciliation of the beginning and ending balances of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements (Level 3) (in thousands)
Redeemable Convertible Preferred Stock Warrant Liability	
Balance at January 1, 2011	$
Issuance	6,106
Fair value increase recorded in other income (expense)	385
Fair value at December 31, 2011	6,491
Issuance	174
Fair value increase recorded in other income (expense)	847
Fair value at December 31, 2012	$ 7,512

Prepaid and Other Current Assets

Prepaid and other current assets consist of the following:

December 31,

	2011	2012
	(in thousands)	
Prepaid development expenses	$ 816	$ 486
Other prepaid and other current assets	232	497
	$ 1,048	$ 983

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which generally range from three to five years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the related lease. Maintenance and repairs are charged against expense as incurred.

Impairment of Long-lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Deferred Public Offering Costs

Deferred public offering costs totaling $0.3 million at December 31, 2012 are included in prepaid and other current assets. These costs represent legal and accounting costs related to the Company s efforts to raise capital through a public sale of the Company s common stock. There were no IPO costs incurred prior to 2012. Future costs related to the Company s IPO activities were deferred until the completion of the IPO, at which time they were reclassified to additional paid-in capital as a reduction of the IPO proceeds.

Deferred Rent

The Company recognizes rent expense on a straight-line basis over the non-cancelable term of its operating lease and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. The Company also records landlord-funded lease incentives, such as reimbursable leasehold improvements, as a deferred rent liability, which is amortized as a reduction of rent expense over the non-cancelable term of its operating lease.

Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2011	2012
	(in thousands)	
Accrued compensation	$ 693	$ 560
Accrued development expenses	1,459	98
Other accrued liabilities	382	248
	$ 2,534	$ 906

Redeemable Convertible Preferred Stock Warrant Liability

Freestanding warrants for shares that are either putable or redeemable are classified as liabilities on the balance sheet at fair value. As further discussed in Note 7 to these financial statements, the preferred stock underlying the warrants was redeemable in certain circumstances, and as such the freestanding warrants that are related to the purchase of the Company s Series F preferred stock are liabilities that should be recorded at the estimated fair value. At the end of each reporting period, changes in the estimated fair value during the period are recorded in other income.

Redeemable Convertible Preferred Stock

The Company classified its redeemable convertible preferred stock, for which the Company did not control the redemption, outside of permanent equity. The Company recorded redeemable convertible preferred stock at fair value upon issuance, net of any offering costs, and the carrying value is adjusted to the redemption value at the end of each reporting period. These adjustments are effected through charges against additional paid-in capital and accumulated deficit.

Revenue Recognition

The Company s revenues consist of (i) contract and grant revenues revenues generated under federal contracts and other awarded grants, and (ii) collaboration and licensing revenues revenues related to up-front, non-refundable fees earned under license agreements. Revenue is recognized when all four of the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery of the products and/or services has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

For arrangements that involve the delivery of more than one element, each product, service and/or right to use assets is evaluated to determine whether it qualifies as a separate unit of accounting. This determination

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

is based on whether the deliverable has stand-alone value to the customer. The consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling prices of each deliverable. The consideration allocated to each unit of accounting is recognized as the related goods and services are delivered, limited to the consideration that is not contingent upon future deliverables. If the arrangement constitutes a single unit of accounting, the revenue recognition policy must be determined for the entire arrangement and the consideration received is recognized over the period of inception through the date the last deliverable within the single unit of accounting is expected to be delivered. Revisions to the estimated period of recognition are reflected in revenue prospectively.

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

Milestone payments are recognized when earned, provided that (i) the milestone event is substantive; (ii) there is no ongoing performance obligation related to the achievement of the milestone earned; and (iii) it would result in additional payments. Milestone payments are considered substantive if all of the following conditions are met: the milestone payment is non-refundable; achievement of the milestone was not reasonably assured at the inception of the arrangement; substantive effort is involved to achieve the milestone; and the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement; and the related risk associated with the achievement of the milestone. Contingent based event payments the Company may receive under a license or collaboration agreement will be recognized when received.

For the year ended December 31, 2010, contract and grant revenue was derived from research grants with the NIAID. The activities related to the NIAID grant have been completed and there are no further performance obligations. In the years ended December 31, 2011 and 2012, contract and grant revenue consisted only of revenue from the BARDA contract as there was no grant revenue. The Company recognizes contract and grant revenue as qualifying research activities are conducted based on invoices received from the Company s vendors. Changes in fringe and indirect rates are recognized as a change in estimate in the period such rate changes are approved by BARDA.

Clinical Trial Accruals

As part of the process of preparing financial statements, the Company is required to estimate its expenses resulting from its obligation under contracts with vendors and consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company s objective is to reflect the appropriate clinical trial expenses in its financial statements by matching those expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. The Company determines accrual estimates through discussion with applicable personnel and outside service providers as to the progress or state of communication of trials, or the services completed. During the course of a clinical trial, the Company adjusts its rate of clinical trial expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known at that time. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its understanding of status and timing of services performed relative to the actual status and timing of services performed may vary and may result in the Company reporting amounts that are too high or too low for any particular period. Through December 31,

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

2012, there had been no material adjustments to the Company s prior period estimates of accrued expenses for clinical trials. The Company s clinical trial accrual is dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors.

Research and Development

Major components of research and development (R&D) costs include cash compensation, stock based compensation, pre-clinical studies, clinical trial and related clinical manufacturing, drug development, materials and supplies, and fees paid to consultants and other entities that conduct certain research and development activities of the Company s behalf. R&D costs, including upfront fees and milestones paid to contract research organizations, are expensed as goods as received or services rendered. Costs incurred in connection with clinical trial activities for which the underlying nature of the activities themselves do not directly relate to active research and development, such as costs incurred for market research and focus groups linked to clinical strategy as well as costs to build the Company s brand, are not included in R&D costs but are reflected as general and administrative costs.

Interest Expense, Net

Interest expense, net includes interest earned on short-term investments, interest incurred on loans payable, the amortization of deferred financing costs related to fees paid to attorneys and other non-lender entities in order to acquire debt, and the amortization of debt discount related to fees paid to the lender in order to acquire debt.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when the Company determines that it is more likely than not that some portion of a deferred tax asset will not be realized. The Company has incurred operating losses from April 7, 2000 (inception) through December 31, 2012, and therefore has not recorded any current provision for income taxes.

Additionally, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized upon settlement. Accordingly, the Company establishes reserves for uncertain tax positions.

Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. The fair value of share-based awards is estimated on the grant date using the Black-Scholes valuation model. The value of the portion of the award that is ultimately expected to vest is recorded as expense over the requisite service periods.

The Company also accounts for equity instruments issued to non-employees using a fair value approach. The Company values equity instruments, stock options and warrants granted to lenders and consultants using the Black-Scholes valuation model. The measurement of non-employee share-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the term of the related financing or the period over which services are received.

Basic and Dilutive Net Loss per Share of Common Stock

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects converting

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Chimerix, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (continued)

redeemable preferred stock, warrants to purchase redeemable convertible preferred stock, restricted stock and options. Diluted net loss per share of common stock is computed by dividing the net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of redeemable convertible preferred stock and warrants to purchase redeemable convertible preferred stock, and options outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during the periods of net loss, there was no difference between basic and diluted loss per share of common stock at December 31, 2010, 2011 and 2012.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of converting redeemable convertible preferred stock, warrants to purchase convertible preferred stock and options to purchase common stock, as the impact of such items are anti-dilutive during periods of net loss. Shares excluded from the calculations were 6,781,550, 11,034,134 and 11,259,579 for the years ended December 31, 2010, 2011 and 2012, respectively.

Impact of Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirement in U.S. GAAP and IFRS*. This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, and change a principle or requirement for fair value measurements or disclosures. This guidance is effective for interim and annual periods beginning after December 15, 2011. The standard was adopted as of January 1, 2012 and the retrospective application of this standard did not have a material impact on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This guidance requires that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance is effective for interim and annual periods beginning after December 15, 2011. This standard was adopted as of January 1, 2012 and the retrospective application of this standard did not have a material impact on the Company s financial statements.

3. Investments

The following table summarizes available-for-sale securities:

December 31, 2011			
Amortized	Gross	Gross	Estimated
Cost	Unrealized	Unrealized	Fair

		Gains	Losses	Value
	(in thousands)			
Corporate bonds	$ 4,173	$	$ (4)	$ 4,169
Commercial paper	1,749			1,749
Total	$ 5,922	$	$ (4)	$ 5,918

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate bonds	$ 8,353	$	$ (2)	$ 8,351
Commercial paper	1,498			1,498
Total	$ 9,851	$	$ (2)	$ 9,849

All of the Company s investments as of December 31, 2011 and 2012 had maturities of one year or less.

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Chimerix, Inc.

Notes to Financial Statements

4. Property and Equipment

Property and equipment consist of the following:

	December 31, 2011	December 31, 2012
	(in thousands)	
Lab equipment	$ 900	$ 958
Leasehold improvements	74	78
Computer equipment	340	393
Office furniture and equipment	201	212
	1,515	1,641
Less accumulated depreciation	(954)	(1,234)
	$ 561	$ 407

5. Loans Payable

On November 24, 2008, the Company entered into a Loan and Security Agreement (the loan) with Silicon Valley Bank (SVB) under which the Company could borrow up to $6.0 million. On March 31, 2010, the Company drew the full amount of the loan with interest payable at 5%, the prime rate of interest plus 1% at the time of draw. The loan was secured by certain assets of the Company, excluding intellectual property. Borrowings under the loan were to be paid over a period of thirty-six months. The Company also granted the financial institution, concurrent with issuance of the loan, a warrant to purchase a total of 58,680 shares of the Company s Series D preferred stock at a price of $2.045 per share. The Company incurred deferred financing costs of approximately $0.2 million in connection with securing the loan and valuing the warrants which was amortized over the term of the loan through interest expense.

On January 27, 2012, the Company entered into a Loan and Security Agreement (the LSA) with SVB and MidCap Financial SBIC, LP (MidCap) allowing for borrowings up to $15.0 million, split between a first tranche of $3.0 million borrowed at the time of the agreement, and a second tranche of up to $12.0 million that would be available to be drawn by December 31, 2012 upon meeting one of three stated financial and/or operational goals.

The first tranche was used to repay the remaining principal balance outstanding under the 2008 loan noted above of $2.6 million. This repayment was deemed a modification of debt and therefore the remaining related deferred financing costs totaling $0.1 million remained in deferred financing costs and are being amortized over the term of the LSA through interest expense. The first tranche has an interest only period of twelve months followed by a thirty month principal and interest amortization period with interest being charged at 8.25% per year for the full period of the LSA.

The Company met one of the financial and/or operational goals mentioned above and, in September 2012, the remaining $12.0 million was borrowed in the second tranche. The second tranche has a six month interest only period followed by a thirty-two month principal and interest amortization period with interest being charged at the same rate as the first tranche. There are certain fees in accordance with the LSA which are being recorded as discounts or other long and short-term liabilities depending on the nature of the fees. The fees are being accreted through interest expense. $0.1 million was recorded in interest expense for the year ended December 31, 2012.

Concurrently with entering into the LSA, the Company also granted SVB a warrant to purchase shares of Series F preferred stock at a price of $2.045 per share equal to 2% of the aggregate amount of the advances made to the Company pursuant to the LSA, divided by the exercise price. In relation to the first tranche, 29,340 warrants became exercisable, and in relation to the second tranche, an additional 117,360 warrants became exercisable. As discussed in Note 2 to these financial statements, the warrants are classified as a liability and are required to be measured at fair value. Therefore, the warrants were recorded as a debt

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Notes to Financial Statements

5. Loans Payable (continued)

discount at their fair value at the time of grant and accreted over the life of the LSA using the effective interest method. The subsequent re-valuation of the warrants (at fair value) resulted in other expense of $22,000 for the year ended December 31, 2012.

The future payments under the LSA are as follows (in thousands):

Years ending December 31,	
2013	$ 6,042
2014	6,323
2015	4,508
	16,873
Less: amount representing interest	(1,873)
Total payments under LSA	$ 15,000

6. Commitments and Contingencies

Leases

The Company leases its facilities and certain office equipment under long-term noncancelable operating leases that expire at various dates through 2013. As of December 31, 2012, future minimum payments under noncancelable operating leases are as follows (in thousands):

Years Ending December 31,	
2013	$ 169
2014	18
	$ 187

Rent expense under non-cancelable operating leases and other month-to-month equipment rental agreements, including common area maintenance fees, totaled approximately $0.4 million, $0.5 million, and $0.4 million for the years ended December 31, 2010, 2011 and 2012, respectively.

Significance of Revenue Source

The Company is the recipient of federal research grant funds from the U.S. Department of Health and Human Services through the NIAID and federal research contract funds from BARDA. Periodic audits are required under the grant and contract agreements and certain costs may be questioned as appropriate under the agreements. Management believes that such amounts in the current year, if any, are not significant. Accordingly, no provision for refundable amounts under the agreements has been made as of December 31, 2010, 2011 and 2012.

7. Redeemable Convertible Preferred Stock

In February 2011, the Company issued 22,004,895 shares of $0.001 par value Series F redeemable convertible preferred stock at $2.045 per share and warrants to purchase an aggregate of 5,501,215 shares of Series F redeemable convertible preferred stock at an exercise price of $2.045 per share for proceeds of $45.0 million, less issuance costs of $0.2 million. The warrants are exercisable at any time and expire on February 4, 2018.

In January 2012, the Company issued a warrant to SVB to purchase a number of shares of Series F redeemable convertible preferred stock at an exercise price of $2.045 per share equal to 2% of the aggregate amount of the advances made to the Company pursuant to the LSA, divided by the exercise price. Following the first and second tranches of the LSA, the warrant was exercisable to purchase an aggregate of 146,700 shares of Series F redeemable convertible preferred stock. The warrant issued to SVB is exercisable until January 22, 2022.

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7. Redeemable Convertible Preferred Stock (continued)

The following table summarizes the authorized, issued and outstanding shares of redeemable convertible preferred stock as of December 31, 2011 and 2012:

	December 31, 2011		December 31, 2012	
	Authorized Shares	Issued and Outstanding Shares	Authorized Shares	Issued and Outstanding Shares
Series A	800,000	800,000	800,000	800,000
Series B	2,233,879	2,233,879	2,233,879	2,233,879
Series B-1	2,054,333	2,033,333	2,054,333	2,033,333
Series C	5,141,690	5,141,690	5,141,690	5,141,690
Series D	11,354,526	11,295,846	11,354,526	11,295,846
Series E	7,894,871	7,894,871	7,894,871	7,894,871
Series F	40,200,000	22,004,895	40,200,000	22,004,895
Total Shares	69,679,299	51,404,514	69,679,299	51,404,514

The Company s Series A preferred stock, Series B preferred stock, Series B-1 preferred stock, Series C preferred stock, Series D preferred stock, Series E preferred stock and Series F preferred stock (collectively, the Preferred Stock) have the following rights, preferences, and privileges:

Dividend Provisions

The Company s Series F preferred stock was entitled to receive dividends at the rate of 8% per annum of the original issuance price of $2.045 per share (subject to adjustment in the event of any stock dividends, stock splits, combination of shares, recapitalization or similar events), whenever funds are legally available. These dividends accrued on a daily basis, whether or not declared by the Company s Board of Directors, and were cumulative to the extent not declared and paid for a period ending on the date immediately prior to the closing of the Company s initial public offering. Any future dividends shall be payable only when, as and if declared by the Company s Board of Directors and shall be non-cumulative. As of December 31, 2011 and 2012, dividends in the amount of $3.2 million and $6.8 million have been accrued and included in the balance of Series F preferred stock.

Each of the Company s Series A preferred stock, Series B preferred stock and Series B-1 preferred stock (collectively, the Junior Preferred Stock), the Company s Series C preferred stock and Series D preferred stock (collectively, the Mezzanine Preferred Stock), and the Company s Series E preferred stock was entitled to receive dividends at the rate 8% per annum of the applicable original issuance price per share. The original issuance price is $0.50, $1.00, $1.50, $2.045, $2.045, $2.045, and $2.045 per share, respectively, for the Series A preferred stock, Series B preferred stock, Series B-1 preferred stock, Series C preferred stock, Series D preferred stock and Series E preferred stock (subject to adjustment in the event of any stock dividends, stock splits, combination of shares, recapitalization or similar events).

As of December 31, 2011 and 2012, no dividends for the Company s Series A preferred stock, Series B preferred stock, Series B-1 preferred stock, Series C preferred stock, Series D preferred stock or Series E preferred stock had been declared, and therefore none were accrued.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company, the holders of the preferred stock were entitled to be paid out of the assets of the Company at an amount per share equal to the original issue price plus any accrued or declared and unpaid dividends on the preferred stock. The original purchase prices were $2.045 for the Series F preferred stock, Series E preferred stock, Series D preferred stock and Series C preferred stock, and $1.50, $1.00 and $0.50 for the Series B-1 preferred stock, Series B preferred stock and Series A preferred stock, respectively (in each case, subject to adjustment in the event of any stock dividends, stock splits, combination of shares, recapitalization or similar events).

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Chimerix, Inc.

Notes to Financial Statements

7. Redeemable Convertible Preferred Stock (continued)

Voting Rights

The holder of each share of preferred stock was entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock have been converted. Each share of common stock carried equivalent voting rights. In addition, certain actions required approval by the requisite holders of the Company s Series F preferred stock and/or the majority holders of the Company s Series E preferred stock.

Automatic Conversion

Each share of preferred stock automatically converted into shares of common stock at the then effective conversion rate immediately prior to the closing of the Company s IPO.

Redemption

The Company s Series F preferred stock was redeemable at the option of the holder in three annual installments occurring beginning February 7, 2018. The redemption value of the Company s Series F preferred stock was the greater of (i) the then fair value or (ii) the original issue price plus accrued dividends. See Note 8 to these financial statements for a discussion of the fair value considerations related to the Company s capital stock.

The Company determined that the Company s Series A preferred stock, Series B preferred stock, Series B-1 preferred stock, Series C preferred stock, Series D preferred stock and Series E preferred stock were contingently redeemable based on deemed liquidation events described above which are outside the control of the Company. Preferred Stock was recorded at fair value at the date of issuance and adjusts the carrying value to its redemption value at each balance sheet date. The redemption values of the Company s Series A preferred stock, Series B preferred stock, Series B-1 preferred stock, Series C preferred stock, Series D preferred stock and Series E preferred stock as of December 31, 2011 and 2012 would be each series initial carrying amount, which is equal to \$0.4 million, \$2.2 million, \$3.1 million, \$10.4 million, \$22.9 million, and \$16.1 million, respectively. The redemption value of the Company s Series F preferred stock was estimated to be \$48.2 million and \$52.6 million at December 31, 2011 and 2012, respectively.

Warrants

The following warrants for the purchase of preferred stock on a one to one basis were issued, outstanding and exercisable at December 31, 2012:

Class	Date	Shares	Price Per Share	Expiration
Series B-1	November 5, 2003	21,000	$ 1.500	November 2013

Series D	November 24, 2008	58,680	$ 2.045	November 2018
Series F	February 7, 2011	5,501,215	$ 2.045	February 2018
Series F	January 27, 2012	146,700	$ 2.045	January 2022

As discussed in Note 2 to these financial statements, the warrants exercisable for the Company s Series F preferred stock were classified as a liability and were required to be measured at fair value. Therefore, such warrants were recorded at the full fair value with the Company s Series F preferred stock being recorded at the residual value at the time of issuance. At each reporting date, the warrants exercisable for the Company s Series F preferred stock were recorded to fair value which is charged to other income. The fair valuation of such warrants resulted in other expense of $0.4 million and $0.8 for the years ended December 31, 2011 and 2012, respectively.

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Notes to Financial Statements

8. Stockholders Deficit

Common Stock

The Company s common stock consists of 89.7 million authorized shares at December 31, 2011 and 2012 and 1.5 million shares issued and outstanding at December 31, 2011 and 2012, respectively.

Shares Reserved for Future Issuance

The following shares of common stock are reserved for future issuances are as follows:

	December 31, 2011	December 31, 2012
Conversion of preferred stock and preferred stock warrants	16,052,159	16,093,483
Stock options issued and outstanding	2,630,951	2,593,423
Restricted Stock units outstanding		43,199
Authorized for future grants under the 2012 Equity Incentive Plan	450,041	427,933
	19,133,151	19,158,038

Stock Options

The Company has stock option plans under which incentive or nonqualified stock options may be awarded to employees, directors and consultants. The Company s 2012 equity incentive plan (the 2012 Plan), which became effective in February 2012, is a continuation of and successor to the Company s 2002 equity incentive plan (the 2002 Plan). The Company s Board of Directors has authorized the grant of options for the purchase of up to 3,567,835 shares of the Company s common stock as of December 31, 2011 and 2012.

Under the 2012 Plan, the Company s Board of Directors determines the terms and conditions of options granted. The exercise price for stock options shall not be less than the fair market value at the date of grant, and the options expire no later than ten years from the date of grant. Options issued to employees generally vest one-fourth on the first anniversary date following the date of grant and ratably each month for the next three years. Any outstanding options that are cancelled are automatically returned to the option pool.

The 2012 Plan has an early exercise provision under which options to purchase common stock may be exercised prior to being fully vested; however, the shares issued for options exercised under the early exercise provision continue to vest under the same terms as the underlying exercised option. Upon termination of an employee prior to the vesting of such shares, the Company can either repurchase the unvested shares or let the repurchase right expire.

The Company estimates the fair value of its share-based awards to employees, directors and consultants using the Black-Scholes option-pricing model. The Black-Scholes model requires the input of highly complex and subjective assumptions, including (a) the expected stock price volatility, (b) the calculation of expected term of the award, (c) the risk-free interest rate and (d) expected dividends. Due to the Company s limited operating history and a lack of company specific historical and implied volatility data, the Company has based its estimates of expected volatility on a group of similar public traded companies. When selecting these public companies on which it has based its expected stock price volatility, the Company selected companies with comparable characteristics to it, including enterprise value, risk profiles, positions within the industry, and with historical share price information sufficient to meet the expected life of its stock options. For employee stock options the Company uses the simplified method for estimating expected life, whereby, the expected life equals the arithmetic average of the vesting term and the original contractual term of the option due to its lack of sufficient historical data. The expected term for share-based compensation granted to non-employees is the contractual life. The risk-free interest rates for the periods within the expected life of the option are based on the U.S. Treasury instrument with a life that is similar to the expected life of the option grant. The Company has never paid, and does not expect to pay, dividends in the foreseeable future. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of the options granted.

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Notes to Financial Statements

8. Stockholders Deficit (continued)

	Employees Year Ended December 31, 2010	2011	2012
Dividend yield	0.00 %	0.00 %	0.00 %
Weighted-average risk-free interest rate	2.69 %	2.85 %	0.86 %
Volatility	91.00 %	82.00 %	80.55 %
Expected term (in years)	7.0	7.0	6.0
Weighted-average fair value per option	$ 1.75	$ 1.74	$ 1.93

	Non-Employees Year Ended December 31, 2010	2011	2012
Dividend yield		0.00 %	0.00 %
Weighted-average risk-free interest rate		0.40 %	0.78 %
Volatility		77.80 %	81.77 %
Expected term (in years)		2.7	5.8
Weighted-average fair value per option		$ 3.38	$ 3.48

The Company is also required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from its estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. To the extent that actual forfeitures differ from the Company s estimates, the difference is recorded as a cumulative adjustment in the period the estimates were revised. For the years ended December 31, 2010, 2011 and 2012, the Company applied a forfeiture rate based on the Company s historical forfeitures.

A summary of activity related to the Company s stock options is as follows:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
Balance, January 1, 2011	2,039,982	$ 2.21	
Granted	878,990	2.34	
Exercised	(21,126)	1.42	
Forfeited	(266,431)	2.37	

Balance, December 31, 2011	2,631,415	2.24	7.69
Granted	382,167	3.24	
Exercised	(16,530)	0.82	
Expired	(102,228)	2.63	
Forfeited	(301,401)	1.69	
Balance, December 31, 2012	2,593,423	$ 2.45	7.36
Exercisable at December 31, 2012	1,604,280	$ 2.25	6.64
Vested or expected to vest at December 31, 2012	2,481,216	$ 2.45	7.31

At December 31, 2012, the aggregate intrinsic value of options outstanding and exercisable was $3.2 million. The total intrinsic value of options exercised was $0.1 million, $16,000 and $18,000 for the years ended December 31, 2010, 2011 and 2012, respectively.

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Notes to Financial Statements

8. Stockholders Deficit (continued)

In 2012, the Company modified option grants for four individuals. Three of the modifications extended the term to exercise the option resulting in $30,000 in additional compensation expense. One option was modified to continue vesting after the participant s termination and to extend the time to exercise such option resulting in additional compensation expense of $0.3 million.

For awards with only service conditions and graded-vesting features, the Company recognizes compensation expense on a straight-line basis over the requisite service period. The fair value of options vested and share-based compensation expense recognized are as follows:

	Year Ended December 31,		
	2010	2011	2012
	(in thousands)		
Research and development:			
Employee	$ 299	$ 315	$ 336
Non-employee			80
General and administrative:			
Employee	454	651	921
Non-employee			59
	$ 753	$ 966	$ 1,396

Cash received from option exercises under all share-based payment arrangements for 2011 and 2012, was $30,000 and $14,000, respectively. There was no actual tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements during 2011 or 2012.

As of December 31, 2012, there was approximately $1.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company s 2012 Plan. That compensation cost is expected to be recognized over a weighted-average period of approximately 2.26 years.

The Company continues to account for stock options issued to non-employees using a fair value approach. The compensation costs of these arrangements are subject to re-measurement over the vesting terms as earned. Compensation cost for performance-based awards is recognized when it is probable that the performance criteria will be met.

Restricted Stock Units

In 2012, the Company issued restricted stock units (RSUs) to certain employees which vest based on specific performance criteria. The RSUs become immediately vested upon the earlier of (i) a change of control and (ii) the effective date of a registration statement for the Company s common stock, subject to the continuous service with the

Company at the applicable vesting event. When vested, the RSU represents the right to be issued the number of shares of the Company s common stock that is equal to the number of RSUs granted.

A summary of activity related to the Company s RSUs is as follows:

	Number of Restricted Stock Units Outstanding
Balance, December 31, 2011	
Granted	48,226
Forfeited	(5,027)
Balance, December 31, 2012	43,199

The grant date fair value of the RSUs was $2.49 per unit. As of December 31, 2012, no compensation had been recorded as it was not considered probable that the performance criteria will be met.

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Notes to Financial Statements

8. Stockholders   Deficit   (continued)

Fair Value Estimate

The Company is required to estimate the fair value of the common stock underlying stock-based awards when performing the fair value calculations with the Black-Scholes option-pricing model. The fair value of the common stock underlying stock-based awards was determined on each grant date by the Company s board of directors, with input from management. All options to purchase shares of common stock are intended to be granted with an exercise price per share no less than the fair value per share of common stock underlying those options on the date of grant, based on the information known on the date of grant.

Prior to the Company s IPO, the Company was privately held with no active public market for its common stock. Therefore, management had, for financial reporting purposes, periodically determined the estimated per share fair value of the Company s common stock and redeemable convertible preferred stock at various dates using contemporaneous valuations consistent with the American Institute of Certified Public Accountants Practice Aid,   Valuation of Privately-Held Company Equity Securities Issued as Compensation,   also known as the Practice Aid. These valuations were performed with the assistance of a third-party valuation specialist. The Company performed these contemporaneous valuations as of February 15, 2011, December 31, 2011, and September 30, 2012 and December 31, 2012. In conducting these contemporaneous valuations, management considered all objective and subjective factors that it believed to be relevant in each valuation conducted, including management s best estimate of the Company s business condition, prospects and operating performance at each valuation date. Within the contemporaneous valuations performed, a range of factors, assumptions and methodologies were used. The significant factors included external market conditions affecting the biotechnology industry, trends within the biotechnology industry, the prices at which the Company sold shares of preferred stock, the superior rights and preferences of the preferred stock relative to common stock at the time of each grant, the results of operations, financial position, status of research and development efforts, stage of development and business strategy, the lack of an active public market for the common and preferred stock, and the likelihood of achieving a liquidity event such as an IPO or sale of the Company in light of prevailing market conditions.

The dates of the Company s contemporaneous valuations have not always coincided with the dates of its stock-based compensation grants. In such instances, management s estimates have been based on the most recent contemporaneous valuation of the Company s shares of common stock and its assessment of additional objective and subjective factors management believed were relevant and which may have changed from the date of the most recent contemporaneous valuation through the date of the grant. In addition, the Company performed retrospective valuations as of certain key option grant dates using similar methodologies as were used in the contemporaneous valuations. As a result, the Company concluded certain options granted in 2012 had reassessed values different from the grant date. The reassessed values were used to determine stock compensation expense for the year ended December 31, 2012.

9. Related-Party Transactions

The Company paid consulting fees related to research and development activities in the amount of $0.1 million and $6,250 to the relatives of officers of the Company during the years ended December 31, 2010 and 2011, respectively. No related party fees were paid during the year ended December 31, 2012.

On November 19, 2009, the Company issued a promissory note in the amount of $0.1 million to an officer of the Company. The outstanding principal balance plus accrued interest, calculated at an annual rate of 0.71%, was repaid during 2011.

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Notes to Financial Statements

10. Income Taxes

There is no provision for income taxes because the Company has incurred operating losses since inception. At December 31, 2012, the Company has concluded that it is more likely than not that the Company may not realize the benefit of its deferred tax assets due to its history of losses. Accordingly, the net deferred tax assets have been fully reserved.

In general, if the Company experiences a greater than 50% aggregate change in ownership of certain significant stockholders over a three-year period (a Section 382 ownership change), utilization of its pre-change net operating loss carryforwards is subject to an annual limitation under Section 382 of the Internal Revenue Code (and similar state laws). The annual limitation generally is determined by multiplying the value of the Company s stock at the time of such ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the net operating loss carryforwards before utilization and may be substantial. The ability of the Company to use its net operating loss carryforwards may be limited or lost if the Company experiences a Section 382 ownership change in connection with this offering or as a result of future changes in its stock ownership. Losses from a specific period may be subject to multiple limitations, and would generally be limited by the lowest of those limitations.

The Company has determined that a Section 382 ownership change occurred in 2002, and as such, losses incurred prior to that date are subject to an annual limitation of at least $64,000. Additionally, the Company has determined that a Section 382 ownership change occurred in 2007, and as such, losses incurred prior to that date are subject to an annual limitation of at least $762,000. The Company evaluated Section 382 ownership changes subsequent to 2007 and concluded no additional change in ownership occurred.

The components of deferred tax assets and liabilities at December 31, 2011 and 2012 are as follows:

	December 31,	
	2011	2012
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 30,723	$ 31,431
Research and development expenses	562	34
Capitalized Section 174 expenses	97	80
Research and development credits	941	941
Accrued bonuses	133	54
Other	411	445
Total gross deferred tax assets	32,867	32,985
Valuation allowance	(32,721)	(32,841)
	146	144
Deferred tax liabilities:		

Other	(146)	(144)
Total deferred tax liabilities	(146)	(144)
Net deferred tax assets	$	$

At December 31, 2011, the Company has net operating loss carryforwards for federal and state tax purposes of approximately $80.2 million and $75.9 million, respectively. At December 31, 2012, the Company has net operating loss carryforwards for federal and state purposes of approximately $83.4 million and $65.8 million, respectively. The federal losses begin to expire in 2020 and the state losses begin to expire in 2018. In addition, the Company has tax credit carryforwards for federal tax purposes of approximately $0.9 million as of December 31, 2012, which begin to expire in 2022. The future utilization of net operating

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Chimerix, Inc.

Notes to Financial Statements

10. Income Taxes (continued)

loss and tax credit carryforwards may be limited due to changes in ownership. Management has recorded a valuation allowance for all of the deferred tax assets due to the uncertainty of future taxable income.

The components of the net income tax benefit for the years ended December 31, 2010, 2011 and 2012 are as follows:

	December 31,		
	2010	2011	2012
	(in thousands)		
Deferred	$ 9,559	$ 9,115	$ 120
Valuation allowance	(9,559)	(9,115)	(120)
Net income tax benefit	$	$	$

A reconciliation of the difference between the benefit for income taxes and income taxes at the statutory U.S. federal income tax rate is as follows for the years ended December 31, 2010, 2011, and 2012:

	2010		2011		2012	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
	(in thousands)					
Income tax benefit at statutory rate	$ (8,655)	34.0 %	$ (8,700)	34.0 %	$ (1,499)	34.0 %
State income taxes	(1,464)	5.8 %	(1,164)	4.6 %	(100)	2.3 %
Research and development credits	(14)	0.1 %	(1,169)	4.6 %		0.0 %
Permanent items	246	(1.0)%	964	(3.8)%	868	(19.7)%
Provision to return adjustments	328	(1.3)%	12	0.0 %	2	0.0 %
Effect of change in state tax rate		0.0 %	630	(2.5)%	609	(13.9)%
Increase in unrecognized tax benefits		0.0 %	314	(1.2)%		0.0 %
Valuation allowance	9,559	(37.6)%	9,115	(35.7)%	120	(2.7)%
Net benefit	$	0.0 %	$	0.0 %	$	0.0 %

The Company has determined that there may be a future limitation on the Company s ability to utilize its entire federal R&D credit carryover. Therefore, the Company recognized an uncertain tax benefit associated with the federal R&D credit carryover during the year ended December 31, 2012, as follows (in thousands):

Balance at December 31, 2011	$ 314
Increase related to 2012	
Balance at December 31, 2012	$ 314

The Company has determined that it had no other material uncertain tax benefits for the year ended December 31, 2012. As of January 1, 2013, due to the carry forward of unutilized net operating losses and research and development credits, the Company is subject to U.S. Federal and state income tax examinations for the tax years 2000 through 2012. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expense. No amounts were accrued for the payment of interest and penalties at January 1, 2013.

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Notes to Financial Statements

11. Significant Agreements

The Regents of the University of California

In May 2002, the Company entered into a license agreement with The Regents of the University of California (UC) under which the Company obtained an exclusive, worldwide license to UC s patent rights in certain inventions (the UC Patent Rights) related to lipid-conjugated antiviral compounds and their use, including certain patents relating to brincidofovir and CMX157. The license agreement was amended in September 2002 in order to expand the scope of the license and again in December 2010 in order to modify certain financial terms. The agreement was amended a third time in September 2011 to add additional patents related to certain metabolically stable lipid-conjugate compounds. A fourth amendment was executed in July 2012 to alter the rights and obligations of the parties in light of the Company s current business plans. As partial consideration for the rights granted to the Company under the license agreement, the Company is required to pay certain cash milestone payments in connection with the development and commercialization of compounds that are covered by the UC Patent Rights. In connection with the development and commercialization of brincidofovir and CMX157, the Company could be required to pay UC up to an aggregate of $3.4 million in milestone payments, assuming the achievement of all applicable milestone events under the license agreement.

Under the license agreement, the Company is permitted to research, develop, manufacture and commercialize products utilizing the UC Patent Rights for all human and veterinary uses, and to sublicense such rights. UC retained the right, on behalf of itself and other non-profit institutions, to use the UC Patent Rights for educational and research purposes and to publish information about the UC Patent Rights.

In consideration for the rights granted to the Company under the license agreement, the Company has issued UC an aggregate of 64,788 shares of the Company s common stock. As additional consideration, the Company is required to pay certain cash milestone payments in connection with the development and commercialization of compounds that are covered by the UC Patent Rights, plus certain annual fees to maintain such patents until the Company commercializes a product utilizing UC Patent Rights. In addition, upon commercialization of any product utilizing the UC Patent Rights (which would include the commercialization of brincidofovir or CMX157), the Company will be required to pay low single digit royalties on net sales of such product.

In the event the Company sublicenses a UC Patent Right (including UC Patent Rights relating to brincidofovir or CMX157), the Company is obligated to pay to UC a fee, which amount will vary depending upon the size of any upfront payment the Company receives and the clinical development stage of the compound being sublicensed, but which could be up to approximately 50% of the sublicense fee in certain circumstances. In addition, the Company will also be required to pay to UC a low single digit sublicense royalty on net sales of products that use the sublicensed UC Patent Rights, but in no event will the Company be required to pay more than 50% of the royalties it receives in connection with the relevant sublicense. Any such royalty payment will be reduced by other payments the Company is required to make to third parties until a minimum royalty has been reached.

As a result of the Company meeting certain milestones and sublicense fees related to the license agreement, the Company incurred liabilities of $0.2 million and $0.9 million, for the years ended December 31, 2011 and 2012, respectively.

Biomedical Advanced Research and Development Authority

In February 2011, the Company entered into a contract with BARDA for the advanced development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended several times, most recently on February 21, 2013, to extend the period of performance through May 31, 2013.

Under the contract, BARDA will reimburse the Company s costs, plus pay the Company a fixed fee, for the research and development of brincidofovir as a broad-spectrum therapeutic antiviral for the treatment of

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Chimerix, Inc.

Notes to Financial Statements

11. Significant Agreements (continued)

smallpox infections and double-stranded DNA viruses. The contract consists of an initial performance period, referred to as the base performance segment, plus up to four extension periods of around one year each, referred to as option segments, each of which may be exercised at BARDA s sole discretion. The Company must complete the agreed upon milestones and deliverables in each discrete work segment before the next option segment is eligible to be exercised. Under the contract as currently in effect, if each follow-on option segment is exercised by BARDA, the Company may receive up to $75.8 million in expense reimbursement and $5.3 million in fees.

The Company is currently completing the first option segment of the contract under which the Company may receive up to a total of $5.0 million. If all option segments are exercised by BARDA, the term of the contract would be extended to February 15, 2016.

Merck, Sharp & Dohme Corp.

In July 2012, the Company entered into a collaboration and license agreement granting Merck exclusive worldwide rights to CMX157, the Company s lipid acyclic nucleoside phosphonate currently being evaluated to treat HIV infection. Under the terms of the agreement, Merck received an exclusive worldwide license for any human use of CMX157 and has agreed to use commercially reasonable efforts to develop and commercialize CMX157 in the United States and at least three major European markets. Following execution of the agreement, the Company received a $17.5 million upfront payment from Merck.

As additional consideration, the Company is eligible to receive up to a total of $151.0 million in milestone payments if certain development and regulatory milestones are achieved by Merck for products utilizing CMX157, as well as tiered royalties on net sales ranging from high single digits to low double digits, depending upon the volume of sales of each applicable product, if CMX157 is successfully commercialized. Milestone payments are triggered upon the completion of various stages of the regulatory approval process for each of the first two indications for CMX157, with the final milestones reached upon approval in the United States and three major European markets. Royalties for any given product will continue on a country-by-country basis through the later of the expiration of the Company s patent rights applicable to such product or ten years from the first commercial sale of such product.

The Company s participation in the collaboration with Merck, including its involvement in the joint steering committee to monitor the development of CMX157, represents a right and an observation role only, rather than a substantive performance obligation. As such, the Company s performance in this collaboration relates to the specific transfers in connection with the license which was completed during the same quarter the agreement was entered into. Therefore, the Company recognized the upfront payment during the year ended December 31, 2012.

The contingent event-based payments the Company may receive pursuant to the agreement do not meet the definition of a milestone as achievement of the triggering event for such payments is based on the performance of Merck and not the Company. Therefore the milestone method will not be applied to those payments.

National Institute of Allergy and Infectious Diseases

In September 2003, the Company was awarded a $36.3 million grant from the NIAID to support the Company s development of an oral drug for the treatment of smallpox. The work performed under this grant resulted in the Company s selection of brincidofovir as a lead product candidate for commercial development. The grant, and the Company s activities conducted in connection therewith, were substantially complete in early 2010. However, the grant was not formally terminated until February 2011.

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Notes to Financial Statements

12. Employee Benefit Plan

The Company has an employee retirement plan under which eligible employees may defer a portion of their annual compensation, pursuant to Section 401(k) of the Internal Revenue Code. The Company can make discretionary contributions to the plan. For the years ended December 31, 2010, 2011 and 2012, the Company made no contributions to the plan.

13. Subsequent Events

The Company has evaluated subsequent events through March 26, 2013, the initial issuance date of these financial statements, to ensure that this filing includes appropriate disclosure of events both recognized in the financial statements as of December 31, 2012, and events which occurred subsequently but were not recognized in the financial statements.

In 2013, the Company extended two facility leases for the period beginning March 2013 and ending February 2015 and 2018. Future minimum payments under these extensions total $0.2 million, $0.3 million, $0.3 million, $0.2 million, $0.2 million and $40,686 in 2013, 2014, 2015, 2016, 2017 and 2018, respectively.

14. Reverse Stock Split

On March 25, 2013, the Company s Board of Directors approved a 3.55-for-1 reverse stock split of the Company s outstanding common stock. The reverse stock split was effected on March 25, 2013, which resulted in an adjustment to the preferred stock conversion price to reflect a proportional decrease in the number of shares of common stock to be issued upon conversion. The accompanying financial statements and notes to financial statements give retroactive effect to the reverse stock split for all periods presented.

15. Subsequent Events (unaudited)

On April 10, 2013, the Company completed the initial public offering (IPO) of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold an aggregate of 7,320,000 shares of common stock under the registration statement at a public offering price of $14.00 per share. Net proceeds were approximately $93.3 million, after deducting underwriting discounts and commissions of $7.1 million and offering expenses of $2.1 million. Upon the completion of the IPO, all outstanding shares of the Company s redeemable convertible preferred stock and dividends accrued on Series F redeemable convertible preferred stock were converted into 15,556,091 shares of common stock and all outstanding warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase 1,613,395 shares of common stock. On April 16, 2013, the underwriters exercised the full over-allotment option pursuant to which the Company sold an additional 1,098,000 shares at $14.00 per share. Net proceeds from the over-allotment shares were approximately $14.3 million after deducting underwriting discounts and commissions of $1.1 million.

On May 30, 2013, the Company amended its contract with BARDA to extend the contract into the first option segment period of performance, during which the Company may receive up to a total of $5.0 million in expense reimbursement and fees. The term of the first option segment is 12 months and is scheduled to end on May 30, 2014.

15. Subsequent Events (unaudited)

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CHIMERIX, INC.

BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$115,438	$19,906
Short-term investments, available-for-sale	7,595	9,849
Accounts receivable	83	783
Prepaid and other current assets	3,034	983
Deferred financing costs, current portion	20	33
Total current assets	126,170	31,554
Property and equipment, net of accumulated depreciation	342	407
Deposits	22	22
Deferred financing costs, less current portion	20	48
Total assets	$126,554	$32,031
Liabilities, redeemable convertible preferred stock and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$995	$1,964
Accrued liabilities	1,471	906
Loan payable, current portion	5,584	4,753
Total current liabilities	8,050	7,623
Other long-term liabilities	341	337
Loan payable, less current portion	7,119	9,867
Redeemable convertible preferred stock warrant liability		7,512
Total liabilities	15,510	25,339
Redeemable convertible preferred stock		107,723
Stockholders equity (deficit):		
Common stock, $0.001 par value, 200,000,000 and 89,700,000 shares authorized at June 30, 2013 and December 31, 2012, respectively; 25,779,445 and 1,533,996 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	26	3
Additional paid-in capital	258,870	
Accumulated other comprehensive loss	(1)	(2)
Accumulated deficit	(147,851)	(101,032)
Total stockholders equity (deficit)	111,044	(101,031)
Total liabilities, redeemable convertible preferred stock and stockholders equity (deficit)	$126,554	$32,031

See accompanying notes to financial statements.

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CHIMERIX, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (in thousands, except share and per share data) (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Contract revenue	$808	$6,205	$2,579	$9,283
Total revenues	808	6,205	2,579	9,283
Operating expenses:				
Research and development	6,276	9,082	13,059	16,075
General and administrative	2,188	1,545	3,725	3,120
Loss from operations	(7,656)	(4,422)	(14,205)	(9,912)
Other expense:				
Interest expense, net	(415)	(128)	(771)	(237)
Fair value adjustments to warrant liability	(4,388)	226	(6,590)	(1,073)
Net loss	(12,459)	(4,324)	(21,566)	(11,222)
Other comprehensive loss:				
Unrealized gain on securities available-for-sale	1		1	4
Comprehensive loss	$(12,458)	$(4,324)	$(21,565)	$(11,218)
Net loss	(12,459)	(4,324)	(21,566)	(11,222)
Accretion of redeemable convertible preferred stock	(8,582)	(900)	(34,108)	(1,800)
Net loss attributable to common shareholders	$(21,041)	$(5,224)	$(55,674)	$(13,022)
Per share information:				
Net loss per common share, basic and diluted	$(0.91)	$(3.44)	$(4.50)	$(8.58)
Weighted-average shares outstanding, basic and diluted	23,067,201	1,518,753	12,360,125	1,518,112

See accompanying notes to financial statements.

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CHIMERIX, INC.

STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net loss	$ (21,566)	$ (11,222)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	135	141
Non-cash interest expense	224	54
Amortization/accretion of premium/discount on investments	149	29
Share-based compensation costs	2,589	539
Fair value measurement of redeemable convertible preferred stock warrant liability	6,590	1,073
Changes in operating assets and liabilities:		
Accounts receivable	700	692
Prepaid expenses and other current assets and deposits	(2,051)	779
Accounts payable and accrued liabilities	(400)	(1,672)
Net cash used in operating activities	(13,630)	(9,587)
Investing Activities:		
Purchase of property and equipment	(70)	(41)
Purchase of short-term investments	(1,851)	
Maturities of short-term investments	3,957	5,894
Net cash provided by investing activities	2,036	5,853
Financing Activities:		
Proceeds from exercise of stock options	55	2
Proceeds from exercise of warrant	1,537	
Proceeds from loan payable		3,000
Proceeds from initial public offering, net of offering costs	107,634	
Debt discount		(15)
Repayment of loan payable	(2,100)	(2,600)
Deferred financing costs		(24)
Net cash provided by financing activities	107,126	363
Increase (decrease) in cash and cash equivalents	95,532	(3,371)
Cash and cash equivalents, beginning of period	19,906	13,607
Cash and cash equivalents, end of period	$ 115,438	$ 10,236
Supplemental cash flow information:		
Interest payments	$ 505	$ 107

See accompanying notes to financial statements.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies

Description of Business

Chimerix, Inc. (the Company) is a biopharmaceutical company committed to the discovery, development and commercialization of novel, oral antiviral therapeutics that are designed to transform patient care in areas of high unmet medical need. The Company s proprietary lipid technology has given rise to two clinical-stage compounds, brincidofovir and CMX157, which have demonstrated the potential for enhanced antiviral activity and safety in convenient, orally administered dosing regimens. Brincidofovir has shown broad-spectrum activity against double-stranded DNA viruses, including herpesviruses, adenoviruses and polyomaviruses. In the third quarter of 2013, Chimerix announced initiation of dosing in the Phase 3 SUPPRESS trial for the prevention of cytomegalovirus infection in hematopoietic cell transplant recipients. The Company recently presented results from a Phase 2 trial of brincidofovir as a preemptive therapy for adenovirus infection. Additionally, Chimerix is developing brincidofovir as a medical countermeasure against smallpox under a contract from the Biomedical Advanced Research and Development Authority (BARDA). The Company s second clinical-stage compound, CMX157, is a Phase 1 product candidate for the treatment of HIV and was licensed to Merck, Sharp & Dohme Corp. (Merck) in 2012.

On March 25, 2013, the Company s board of directors approved and implemented a 3.55-for-1 reverse stock split of the Company s outstanding common stock. The reverse stock split resulted in an adjustment to the preferred stock conversion price to reflect a proportional decrease in the number of shares of common stock to be issued upon conversion. The accompanying financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented.

On April 10, 2013, the Company completed the initial public offering (IPO) of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold an aggregate of 7,320,000 shares of common stock under the registration statement at a public offering price of $14.00 per share. Net proceeds were approximately $93.3 million, after deducting underwriting discounts and commissions of $7.1 million and offering expenses of $2.1 million. Upon the completion of the IPO, all outstanding shares of the Company s redeemable convertible preferred stock and dividends accrued on Series F redeemable convertible preferred stock were converted into 15,556,091 shares of common stock and all outstanding warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase 1,613,395 shares of common stock. On April 16, 2013, the underwriters exercised the full over-allotment option pursuant to which the Company sold an additional 1,098,000 shares at $14.00 per share. Net proceeds from the over-allotment shares were approximately $14.3 million after deducting underwriting discounts and commissions of $1.1 million.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the Company s financial statements requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on knowledge of current events and actions the Company may undertake in the future, actual results may ultimately differ from these estimates and assumptions.

The accompanying interim financial statements are unaudited. The unaudited interim financial statements have been prepared in accordance with GAAP on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the Company s financial position, results of operations and cash flows for the dates and periods presented herein. These financial statements should be read in conjunction with the financial statements and notes set forth in the Company s final prospectus dated April 10, 2013 filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the Securities and Exchange Commission on April 11, 2013. Interim operating results are not necessarily indicative of operating results for the full year.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

Reclassifications

During the second quarter of fiscal year 2013, the Company corrected the classification of its legal fees associated with patents and regulatory, license fees and rent. This resulted in a reclassification of $721,000 from G&A expense to R&D expenses for the six months ended June 30, 2012. Such reclassifications had no effect on net loss or stockholders deficit as previously reported.

Cash and Cash Equivalents

The Company considers any highly liquid instrument with an original maturity of three months or less at acquisition to be a cash equivalent. Cash equivalents consist of money market accounts.

Investments

Investments consist primarily of corporate bonds and commercial paper. The Company invests in high-credit quality investments in accordance with its investment policy which minimizes the probability of loss.

Available-for-sale securities are carried at fair value as determined by quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders deficit. Realized gains and losses are determined using the specific identification method and transactions are recorded on a settlement date basis in interest income or expense, net. Investments with original maturities beyond three months at the date of purchase and which mature on, or less than twelve months from, the balance sheet date are classified as long-term. The Company periodically reviews available-for-sale securities for other-than-temporary declines in fair value below the cost basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any such declines in value judged to be other-than-temporary on available-for-sale securities are reported in interest income or expense, net. There were no such declines in value for the six months ended June 30, 2013 and the year ended December 31, 2012.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. The Company is exposed to credit risk, subject to federal deposit insurance, in the event of default by the financial institutions holding its cash and cash equivalents to the extent of amounts recorded on the balance sheets. Accounts receivable represent amounts due from an agency of the federal government.

Accounts Receivable

Accounts receivable at June 30, 2013 and December 31, 2012 consisted of amounts billed and unbilled under the Company s contract with BARDA. Receivables under the BARDA contract are recorded as qualifying research activities as conducted and invoices from the Company s vendors are received. The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance based on its history of collections and write-offs and the current status of all receivables. The Company does not accrue interest on trade receivables. If accounts become uncollectible, they will be written off through a charge to the allowance for doubtful accounts. The Company has not recorded a charge to allowance for doubtful accounts as management believes all receivables are fully collectible.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments, including accounts receivable, notes receivable, accounts payable and accrued expenses approximate their fair values due to the short-term nature of such instruments. The carrying amount of borrowings under loans payable approximates its fair value based on the

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

determination that the stated rate on such loans payable is consistent with current interest rates for similar borrowing arrangements available to the Company.

For assets and liabilities recorded at fair value, it is the Company s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, fair value measurements cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the calculated current or future fair values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. These levels are:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
Level 2 Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and models for which all significant inputs are observable, either directly or indirectly.
Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.
The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates hierarchy disclosures and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects that changes in classification between levels will be rare.

The warrants issued for Series F redeemable convertible preferred stock included in the Company s 2012 financial statements are categorized as Level 3 as there are significant unobservable inputs. The valuation of the warrants at December 31, 2012 reflected a two stage process. Using a contingent claims model in combination with the Company s Series F financing, which occurred in February 2011, the fair value of total equity and all components of the Company s capital structure, including the warrants, was determined as of the time of the financing event. Using this value as a starting point, a series of equity values and associated probabilities were calculated using simulation methodologies that incorporate both Monte Carlo and risk neutral frameworks. Based on assessments of expected returns and volatilities consistent with market practice, a distribution of equity values was produced which covered the range of values that an informed market participant might expect. These outcomes were organized into ranges and a probability calculated based on the percent of the total falling into each range. This process created a range of equity values. Using a contingent claims framework, each equity value was allocated to the various components of the capital structure including the warrants. Each warrant value was weighted by its respective probability to determine the final fair value of the warrants as of December 31, 2012. The key unobservable inputs used in the determination of the fair value were (i) volatility 79%, (ii) range of implied fair value of the Series F redeemable convertible preferred stock $2.19 to $2.85, (iii) time to liquidity 8 months to 5 years, and (iv) range of probabilities of liquidity event outcomes 2% to 31%. The warrants were valued again at April 10, 2013, just prior to the

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

Company s IPO, using a Black-Scholes valuation model. The key unobservable inputs used in determination of the fair value at that time were (i) volatility 79%, (ii) fair value of the Series F redeemable convertible preferred stock $3.94, (iii) expected life 2.5 years, (iv) risk-free interest rate 0.24%, and (v) dividend yield 0%. As the warrants for Series F redeemable convertible preferred stock converted to warrants for common stock upon the IPO, no future valuations are necessary.

There was no material re-measurement to fair value of financial assets and liabilities that are not measured at fair value on a recurring basis.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

	June 30, 2013	Fair Value Measurements at June 30, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$ 115,123	$ 115,123	$	$
Short-term investments	7,595		7,595	

	December 31, 2012	Fair Value Measurements at December 31, 2012 Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)		
	(in thousands)			
Cash equivalents	$17,687	$16,381	$ 1,306	$
Short-term investments	9,849		9,849	
Redeemable convertible preferred stock warrant liability	7,512			7,512

Below is a table that presents a reconciliation of the beginning and ending balances of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements (Level 3) (in thousands)
Redeemable Convertible Preferred Stock Warrant Liability	
Balance at January 1, 2012	$ 6,491
Issuance	174
Fair value increase recorded in other expense	847
Fair value at December 31, 2012	7,512
Fair value increase recorded in other expense	6,590
Reclassification of warrant liability to additional paid-in capital	(14,102)
Fair value at June 30, 2013	$

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

Prepaid and Other Current Assets

Prepaid and other current assets consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Prepaid development expenses	$ 2,353	$ 486
Deferred public offering costs		273
Other prepaid and other current assets	681	224
	$ 3,034	$ 983

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which generally range from three to five years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the related lease. Maintenance and repairs are charged against expense as incurred.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Deferred Public Offering Costs

Deferred public offering costs totaling $0.3 million at December 31, 2012 are included in prepaid and other current assets. These costs represent legal and accounting costs related to the Company s efforts to raise capital through an IPO. At the completion of the Company s IPO in April 2013, these costs were reclassified to additional paid-in capital as a reduction of the IPO proceeds.

Deferred Rent

The Company recognizes rent expense on a straight-line basis over the non-cancelable term of its operating lease and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. The Company also records landlord-funded lease incentives, such as reimbursable leasehold improvements, as a deferred rent liability, which is amortized as a reduction of rent expense over the non-cancelable term of its operating lease.

Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Accrued compensation	$ 512	$ 560
Accrued development expenses	531	98
Other accrued liabilities	428	248
	$ 1,471	$ 906

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company s revenues generally consist of (i) contract and grant revenues revenues generated under federal contracts and other awarded grants, and (ii) collaboration and licensing revenues revenues related to non-refundable upfront fees, royalties and milestone payments earned under license agreements. Revenues are recognized when the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery of the products and/or services has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

For arrangements that involve the delivery of more than one element, each product, service and/or right to use assets is evaluated to determine whether it qualifies as a separate unit of accounting. This determination is based on whether the deliverable has stand-alone value to the customer. The consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling prices of each deliverable. The consideration allocated to each unit of accounting is recognized as the related goods and services are delivered, limited to the consideration that is not contingent upon future deliverables. If the arrangement constitutes a single unit of accounting, the revenue recognition policy must be determined for the entire arrangement and the consideration received is recognized over the period of inception through the date the last deliverable within the single unit of accounting is expected to be delivered. Revisions to the estimated period of recognition are reflected in revenue prospectively.

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

Research and Development

Major components of research and development costs include cash compensation, stock based compensation, pre-clinical studies, clinical trial and related clinical manufacturing, drug development, materials and supplies, legal, regulatory compliance, and fees paid to consultants and other entities that conduct certain research and development activities of the Company s behalf. Research and development costs, including upfront fees and milestones paid to contract research organizations, are expensed as goods as received or services rendered. Costs incurred in connection with clinical trial activities for which the underlying nature of the activities themselves do not directly relate to active research and development, such as costs incurred for market research and focus groups linked to clinical strategy as well as costs to build the Company s brand, are not included in research and development costs but are reflected as general and administrative costs.

Interest Expense, Net

Interest expense, net includes interest earned on short-term investments, interest incurred on loans payable, the amortization of deferred financing costs related to fees paid to attorneys and other non-lender entities in order to acquire debt, and the amortization of debt discount related to fees paid to the lender in order to acquire debt.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when the Company determines that it is more likely than not that some portion of a deferred tax asset will not be

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

realized. The Company has incurred operating losses from April 7, 2000 (inception) through June 30, 2013, and therefore has not recorded any current provision for income taxes.

Additionally, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized upon settlement. Accordingly, the Company establishes reserves for uncertain tax positions.

Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. The fair value of share-based awards is estimated on the grant date using the Black-Scholes valuation model. The value of the portion of the award that is ultimately expected to vest is recorded as expense over the requisite service periods.

The Company also accounts for equity instruments issued to non-employees using a fair value approach. The Company values equity instruments, stock options and warrants granted to lenders and consultants using the Black-Scholes valuation model. The measurement of non-employee share-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the term of the related financing or the period over which services are received.

Basic and Dilutive Net Loss Per Share of Common Stock

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of converting redeemable convertible preferred stock, warrants to purchase redeemable convertible preferred stock and common stock, restricted stock and options. Diluted net loss per share of common stock is computed by dividing the net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of redeemable convertible preferred stock and warrants to purchase redeemable convertible preferred stock and common stock, and options outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during the periods of net loss, there was no difference between basic and diluted loss per share of common stock for the three months ended or the six months ended June 30, 2013 and 2012.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of converting redeemable convertible preferred stock, warrants to purchase convertible preferred stock and common stock and options to purchase common stock, as the impact of such items are anti-dilutive during periods of net loss. Shares excluded from the calculations were 4,244,971 and 11,370,551 for the three months ended June 30, 2013 and 2012, respectively, and 7,808,128 and 11,369,971 for the six months ended June 30, 2013 and 2012, respectively.

Segments

The Company operates in only one segment. The chief operating decision-maker, who is the Company s Chief Executive Officer, and management use cash flows as the primary measure to manage the business and do not segment the business for internal reporting or decision making.

Impact of Recently Issued Accounting Standards

On February 5, 2013, the Financial Accounting Standards Board issued an amendment ASU 2013-2, Comprehensive Income (Topic 220) (ASU 2013-02) to the disclosure requirements for reporting reclassifications out of accumulated other comprehensive income (AOCI). ASU 2013-02 was effective for the

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. The Business and Summary of Significant Accounting Policies (continued)

first interim or annual period beginning after December 15, 2012. The amendment requires companies to present information about reclassification adjustments from accumulated other comprehensive income to the income statement, including the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. The new accounting guidance also requires the disclosure to be cross referenced to other financial statement disclosures for reclassification items that are not reclassified directly to net income in their entirety in the same reporting period. The Company adopted ASU 2013-02 in the first quarter of 2013. There was no material impact to the Company s consolidated financial position, results of operations or cash flows upon adoption of this guidance.

2. Investments

The following table summarizes available-for-sale securities:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate bonds	$ 7,596	$	$ (1)	$ 7,595
Commercial paper				
Total	$ 7,596	$	$ (1)	$ 7,595

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate bonds	$ 8,353	$	$ (2)	$ 8,351
Commercial paper	1,498			1,498
Total	$ 9,851	$	$ (2)	$ 9,849

All of the Company s investments as of June 30, 2013 and December 31, 2012 had maturities of one year or less.

3. Property and Equipment

Property and equipment consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Lab equipment	$ 1,009	$ 958
Leasehold improvements	78	78
Computer equipment	410	393
Office furniture and equipment	214	212
	1,711	1,641
Less accumulated depreciation	(1,369)	(1,234)
	$ 342	$ 407

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

4. Loan Payable

On January 27, 2012, the Company entered into a Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB) and MidCap Financial SBIC, LP (MidCap) allowing for borrowings up to $15.0 million, split between a first tranche of $3.0 million borrowed at the time of the agreement, and a second tranche of up to $12.0 million that would be available to be drawn by December 31, 2012 upon meeting one of three stated financial and/or operational goals.

The first tranche was used to repay the remaining principal balance outstanding of $2.6 million under a previous loan. This repayment was deemed a modification of debt and therefore the remaining related deferred financing costs totaling $0.1 million remained in deferred financing costs and are being amortized over the term of the LSA through interest expense. The first tranche has an interest-only period of twelve months followed by a thirty-month principal and interest amortization period with interest being charged at 8.25% per year for the full period of the LSA.

The Company met one of the financial and/or operational goals mentioned above and, in September 2012, the remaining $12.0 million was borrowed in the second tranche. The second tranche has a six-month interest-only period followed by a thirty-two month principal and interest amortization period with interest being charged at the same rate as the first tranche. There are certain fees in accordance with the LSA which are being recorded as discounts or other long and short-term liabilities depending on the nature of the fees. The fees are being accreted through interest expense. Approximately $37,000 and $40,000 was recorded in interest expense for the three months ended June 30, 2013 and 2012, respectively. Approximately $75,000 and $80,000 was recorded in interest expense for the six months ended June 30, 2013 and 2012, respectively.

Concurrently with entering into the LSA, the Company also granted SVB a warrant to purchase shares of Series F preferred stock at a price of $2.045 per share equal to 2% of the aggregate amount of the advances made to the Company pursuant to the LSA, divided by the exercise price. In relation to the first tranche, the warrant became exercisable to purchase an aggregate of 29,340 shares of Series F preferred stock, and in relation to the second tranche, the warrant became exercisable to purchase an additional 117,360 shares of Series F preferred stock. As discussed in Note 1 to these financial statements, the warrant is classified as a liability and is required to be measured at fair value. Therefore, the warrant was recorded as a debt discount at its fair value at the time of grant and accreted over the life of the LSA using the effective interest method. The subsequent re-valuation of the warrant (at fair value) resulted in other expense of $114,000 and other income of $6,000 for the three months ended June 30, 2013 and 2012, respectively, and other expense of $171,000 and $28,000 for the six months ended June 30, 2013 and 2012, respectively. Upon the completion of the IPO, this warrant was converted into a warrant to purchase 41,323 shares of common stock. In May 2013, SVB exercised the warrant in full and it is no longer outstanding.

5. Commitments and Contingencies

Leases

The Company leases its facilities and certain office equipment under long-term non-cancelable operating leases that expire at various dates through 2018.

Rent expense under non-cancelable operating leases and other month-to-month equipment rental agreements, including common area maintenance fees, totaled approximately $0.1 million and $0.1 million for the three months ended June 30, 2013 and 2012, respectively, and approximately $0.2 million and $0.2 million for the six months ended June 30, 2013 and 2012, respectively.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

5. Commitments and Contingencies (continued)

Significance of Revenue Source

The Company is the recipient of federal research contract funds from BARDA. Periodic audits are required under the grant and contract agreements and certain costs may be questioned as appropriate under the agreements. Management believes that such amounts in the current year, if any, are not significant. Accordingly, no provision for refundable amounts under the agreements has been made as of June 30, 2013 and December 31, 2012.

6. Redeemable Convertible Preferred Stock

In February 2011, the Company issued 22,004,895 shares of $0.001 par value Series F redeemable convertible preferred stock at $2.045 per share and warrants to purchase an aggregate of 5,501,215 shares of Series F redeemable convertible preferred stock at an exercise price of $2.045 per share for proceeds of $45.0 million, less issuance costs of $0.2 million. Upon the completion of the IPO, these warrants were converted into warrants to purchase an aggregate of 1,549,628 shares of common stock at an exercise price of $7.26 per share. The warrants are exercisable at any time and expire on February 4, 2018.

In January 2012, the Company issued a warrant to SVB to purchase a number of shares of Series F redeemable convertible preferred stock at an exercise price of $2.045 per share equal to 2% of the aggregate amount of the advances made to the Company pursuant to the LSA, divided by the exercise price. Following the first and second tranches of the LSA, the warrant was exercisable to purchase an aggregate of 146,700 shares of Series F redeemable convertible preferred stock. Upon the completion of the IPO, this warrant was converted into a warrant to purchase 41,323 shares of common stock at an exercise price of $7.26 per share. In May 2013, SVB exercised the warrant in full and it is no longer outstanding.

The following table summarizes the authorized, issued and outstanding shares of redeemable convertible preferred stock as of December 31, 2012:

	Authorized Shares	Issued and Outstanding Shares
Series A	800,000	800,000
Series B	2,233,879	2,233,879
Series B-1	2,054,333	2,033,333
Series C	5,141,690	5,141,690
Series D	11,354,526	11,295,846

Series E	7,894,871	7,894,871
Series F	40,200,000	22,004,895
Total Shares	69,679,299	51,404,514

Upon the completion of the IPO in April 2013, the Company s outstanding shares of redeemable convertible preferred stock and dividends accrued on Series F redeemable convertible preferred stock were automatically converted into an aggregate of 15,556,091 shares of common stock.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

6. Redeemable Convertible Preferred Stock (continued)

Warrants

The following warrants for the purchase of preferred stock on a one-to-one basis were issued, outstanding and exercisable at December 31, 2012:

Class	Date	Shares	Price Per Share	Expiration
Series B-1	November 5, 2003	21,000	$ 1.500	November 2013
Series D	November 24, 2008	58,680	$ 2.045	November 2018
Series F	February 7, 2011	5,501,215	$ 2.045	February 2018
Series F	January 27, 2012	146,700	$ 2.045	January 2022

As discussed in Note 1 to these financial statements, the warrants exercisable for the Company s Series F preferred stock were classified as a liability and were required to be measured at fair value. Therefore, such warrants were recorded at the full fair value with the Company s Series F preferred stock being recorded at the residual value at the time of issuance. At each reporting date prior to the IPO, the warrants exercisable for the Company s Series F preferred stock were recorded to fair value which was charged to other income. The fair valuation of such warrants resulted in other expense of $4.3 million and other income of $0.2 million for the three months ended June 30, 2013 and 2012, respectively, and other expense of $6.4 million and $1.1 million for the six months ended June 30, 2013 and 2012, respectively. These amounts, coupled with the fair valuation of the warrants issued in relation to the Company s LSA (see note 4), total to the fair value adjustments to warrant liability amount per the statements of operations and comprehensive loss.

Upon the completion of the IPO, all outstanding warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase 1,613,395 shares of common stock and are no longer required to be measured at fair value. On April 16, 2013, a warrant was exercised to purchase 211,783 shares of the Company s common stock . The Company received proceeds of $1.5 million in connection with such exercise. On May 24, 2013, a warrant was net exercised which resulted in the issuance of 37,600 shares of the Company s common stock.

The following warrants for the purchase of common stock were issued, outstanding and exercisable at June 30, 2013:

Class	Date	Shares	Price Per Share	Expiration
Common	November 5, 2003	5,915	$ 5.33	November 2013
Common	February 7, 2011	1,337,845	$ 7.26	February 2018

7. Stockholders Equity (Deficit)

Common Stock

The Company s common stock consists of 200.0 million and 89.7 million authorized shares at June 30, 2013 and December 31, 2012, respectively, and 25.8 million and 1.5 million shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

7. Stockholders Equity (Deficit) (continued)

Shares Reserved for Future Issuance

The following shares of common stock reserved for future issuances:

	June 30, 2013	December 31, 2012
Conversion of preferred stock and preferred stock warrants		16,093,483
Conversion of common stock warrants	1,343,760	
Stock options issued and outstanding	2,674,920	2,593,423
Restricted Stock units outstanding	102,547	43,199
Authorized for future purchases under the 2013 Employee Stock Purchase Plan	704,225	
Authorized for future grants under the 2013 Equity Incentive Plan	1,732,911	
Authorized for future grants under the 2012 Equity Incentive Plan		427,933
	6,558,363	19,158,038

Stock Options

In connection with the IPO, the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The 2013 Plan provides for the grant of incentive stock options (ISOs), nonstatutory stock options (NSOs), stock appreciation rights, restricted stock awards, restricted stock unit (RSU) awards, performance-based stock awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and its affiliates. Additionally, the 2013 Plan provides for the grant of performance cash awards. ISOs may be granted only to employees. All other awards may be granted to employees, including officers, and to non-employee directors and consultants. Initially, the aggregate number of shares of common stock that may be issued pursuant to stock awards under the 2013 Plan is the sum of (i) 1,408,450 shares, plus (ii) 244,717 shares, which was the number of shares reserved for issuance under the 2012 Equity Incentive Plan (the 2012 Plan) at the time the 2013 Plan became effective, plus (iii) any shares subject to outstanding stock options or other stock awards that would have otherwise returned to the 2012 Plan (such as upon the expiration or termination of a stock award prior to vesting). Additionally, the number of shares of common stock reserved for issuance under the 2013 Plan will automatically increase on January 1 of each year, beginning on January 1, 2014 and continuing through and including January 1, 2023, by 2.5% of the total number of shares of capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by the Company s board of directors. The maximum number of shares that may be issued upon the exercise of ISOs under the 2013 Plan is 2,816,901 shares. Following the effectiveness of the 2013 Plan in April 2013, no further grants were made under the 2012 Plan.

The 2013 Plan has an early exercise provision under which options to purchase common stock may be exercised prior to being fully vested; however, the shares issued for options exercised under the early exercise provision continue to vest under the same terms as the underlying exercised option. Upon termination of an employee prior to the vesting of such shares, the Company can either repurchase the unvested shares or let the repurchase right expire.

In February 2013 the Company s board of directors adopted the 2013 Employee Stock Purchase Plan (ESPP), which was subsequently ratified by stockholders and became effective in April 2013. The purpose of the ESPP is to retain the services of new employees and secure the services of new and existing employees while providing incentives for such individuals to exert maximum efforts toward the Company s success and that of its affiliates. The ESPP authorizes the issuance of 704,225 shares of common stock pursuant to purchase rights granted to the Company s employees or to employees of any of its designated affiliates. The number of shares of common stock reserved for issuance will automatically increase on January 1 of each

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

7. Stockholders Equity (Deficit) (continued)

calendar year, from January 1, 2014 through January 1, 2023 by the least of (a) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, (b) 422,535 shares, or (c) a number determined by the Company s board of directors that is less than (a) and (b). The ESPP is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986. As of the date hereof, no shares of common stock have been purchased under the ESPP.

A summary of activity related to the Company s stock options is as follows:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
Balance, December 31, 2012	2,593,423	$ 2.45	7.36
Granted	184,506	6.39	
Exercised	(21,975)	2.52	
Forfeited	(81,034)	2.63	
Balance, June 30, 2013	2,674,920	$ 2.71	7.03
Exercisable at June 30, 2013	1,851,699	$ 2.28	6.29
Vested or expected to vest at June 30, 2013	2,644,743	$ 2.71	7.00

For awards with only service conditions and graded-vesting features, the Company recognizes compensation expense on a straight-line basis over the requisite service period. The fair value of options vested and share-based compensation expense recognized are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Research and development:				
Employee	$ 206	$ 62	$ 313	$ 166
Non-employee	5	27	21	31
General and administrative:				
Employee	140	149	250	322
Non-employee	45	15	77	20
	$ 396	$ 253	$ 661	$ 539

Restricted Stock Units

In 2013 and 2012, the Company issued RSUs to certain employees which vest based on specific performance criteria. By their terms, the RSUs became immediately vested upon the effective date of the registration statement for the Company s common stock in connection with the IPO, subject to the continuous service with the Company at the vesting event. When vested, the RSU represents the right to be issued the number of shares of the Company s common stock that is equal to the number of RSUs granted.

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CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

7. Stockholders Equity (Deficit) (continued)

A summary of activity related to the Company s RSUs is as follows:

	Number of Restricted Stock Units Outstanding
Balance, December 31, 2012	43,199
Granted	59,348
Balance, June 30, 2013	102,547

As of June 30, 2013, $1.9 million in compensation expense had been recorded as the performance criterion was met upon the completion of the IPO.

8. Income Taxes

The Company estimates an annual effective tax rate of 0% for the year ending December 31, 2013 as the Company incurred losses for the six month period ended June 30, 2013 and is forecasting additional losses through the 4th quarter, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2013. Therefore, no federal or state income taxes are expected and none have been recorded at this time. Income taxes have been accounted for using the liability method in accordance with FASB ASC 740.

Due to the Company's history of losses since inception, there is not enough evidence at this time to support that the Company will generate future income of a sufficient amount and nature to utilize the benefits of its net deferred tax assets. Accordingly, the deferred tax assets have been reduced by a valuation allowance, since it has been determined that it is more likely than not that all of the deferred tax assets will not be realized.

At June 30, 2013, the Company had no unrecognized tax benefits that would reduce the Company s effective tax rate if recognized.

9. Significant Agreements

The Regents of the University of California

In May 2002, the Company entered into a license agreement with The Regents of the University of California (UC) under which the Company obtained an exclusive, worldwide license to UC s patent rights in certain inventions (the UC Patent Rights) related to lipid-conjugated antiviral compounds and their use, including certain patents relating to brincidofovir and CMX157. The license agreement was amended in September 2002 in order to expand the scope of the license and again in December 2010 in order to modify certain financial terms. The agreement was amended a third time in September 2011 to add additional patents related to certain metabolically stable lipid-conjugate compounds. A fourth amendment was executed in July 2012 to alter the rights and obligations of the parties in light of the Company s current business plans. As partial consideration for the rights granted to the Company under the license agreement, the Company is required to pay certain cash milestone payments in connection with the development and commercialization of compounds that are covered by the UC Patent Rights. In connection with the development and commercialization of brincidofovir and CMX157, the Company could be required to pay UC up to an aggregate of $3.4 million in milestone payments, assuming the achievement of all applicable milestone events under the license agreement.

Under the license agreement, the Company is permitted to research, develop, manufacture and commercialize products utilizing the UC Patent Rights for all human and veterinary uses, and to sublicense such rights. UC retained the right, on behalf of itself and other non-profit institutions, to use the UC Patent Rights for educational and research purposes and to publish information about the UC Patent Rights.

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NOTES TO THE FINANCIAL STATEMENTS (unaudited)

9. Significant Agreements (continued)

In consideration for the rights granted under the license agreement, the Company has issued UC an aggregate of 64,788 shares of common stock. As additional consideration, the Company is required to pay certain cash milestone payments in connection with the development and commercialization of compounds that are covered by the UC Patent Rights, plus certain annual fees to maintain such patents until the Company commercializes a product utilizing UC Patent Rights. In addition, upon commercialization of any product utilizing the UC Patent Rights (which would include the commercialization of brincidofovir or CMX157), the Company will be required to pay low single digit royalties on net sales of such product.

In the event the Company sublicenses a UC Patent Right the Company is obligated to pay to UC a fee, which amount will vary depending upon the size of any upfront payment the Company receives and the clinical development stage of the compound being sublicensed, but which could be up to approximately 50% of the sublicense fee in certain circumstances. With respect to brincidofovir or CMX157, the fee payable to UC will not exceed 5% and 10% of the sublicense fee, respectively. In addition, the Company will also be required to pay to UC a low single digit sublicense royalty on net sales of products that use the sublicensed UC Patent Rights, but in no event will the Company be required to pay more than 50% of the royalties it receives in connection with the relevant sublicense. Any such royalty payment will be reduced by other payments the Company is required to make to third parties until a minimum royalty has been reached.

As a result of meeting certain milestones and sublicense fees related to the license agreement, the Company recognized expenses of $0.9 million for the year ended December 31, 2012. The Company did not recognize expenses under this agreement for the six months ended June 30, 2013.

Biomedical Advanced Research and Development Authority (BARDA)

In February 2011, the Company entered into a contract with BARDA for the advanced development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended several times, most recently on May 30, 2013, to extend the contract into the first option segment period of performance.

Under the contract, BARDA will reimburse the Company, plus pay a fixed fee, for the research and development of brincidofovir as a broad-spectrum therapeutic antiviral for the treatment of smallpox infections. The contract consists of an initial performance period, referred to as the base performance segment, plus up to four extension periods of approximately one year each, referred to as option segments, each of which may be exercised at BARDA s sole discretion. The Company must complete the agreed upon milestones and deliverables in each discrete work segment before the next option segment is eligible to be exercised. Under the contract as currently in effect, the Company may receive up to $75.8 million in expense reimbursement and $5.3 million in fees.

The Company is currently performing under the first option segment of the contract during which the Company may receive up to a total of $5.0 million in expense reimbursement and fees. The term of the first option segment is 12 months and is scheduled to end on May 30, 2014.

Merck, Sharp & Dohme Corp.

In July 2012, the Company entered into a collaboration and license agreement granting Merck exclusive worldwide rights to CMX157, the Company s lipid acyclic nucleoside phosphonate currently being evaluated to treat HIV infection. Under the terms of the agreement, Merck received an exclusive worldwide license for any human use of CMX157 and has agreed to use commercially reasonable efforts to develop and commercialize CMX157 in the United States and at least three major European markets. Following execution of the agreement, the Company received a $17.5 million upfront payment from Merck.

As additional consideration, the Company is eligible to receive up to a total of $151.0 million in milestone payments if certain development and regulatory milestones are achieved by Merck for products

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NOTES TO THE FINANCIAL STATEMENTS (unaudited)

9. Significant Agreements (continued)

utilizing CMX157, as well as tiered royalties on net sales ranging from high single digits to low double digits, depending upon the volume of sales of each applicable product, if CMX157 is successfully commercialized. Milestone payments are triggered upon the completion of various stages of the regulatory approval process for each of the first two indications for CMX157, with the final milestones reached upon approval in the United States and three major European markets. Royalties for any given product will continue on a country-by-country basis through the later of the expiration of the Company s patent rights applicable to such product or ten years from the first commercial sale of such product.

The Company s participation in the collaboration with Merck, including its involvement in the joint steering committee to monitor the development of CMX157, represents a right and an observation role only, rather than a substantive performance obligation. As such, the Company s performance in this collaboration relates to the specific transfers in connection with the license which was completed during the same quarter the agreement was entered into. Therefore, the Company recognized the upfront payment during the year ended December 31, 2012.

The contingent event-based payments that the Company may receive pursuant to the agreement do not meet the definition of a milestone as achievement of the triggering event for such payments is based on the performance of Merck and not Chimerix. Therefore, the milestone method will not be applied to those payments.

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