SENOMYX INC
Form 10-Q
October 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Or

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

For the transition period from to

Commission File Number: 000-50791

SENOMYX, INC.

(Exact name of registrant as specified in its charter)

Delaware **33-0843840**

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

4767 Nexus Centre Drive
San Diego, California 92121 **(858) 646-8300**
(Address of principal executive offices) (Zip code) (Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Larger accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

Total shares of common stock outstanding as of the close of business on October 22, 2015: 44,445,782

SENOMYX, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

SENOMYX, INC.

CONDENSED BALANCE SHEETS

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

(Unaudited)

	September 30, 2015 (Unaudited)	**December 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents	$ 6,075	$ 3,961
Short-term investments available-for-sale	17,989	22,630
Accounts receivable	2,651	2,276
Inventories	2,528	2,319
Other current assets	1,064	993
Total current assets	30,307	32,179
Long-term investments available-for-sale	1,001	2,147
Property and equipment, net	3,507	3,835
Total assets	$ 34,815	$ 38,161
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 5,326	$ 5,903
Deferred rent	299	354
Leasehold incentive obligation	219	987
Deferred revenues	4,335	5,135
Total current liabilities	10,179	12,379
Deferred rent	2,031	516
Leasehold incentive obligation	1,627	1,152
Deferred revenues	—	556
Stockholders' equity:		
Preferred stock, $.001 par value; 7,500,000 shares authorized; no shares issued or outstanding at September 30, 2015 (unaudited) and December 31, 2014	—	—

Common stock, $.001 par value; 120,000,000 shares authorized at September 30, 2015 (unaudited) and December 31, 2014; 44,443,453 and 43,370,309 shares issued and outstanding at September 30, 2015 (unaudited) and December 31, 2014, respectively.	44	43
Additional paid-in capital	285,470	278,362
Accumulated other comprehensive income (loss)	3	(10)
Accumulated deficit	(264,539)	(254,837)
Total stockholders' equity	20,978	23,558
Total liabilities and stockholders' equity	$ 34,815	$ 38,161

See accompanying notes to condensed financial statements.

SENOMYX, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Development revenues	$4,432	$4,477	$13,375	$17,174
Commercial revenues	2,961	1,381	5,237	4,231
Total revenues	7,393	5,858	18,612	21,405
Operating expenses:				
Cost of commercial revenues	179	205	430	444
Research, development and patents	6,162	6,686	18,311	20,302
Selling, general and administrative	3,466	3,384	9,599	9,741
Total operating expenses	9,807	10,275	28,340	30,487
Loss from operations	(2,414)	(4,417)	(9,728)	(9,082)
Other income	9	11	26	27
Net loss	(2,405)	(4,406)	(9,702)	(9,055)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	2	—	14	(10)
Comprehensive loss	$(2,403)	$(4,406)	$(9,688)	$(9,065)
Net loss per share, basic and diluted	$(0.05)	$(0.10)	$(0.22)	$(0.21)
Shares used in calculating net loss per share, basic and diluted	44,069,792	43,006,240	43,798,244	42,359,031

See accompanying notes to condensed financial statements.

SENOMYX, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating activities		
Net loss	$(9,702)	$(9,055)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	893	1,694
Accretion of premium on available-for-sale securities	110	171
Amortization of leasehold incentive obligation	(293)	(740)
Stock-based compensation for employees and non-employee directors	3,903	4,575
Stock-based compensation for non-employees	28	35
Change in operating assets and liabilities:		
Accounts receivable	(375)	(182)
Inventories	(971)	(1,426)
Other current assets	81	(386)
Accounts payable, accrued expenses and other current liabilities	257	(2,316)
Deferred revenues	(1,356)	(3,419)
Deferred rent	1,460	(196)
Net cash used in operating activities	(5,965)	(11,245)
Investing activities		
Purchases of property and equipment	(637)	(294)
Purchases of available-for-sale securities	(7,201)	(16,655)
Maturities of available-for-sale securities	12,879	11,490
Net cash provided by (used in) investing activities	5,041	(5,459)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	3,038	9,781
Net cash provided by financing activities	3,038	9,781
Net change in cash and cash equivalents	2,114	(6,923)
Cash and cash equivalents at beginning of period	3,961	11,201
Cash and cash equivalents at end of period	$6,075	$4,278

Supplemental disclosure of cash flow information:

Purchases of inventories included in accounts payable, accrued expenses and other current liabilities at period end	$—	$—
Purchases of property and equipment included in accounts payable, accrued expenses and other current liabilities at period end	$21	$—

See accompanying notes to condensed financial statements.

SENOMYX, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Senomyx, Inc. (“we”, “us” or “our”) was incorporated in Delaware in September 1998 and commenced operations in January 1999. We use proprietary taste receptor technologies to discover, develop and commercialize innovative flavor ingredients for the packaged food, beverage and ingredient supply industries to improve the nutritional profile of their products and generate cost of goods savings while maintaining or improving taste. Our current programs focus on the development and commercialization of sweet, savory and salt flavor ingredients, bitter blockers and cooling agents.

We currently have product discovery, development and commercialization collaborations with four of the world’s leading packaged food, beverage and ingredient companies: Ajinomoto Co., Inc., Firmenich SA, Nestlé SA and PepsiCo, Inc. Our collaboration agreements generally provide for license fees, research and development funding, reimbursement of certain costs, development milestone payments based upon our achievement of research or development goals and, in the event of commercialization, commercial milestone payments, minimum periodic royalties and royalties on sales of products incorporating our flavor ingredients. We also sell certain flavor ingredients directly to flavor companies for inclusion in a flavor system for re-sale to food and beverage companies.

Basis of Presentation

The financial statements at September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 are unaudited. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial information therein. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be reported for the year ending December 31, 2015. For more complete financial information, these financial statements, and the notes thereto, should be read in conjunction with the audited financial statements for the year ended December 31, 2014, including the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the

Securities and Exchange Commission (the “SEC”).

Use of Estimates

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

Cash and Cash Equivalents

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

Investments Available-for-Sale

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

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

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

Accounts Receivable

We extend credit to our customers in the normal course of business based upon an evaluation of the customer's credit history, financial condition and other factors. Estimates of allowances for uncollectible receivables are determined by evaluating individual customer circumstances, historical payment patterns, length of time past due and other factors. At September 30, 2015 and December 31, 2014, we did not have any allowances for uncollectible receivables.

Inventories

Inventories consist entirely of purchased finished goods. Inventories are valued at lower of cost (on a moving average basis) or market value. We are required to make assumptions regarding the level of reserves required to value items at the lower of cost or market. These assumptions require us to analyze forecasted demand, pricing trends and margins, and to make judgments and estimates regarding excess or obsolete inventory. At September 30, 2015 and December 31, 2014, we did not have any reserves for lower of cost or market, excess or obsolete inventory. Inventories amounts from prior years have been reclassified from other current assets to conform to the current year presentation.

Revenue Recognition

Development Revenues

Development revenues are based on our product discovery, development and commercialization collaboration agreements. Some of our collaboration agreements contain multiple elements, including technological and territorial licenses and research and development services. In accordance with these agreements, we may be eligible for license fees, research and development funding, development milestone payments, cost reimbursements, royalty payments, minimum periodic royalty payments and commercial milestone payments. Development revenues include revenues from license fees, research and development funding, the achievement of development milestones and cost reimbursements.

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

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

Commercial Revenues

Commercial revenues from collaboration agreements include royalties on sales made by our collaborators of products incorporating our flavor ingredients, minimum periodic royalty payments and revenues from the achievement of commercial milestones. Commercial revenues also include direct sales of our flavor ingredients to flavor companies.

Royalties on sales made by our collaborators of products incorporating our flavor ingredients are recognized when a royalty report or other persuasive evidence is received, which is generally one quarter in arrears. Non-refundable minimum periodic royalty payments are recognized as revenues over the related royalty periods. Royalty terms are specific to each collaboration and collaborator and can vary from year to year. These terms vary based on factors such as the characteristics of the flavor ingredient and the product categories and geographies licensed by the collaborator. Periodically, as contractually specified, our collaborators are required to provide a report detailing all sales of products containing our flavor ingredients. To the extent that calculated royalties on sales of such products exceed the minimum periodic royalty payments made to date, the collaborators are required to remit to us the difference between royalties calculated and minimum periodic royalty payments made to date. We recognize this difference as royalties on product sales at the time the report is received. To the extent that minimum periodic royalty payments through the end of any applicable period exceed calculated royalties, we are not required to refund the difference. Revenues from commercial milestones are recognized when earned, as evidenced by written acknowledgment from the collaborator or other persuasive evidence that the milestone has been achieved, because we have no further performance obligations related to the commercial milestones.

Revenues from direct sales of our flavor ingredients are recorded when there is persuasive evidence that an arrangement exists, title has passed, collection is reasonably assured and the price is fixed or determinable. Revenues are recorded following a general right of return period, if any. We generally do not offer discounts or rebates on sales of flavor ingredients.

New Accounting Guidance

In May 2014, the FASB issued accounting guidance on the recognition of revenue from customers which will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Under this guidance, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects that the entity expects in exchange for the goods or services. This guidance also requires more detailed disclosures to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is currently effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The guidance allows entities to select one of two methods of adoption, either the full retrospective approach, meaning the guidance would be applied to all periods presented, or modified retrospective, meaning the cumulative effect of applying the guidance would be recognized as an adjustment to our opening retained earnings new balance at January 1, 2018, along with providing certain additional disclosures.

We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Cost of Commercial Revenues

Cost of commercial revenues represents royalties payable under our third-party licensing agreements and the cost of goods sold related to direct sales, including related shipping and handling costs.

Research, Development and Patents

Research and development costs, including those incurred in relation to our collaboration agreements, are expensed in the period incurred. Research and development costs primarily consist of salaries and related expenses for personnel, facilities and depreciation, research and development supplies, licenses and outside services. Such research and development costs totaled $5.7 million and $6.3 million for the three months ended September 30, 2015 and 2014, respectively, and $16.9 million and $18.9 million for the nine months ended September 30, 2015 and 2014, respectively.

Costs related to filing and pursuing patent applications are expensed as incurred, as recoverability of such expenditures is uncertain. We include all external costs related to the filing of patents related to development in Research, Development and Patents expenses. Such patent-related expenses totaled $474,000 and $370,000 for the three months ended September 30, 2015 and 2014, respectively, and $1.4 million for each of the nine months ended September 30, 2015 and 2014.

Stock-Based Compensation

Total stock-based compensation expenses recognized for the three and nine months ended September 30, 2015 and 2014 was comprised as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Research, development and patents	$568	$701	$1,637	$1,973
Selling, general and administrative	751	1,001	2,294	2,637
	$1,319	$1,702	$3,931	$4,610

At September 30, 2015, total unrecognized estimated compensation expenses related to non-vested stock options granted prior to that date was $8.6 million, which is expected to be recognized over a weighted average period of 1.8 years.

Net Loss Per Share

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

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

Nine Months Ended

	Three Months Ended September 30,		September 30,	
	2015	2014	2015	2014
Numerator:				
Net loss (in thousands)	$(2,405)	$(4,406)	$(9,702)	$(9,055)
Denominator:				
Weighted average common shares	44,069,792	43,006,240	43,798,244	42,359,031
Basic and diluted net loss per share	$(0.05)	$(0.10)	$(0.22)	$(0.21)
Outstanding antidilutive securities not included in diluted net loss per share calculation:				
Options to purchase common stock	11,138,658	11,476,902	11,138,658	11,476,902

Comprehensive Income (Loss)

The Comprehensive Income Topic of the FASB ASC requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Our accumulated other comprehensive income as of September 30, 2015 and December 31, 2014 consisted of unrealized gains or losses on investments available-for-sale and is reported in stockholders' equity.

2. Balance Sheet Details

Investments Available-for-Sale

The following is a summary of investments available-for-sale at September 30, 2015 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
United States Treasuries	$ 1,500	$ 1	$ —	$ 1,501
United States government agency bonds	9,055	1	—	9,056
Corporate bonds	8,431	3	(1)	8,433
	$ 18,986	$ 5	$ (1)	$ 18,990

The following is a summary of investments available-for-sale at December 31, 2014 (in thousands):

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
United States Treasuries	$ 1,500	$ —	$ —	$ 1,500
United States government agency bonds	16,341	—	(6)	16,335
Corporate bonds	6,946	—	(4)	6,942
	$ 24,787	$ —	$ (10)	$ 24,777

Investments we consider to be temporarily impaired at September 30, 2015 were as follows (in thousands, except for number of investments):

Description	Number of investments	Less than 12 Months of Temporary Impairment Estimated Fair Value	Unrealized Losses
Corporate bonds	4	$3,614	$ (1)

We believe that the decline in value of these securities is temporary and primarily related to the change in market interest rates since purchase and that it is more likely than not that we will be able to hold these securities to maturity. Therefore we anticipate full recovery of their amortized cost basis at maturity.

Gross realized gains and losses on available-for-sale securities were immaterial during the three and nine months ended September 30, 2015 and 2014. As of September 30, 2015, we held $18.0 million of available-for-sale securities with maturity dates within one year and $1.0 million with maturity dates over one year and less than two years.

3. Fair Value Disclosures

The following table presents information about our financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2015, and indicates the fair value hierarchy of the valuation techniques utilized by us to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. We classify money market funds and United States Treasuries as Level 1 assets.

Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. We obtain the fair value of Level 2 financial instruments from a third-party professional pricing service using quoted market prices for identical or comparable instruments. Our professional pricing service gathers market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources. The service uses these multiple prices as inputs into a distribution-curve based algorithm to determine a fair value. We then validate the quoted fair values provided by the professional pricing service by comparing the service’s assessment of the fair values of our Level 2 investment portfolio balance against the fair values of our Level 2 investment portfolio balance provided by our investment managers. We classify United States government agency bonds and corporate bonds as Level 2 assets. There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2015 or 2014.

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

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

		Fair Value Measurement at Reporting Date Using		
Description	**Balance as of September 30, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial instruments owned:				
Money market funds	$ 3,699	$3,699	$ —	$ —
United States Treasuries	1,501	1,501	—	—
United States government agency bonds	9,056	—	9,056	—
Corporate bonds	8,433	—	8,433	
	$ 22,689	$5,200	$ 17,489	$ —

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements, related notes and the "Risk Factors" included in this quarterly report on Form 10-Q and the audited financial statements, notes thereto as of and for the year ended December 31, 2014 and the "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission, or SEC. Operating results are not necessarily indicative of results that may occur in future periods.

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

Overview and Recent Developments

We use proprietary taste receptor technologies to discover, develop and commercialize innovative flavor ingredients for the packaged food, beverage and ingredient supply industries. We consider flavor ingredients to include flavors, such as savory and cooling, and flavors with modifying properties, such as sweet and salt modifiers and bitter blockers. We also have an ongoing effort to discover and develop natural high intensity sweeteners. We believe our flavor ingredients, when added as part of a flavor system, will enable packaged food, beverage and ingredient supply companies to improve the nutritional profile of their products and generate cost of goods savings while maintaining or improving taste.

We have historically licensed our flavor ingredients to our collaborators on an exclusive or co-exclusive basis. We currently have product discovery, development and commercialization collaborations with four of the world's leading

packaged food, beverage and ingredient companies: Ajinomoto Co., Inc., Firmenich SA, Nestlé SA and PepsiCo, Inc. Depending upon the collaboration, our collaboration agreements provide for license fees, research and development funding, reimbursement of certain costs, development milestone payments based upon our achievement of research or development goals and, in the event of commercialization, commercial milestone payments, minimum periodic royalties and royalties on sales of products incorporating our flavor ingredients. We anticipate that we will derive all of our revenues from existing and future collaborations and from a direct sales program whereby we sell certain of our flavor ingredients directly to flavor companies for inclusion in a flavor system for re-sale to food and beverage companies.

In August 2015, we announced that the first commercialization of our flavor ingredient *Sweetmyx*® S617 was achieved, triggering a $1.5 million commercial milestone under our collaboration with PepsiCo.

In September 2015, we announced that Daniel E. Stebbins had joined our Board of Directors. Mr. Stebbins has extensive leadership and commercial experience in the flavor and fragrance industry and has served on a number of industry associations.

We have incurred significant losses since our inception in 1998 and our accumulated deficit was $264.5 million as of September 30, 2015. Our results of operations have fluctuated from period to period and likely will continue to fluctuate substantially in the future based upon:

- the ability of our product discovery and development collaborators to incorporate our flavor ingredients into food, beverage and ingredient products, on expected timelines, if at all;
- our ability to grow our direct sales program;

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

Results of Operations

Three Months Ended September 30, 2015 and 2014

Revenues

We recorded development revenues of $4.4 million and $4.5 million during the third quarters ended September 30, 2015 and 2014, respectively. The decrease was primarily attributable to reduced cost reimbursement revenues related to our collaborations.

Our commercial revenues were $3.0 million and $1.4 million for the three months ended September 30, 2015 and 2014, respectively. The $1.6 million increase primarily resulted from a $1.5 million commercial milestone achieved upon the first commercial sale of products which include our *Sweetmyx*® S617 flavor ingredient, as well as higher royalties from collaborators. These increases were partially offset by a $508,000 reduction in royalties related to our Savory Taste Program due to the conclusion of a collaboration agreement with Nestlé at the end of 2014, whereby we regained all rights previously licensed to Nestlé.

Research and development payments, upfront fees, cost reimbursements, milestones and royalty revenues under our material collaborations with Firmenich and PepsiCo accounted for approximately 89% and 73% of total revenues for the three months ended September 30, 2015 and 2014, respectively.

Cost of Commercial Revenues

Our costs of commercial revenues were $179,000 and $205,000 for the three months ended September 30, 2015 and 2014, respectively. Despite the $1.6 million increase in commercial revenues, costs of commercial revenues did not increase because no royalties were payable under our third-party licensing agreements for the $1.5 million commercial milestone achieved during the quarter ended September 30, 2015.

Research, Development and Patents Expenses

Our research, development and patents expenses (including stock-based compensation expenses charged to research and development) were $6.2 million and $6.7 million for the three months ended September 30, 2015 and 2014, respectively. A comparison of research, development and patents expenses by category is as follows (in thousands):

	Three Months Ended September 30,	
	2015	**2014**
Salaries and personnel	$3,062	$3,112
Facilities and depreciation	1,091	1,221
Non-cash stock-based compensation	568	701
Patents and licensing	551	455
Research and development supplies	366	534
Outside services	267	429
Miscellaneous	257	234
	$6,162	$6,686

Research and Development Supplies. Our expenses for supplies used in research and development were $366,000 and $534,000 for the three months ended September 30, 2015 and 2014, respectively. The $168,000 decrease was due to decreased purchases of scientific supplies used in research and development resulting from reduced staffing levels resulting from a corporate restructuring in the first quarter of 2015.

Outside Services. Our outside services expenses were $267,000 and $429,000 for the three months ended September 30, 2015 and 2014, respectively. The $162,000 decrease in the 2015 period was primarily due to decreased activities related to safety studies due to the timing of product candidates in development.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses (including stock-based compensation expenses charged to selling, general and administrative) were $3.5 million for the three months ended September 30, 2015, an increase of $82,000 from the $3.4 million total for the three months ended September 30, 2014. The increase is due to higher incentive-based compensation expense accruals.

Nine Months Ended September 30, 2015 and 2014

Revenues

We recorded development revenues of $13.4 million and $17.2 million during the nine months ended September 30, 2015 and 2014, respectively. The $3.8 million decrease was primarily attributable to an extension of the service period over which the $30 million upfront license fee related to the PepsiCo Sweet Taste Program collaboration is being recognized. In the second quarter of 2014, in accordance with our agreement, PepsiCo elected to extend the service period of the collaboration an additional two years to August 2016, which resulted in a $2.8 million reduction in development revenues in the nine months ended September 30, 2015. Revenues from the achievement of development milestones for regulatory authorizations were $1.8 million for the nine months ended September 30, 2014, whereas no such revenues were recorded in the first nine months of 2015. These decreases in development revenues were partially offset by increases in research funding related to our Sweet Taste Program and Salt Taste Program collaborations.

Our commercial revenues were $5.2 million and $4.2 million for the nine months ended September 30, 2015 and 2014, respectively. The $1.0 million increase primarily resulted from a $1.5 million commercial milestone achieved upon the first commercial sale of products which include our *Sweetmyx* S617 flavor ingredient, as well as higher royalties from collaborators and higher direct sales. These increases were partially offset by a $2.1 million reduction

in royalties related to our Savory Taste Program due to the conclusion of a collaboration agreement with Nestlé at the end of 2014, whereby we regained all rights previously licensed to Nestlé.

Research and development payments, upfront fees, cost reimbursements, milestones and royalty revenues under our material collaborations with Firmenich and PepsiCo accounted for approximately 88% and 78% of total revenues for the nine months ended September 30, 2015 and 2014, respectively.

Cost of Commercial Revenues

Our costs of commercial revenues were $430,000 and $444,000 for the nine months ended September 30, 2015 and 2014, respectively. Despite the $1.0 million increase in commercial revenues, costs of commercial revenues did not increase because no royalties were payable under our third-party licensing agreements for the $1.5 million commercial milestone achieved during the quarter ended September 30, 2015.

Research, Development and Patents Expenses

Our research, development and patents expenses (including stock-based compensation expenses charged to research and development) were $18.3 million and $20.3 million for the nine months ended September 30, 2015 and 2014, respectively. A comparison of research, development and patents expenses by category is as follows (in thousands):

	Nine Months Ended September 30,	
	2015	**2014**
Salaries and personnel	$9,064	$9,656
Facilities and depreciation	3,409	3,783
Non-cash stock-based compensation	1,637	1,973
Patents and licensing	1,633	1,632
Research and development supplies	1,024	1,687
Outside services	873	901
Miscellaneous	671	670
	$18,311	$20,302

Salaries and Personnel. Our salaries and personnel expenses decreased $592,000 from $9.7 million for the first nine months of 2014 to $9.1 million for the first nine months of 2015 primarily due to reduced staffing levels resulting from a corporate restructuring in the first quarter of 2015. This decrease was partially offset by higher incentive-based compensation expense accruals in 2015.

Facilities and Depreciation. Our facilities and depreciation expenses were $3.4 million and $3.8 million for the nine months ended September 30, 2015 and 2014, respectively. The $374,000 decrease was attributable to reduced rent expense resulting from the amendment of our building lease in the first quarter of 2015 and reduced depreciation expense as certain scientific equipment became fully depreciated.

Non-cash Stock-based Compensation. Our non-cash stock-based compensation expenses decreased $336,000 from $2.0 million for the first nine months of 2014 to $1.6 million for the first nine months of 2015 due to a lower fair value for stock options granted in 2015 based on the lower price of our common stock at the respective option grant dates.

Research and Development Supplies. Our expenses for supplies used in research and development were $1.0 million and $1.7 million for the nine months ended September 30, 2015 and 2014, respectively. The decrease of $663,000 was

due to decreased purchases of scientific supplies used in research and development resulting from reduced staffing levels in the 2015 period.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses (including stock-based compensation expenses charged to selling, general and administrative) were $9.6 million for the nine months ended September 30, 2015, a decrease of $142,000 from the $9.7 million total for the nine months ended September 30, 2014. The decrease was primarily attributable to reduced non-cash stock-based compensation expenses which resulted from a lower fair value for stock options granted in 2015 based on the lower price of our common stock at the respective option grant dates. The decrease was partially offset by higher incentive-based compensation expense accruals in 2015.

Liquidity and Capital Resources

Since our inception, we have financed our business primarily through our product discovery and development collaborations, private and public placements of stock, royalties and interest income. As of September 30, 2015, we had received $244.2 million in non-refundable license fees, research and development payments, cost reimbursements and milestone payments from our collaboration agreements. In addition, we had received $208.5 million in proceeds from the sales of common and preferred stock, $25.0 million in royalties and commercial payments and $12.5 million in interest income.

At September 30, 2015, we had $25.1 million in cash, cash equivalents and investments available-for-sale as compared to $28.7 million at December 31, 2014, a decrease of $3.6 million. This decrease is primarily due to the net use of cash to fund our operations.

Operating Activities

Operating activities used cash of $6.0 million and $11.2 million for the nine months ended September 30, 2015 and 2014, respectively. The decrease in cash used in operating activities primarily resulted from a decrease in rent and employee bonus payments in 2015, as well as decreased inventory purchases and the timing of payments we made to vendors.

Investing Activities

Investing activities provided cash of $5.0 million for the nine months ended September 30, 2015 and used cash of $5.5 million for the nine months ended September 30, 2014. The increase in cash provided by investing activities reflects reduced purchases of available-for-sale securities in the 2015 period.

Financing Activities

Financing activities provided cash of $3.0 million and $9.8 million for the nine months ended September 30, 2015 and 2014, respectively. The $6.8 million decrease in cash provided by financing activities reflects decreased proceeds from the issuance of common stock from the exercise of stock options, attributable to the generally higher price of our common stock in the first nine months of 2014 compared to the first nine months of 2015.

In February 2015, we amended the lease agreement for our laboratory and office facility in San Diego, California. The amended lease expires on February 28, 2024, a seven-year extension of the previous lease period. The amended lease provides for certain rent-free periods beginning in 2015 and an annual 1% rent increase during the extended lease period.

As of September 30, 2015, future minimum payments due under our contractual obligations are as follows (in thousands):

	Payments Due by Period			
Total	**Less than**	**1-3 years**	**4-5 years**	**After 5 years**

		1 year			
Operating leases	$23,742	$2,878	$5,008	$5,815	$10,041
License payments	85	85	—	—	—
Total	$23,827	$2,963	$5,008	$5,815	$10,041

As of September 30, 2015, we had no long-term debt obligations.

Our license agreement with the University of California calls for annual maintenance fees, which commenced in 2006, or royalties or service revenues on sales of any products developed using technologies licensed under the agreement. Royalties are calculated as a percentage of applicable sales and are included in cost of commercial revenues. The agreement specifies minimum annual royalty payments which commenced in 2014 and continue through the expiration of the last to expire patent licensed under the agreement. Royalties currently paid under the agreement exceed the minimum annual royalty.

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

- our ability to generate flavor ingredient sales under our direct sales program;
- our ability to maintain product discovery, development and commercialization collaborations;
- the rate of progress and cost of research and development activities;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the cost of growing our direct sales program, including purchases of inventory;
- the number and scope of our research activities;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the proceeds from the issuance of common stock upon the exercise of stock options;
- the effect of competing technological and market developments; and
- the extent to which we acquire or in-license new products, technologies or businesses.

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

Until we can generate significant cash from our operations, we expect to continue to fund our operations with existing cash resources that were primarily generated from license payments, research and development payments and milestone payments under our product discovery and development collaborations and from the proceeds of offerings of our equity securities. From time to time we may consider raising additional cash from the sale of equity or other securities.

As of September 30, 2015, we are entitled to receive $9.9 million in research and development funding and license fees from our collaborators over the remaining life of our current collaboration agreements. Assuming all milestones are achieved for all program goals for all collaborations and assuming we receive all research and development funding and license fees to which we are entitled, we may receive up to $35.5 million under our current collaboration agreements.

In the next three months (through December 31, 2015), we anticipate receiving $3.3 million in research and development funding payments. This does not include any additional payments we may receive related to the following events:

- the achievement of additional milestones;
- the earning of royalties from the sale of products containing our flavor ingredients;
- the earning of any minimum periodic royalty payments;
- direct sales of flavor ingredients;
- the earning of any cost reimbursements; and
- the signing of new collaborations or extensions of existing collaborations.

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

We may not recognize revenues for license fees, research and development funding, milestones, minimum periodic royalties or royalties if the collaborations are terminated or amended, or if we do not achieve the milestones set forth in the collaboration agreements. Our expenses will vary based upon the forward-looking factors listed above.

Off-Balance Sheet Arrangements

As of September 30, 2015 and 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or structured finance entities, which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to revenue recognition, stock-based compensation, long-lived assets, accrued liabilities and income taxes. These estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities and the recognition of revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

The following sets forth risk factors associated with our business. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors associated with our business previously disclosed in Item 1A. of our annual report on Form 10-K for the year ended December 31, 2014. Additional risks and uncertainties that we are unaware of may also become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In these circumstances, the market price of our common stock could decline.

Risks Related To Our Business

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

Under our current royalty-based business model, we are substantially dependent on our current and any other possible future collaborators to commercialize any flavor ingredients that we successfully develop and to provide the sales, marketing and distribution capabilities required for the success of our business. We have limited or no control over the amount and timing of resources that our current or any future collaborators may devote to our programs or potential products. Our collaborators may decide not to devote the necessary resources to the commercialization of our flavor ingredients and may choose not to incorporate our flavor ingredients into any or all of their products within their exclusive or co-exclusive product fields on a timely basis or at all. Although our collaboration agreements vary, in some situations a collaborator may have the ability to return rights to one or more of our licensed flavor ingredients in some or all product categories or licensed territories and discontinue any associated minimum annual royalty obligations for those flavor ingredients, product categories or territories, as the case may be. A collaborator may elect to take any of these actions for any number of reasons, including as a result of unfavorable publicity regarding our flavor ingredients or our research methods, or if our flavor ingredients do not have the characteristics desired by the collaborator. These characteristics include, among other things, modifying properties, stability under various manufacturing and use conditions, solubility, taste, cost and an adequate safety profile. If these collaborators fail to conduct their commercialization, sales and marketing or distribution activities successfully and in a timely manner, or if our existing collaborators terminate their collaboration agreements with us prior to the expiration of the agreements, it will delay our ability to commercialize our flavor ingredients, we will earn little or no royalty revenues from our flavor ingredients and we will not be able to achieve our objectives or build a sustainable or profitable business.

A substantial portion of our revenues is derived from only two collaborators. If our agreements with these two collaborators terminate earlier than anticipated for any reason, our revenues may materially decline.

During fiscal year 2014, 87% of our revenues were derived from two collaborators, with PepsiCo comprising $14.5 million, or 53%, of revenues and Firmenich comprising $9.4 million, or 34%, of revenues.

Our current collaboration agreements with PepsiCo and Firmenich related to our Sweet Taste Program are scheduled to expire in August 2016 and July 2016, respectively. If either collaboration agreement were to terminate earlier than currently anticipated, or if Firmenich were to discontinue or reduce its commercialization efforts related to our currently marketed flavor ingredients, we may experience a decline in our revenues and we may not be able to achieve our financial projections.

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

Even if we discover and develop flavor ingredients with appropriate attributes required for use in commercial products and we obtain the necessary GRAS determinations or other regulatory approvals, the commercial utility for a novel flavor ingredient that we develop may ultimately be more limited than we expect. Our success depends to a significant degree upon successful commercial launches of food, beverage and ingredient products incorporating our flavor ingredients. If these products fail to achieve or subsequently maintain market acceptance or commercial viability, our business would be significantly harmed because our commercial revenues are dependent upon consumer sales of these products. In addition, we may be unable to maintain our existing collaborations or attract new product discovery and development collaborators or new customers for our direct sales program. Many factors may affect the willingness of food and beverage companies to launch new or reformulated products incorporating our flavor ingredients and the market acceptance and commercial success of any potential products incorporating flavor ingredients, including:

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

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

We have several flavor ingredients in our portfolio that we have discovered and developed but that are not currently exclusively licensed to a third party collaborator for one or more product categories and/or geographies, including, but not limited to, our *Sweetmyx® SR96* (S9632) flavor ingredient for which we have worldwide rights in all products, *Savorymyx® UM80* (S807) for which we have worldwide rights in all products, *Sweetmyx SR69* (S6973) for which we have worldwide rights in all products, *Bittermyx® BB68* (S6821) for which we have worldwide rights in certain products, and *Savorymyx UM33* (S336), for which we have certain rights in Japan and worldwide rights, outside of Asia, in all products. We currently intend to commercialize these and potentially other flavor ingredients under our direct sales program; however, we also retain the flexibility to consider licensing the rights to any flavor ingredients that we control to a third party collaborator.

There can be no assurance that our direct sales program will be successful or that we will enter into any new business arrangements for any of our flavor ingredients that are not currently exclusively licensed to a third party collaborator.

We may encounter difficulties in growing our direct sales program or entering into any new business arrangements that we elect to pursue. Any of these events could also delay our anticipated timelines, prevent the successful commercialization of our flavor ingredients, negatively impact our financial results, and delay or prevent us from ever achieving or sustaining profitability.

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

We have not been profitable and have generated substantial operating losses since we were incorporated in September 1998. We expect to incur additional losses in the future. The extent and duration of our future losses will depend, in part, on the rate of increase in our operating expenses and the rate of growth, if any, in our revenues from our existing and any future product discovery and development collaborations as well as from our direct sales program and other sources that may become available to us in the future. To date, substantially all of our revenues have come from research and development funding, license fees, cost reimbursement and milestone payments under our product discovery and development collaborations. In order for us to generate further royalty revenues and become profitable, we must successfully retain our existing product discovery and development collaborations and our collaborators must further commercialize products incorporating one or more of our flavor ingredients, from which we can derive additional royalty revenues, or we must successfully grow our direct sales program or alternative strategies where we receive revenues from other sources. Our ability to generate commercial revenue is uncertain and will depend upon, among other things, our ability to meet particular commercialization, research and development objectives.

We may seek additional capital to fund our operations.

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

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

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

Disagreements or disputes with a collaborator or customer of our direct sales program could adversely impact our business operations and prospects.

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

We must secure and maintain regulatory approvals of our flavor ingredients through various governmental bodies outside the United States. The applicable regulations are complex and subject to change, which may adversely impact our ability to commercialize our flavor ingredients internationally.

Sales of our flavor ingredients outside of the United States will be subject to foreign regulatory requirements, which are determined by multiple governing bodies, such as the Joint FAO/WHO Expert Committee on Food Additives, or JECFA, and the European Food Safety Authority, or EFSA, and in some instances individual countries, such as China, Indonesia and Japan. These foreign regulatory requirements are complex and constantly changing, sometimes quite unpredictably, due, in part, to changes in agendas of political, business and social activist groups as well as government priorities. We may be required to incur substantial costs to comply with current or future laws and regulations, or new interpretations of existing laws and regulations, and our operations, business or financial condition could be adversely affected by such future requirements or interpretations of existing requirements.

A Generally Recognized as Safe, or GRAS, determination in the United States or in any other jurisdiction does not ensure approval in other jurisdictions because the requirements from jurisdiction to jurisdiction may vary widely and may change over time. In most cases, whether or not a GRAS determination has been obtained in the United States, approval of a product by the applicable regulatory authorities for a foreign country must still be obtained prior to manufacturing or marketing the product in that country. For example, we are aware of ongoing activities that are intended to clarify the regulatory approval process for flavor ingredients within the EU. Because of the inherent uncertainty associated with the regulatory approval process outside the United States, predicting the outcome or timing of review of any of our submissions to foreign regulatory authorities, present or in the future, is difficult. Accordingly, our estimates and forecasts for those submissions and potential approvals may not be accurate. The process of obtaining foreign approvals could result in significant delays, difficulties and costs for us and require additional safety studies and additional expenses. If we experience delays or if we fail to comply with these regulatory requirements or to obtain and maintain required approvals, our ability to generate revenue will be diminished.

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

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

In the United States, flavor ingredients are regulated under the Food, Drug and Cosmetic Act, or FD&C Act. Flavor ingredients that qualify for the GRAS review process are generally intended to be consumed in small quantities and have data supporting their safety under conditions of intended use. The Food Additive Amendments of 1958 prompted the flavor industry to establish in 1960 the FEMA Expert Panel whose purpose is to administer the FEMA GRAS review program for flavor ingredients.

Depending on the amount or intended use of a particular flavor ingredient added to a product and the number of product categories in which the flavor ingredient will be incorporated, specific safety assessment protocols and regulatory processes must be satisfied before we or our collaborators can commercially market and sell products containing any flavor ingredients that we may discover. A key element of our strategy is to develop flavor ingredients that may be subject to review under the FEMA GRAS process. Obtaining and maintaining a GRAS determination or other regulatory approval can be costly and take many years.

In our experiences with the savory, sweet, bitter and cool programs, safety studies, preparation and FEMA GRAS review has historically ranged from 12 to 18 months and cost up to approximately $1.5 million per flavor ingredient. This experience may not be representative of the timing and cost for current and future programs. The FEMA GRAS process may take longer than 12 to 18 months and cost more than $1.5 million depending on the properties of the flavor ingredient, and if we elect to perform additional safety studies or if additional safety studies are requested by the FEMA Expert Panel or one of our collaborators or are necessary to explain unexpected safety study findings. There is a risk that one or more of our product candidates for which we seek FEMA GRAS determination may not qualify for a FEMA GRAS determination for specific categories or at all. This may occur for a variety of reasons, including the flavor ingredient's intended use, the amount of the flavor ingredient intended to be added to foods and beverages, the number of product categories in which the flavor ingredient will be incorporated, whether the flavor ingredient imparts sweetness, the safety profile of the flavor ingredient and the FEMA Expert Panel's interpretation of the safety data. For example, we do not believe that any natural high intensity sweetener that we discover would qualify for a FEMA GRAS determination for its use as a sweetener. Even if we obtain a GRAS determination with respect to a flavor ingredient, the U.S. Food and Drug Administration, or FDA, has the ability to challenge such determination or one or more of our collaborators may insist on additional studies, which could materially adversely

affect our ability to market products on schedule or at all. In the event that a particular flavor ingredient does not qualify for FEMA GRAS determination or if one or more of our collaborators requires additional studies, we could be required to pursue a longer and more expensive approval process or dedicate our development efforts to alternative ingredients, which would further delay commercialization. In addition, laws, regulations or FDA practice governing the regulatory approval process, the availability of the GRAS determination process or the manufacture or labeling of such products, may change in a manner that could adversely affect our ability to commercialize products on schedule or at all and may also harm our ability to maintain our existing collaboration agreements or enter into new collaborations.

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

Our operating results have fluctuated in the past and are likely to vary significantly in the future based upon a number of factors, many of which we have little or no control over. We operate in a highly dynamic industry and future results could be subject to significant fluctuations. These fluctuations could cause us to fail to meet or exceed our published guidance or financial expectations of securities analysts or investors, which could cause our stock price to decline rapidly and significantly. Revenue and expenses in future periods may be greater or less than revenue and expenses in the immediately preceding period or in the comparable period of the prior year. Therefore, period-to-period comparisons of our operating results are not necessarily a good indication of our future performance. Some of the factors that could cause our operating results to fluctuate include:

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

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

A key element of our current strategy is to commercialize our flavor ingredients through collaboration agreements. To date, substantially all of our research and development funding has been derived solely from research and development payments, license fees, milestone payments and cost reimbursement payments received under our collaborations. Substantially all of our research and development funding in the foreseeable future will result from these types of payments from these collaborations until such time, if ever, that we earn more significant royalties on future sales of consumer products incorporating our flavor ingredients or begin to generate meaningful revenues from our direct sales program.

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

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

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

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

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

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

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

In October 2015, Dr. Donald S. Karanewsky retired from the position of Senior Vice President, Discovery and Chief Scientific Officer. We do not intend to appoint a successor to Dr. Karanewsky. Following Dr. Karanewsky's retirement, his duties were transitioned to other members of our senior scientific leadership team. Our three major taste research programs focused on the discovery and development of Sweet Modifiers, Natural High Intensity Sweeteners and Salt Modifiers will continue to be led by the same three individuals who have served as project leaders for each respective program. Each of these three scientific leaders holds a doctorate degree, has been with us for over eleven years, made significant contributions to our research and development efforts and is actively involved in our collaborations with our partners. As part of Dr. Karanewsky's retirement arrangements, we entered into a scientific advisory consulting arrangement with him which will continue through December 31, 2016.

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

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

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

If appropriate opportunities become available, we may consider acquiring businesses, technologies or products that we believe are a strategic fit with our business. We may also consider reacquiring rights to flavor ingredients that are currently licensed to one or more of our collaborators. We have limited, if any, experience in identifying acquisition targets, successfully acquiring them and integrating them into our current infrastructure. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. In addition, future acquisitions might be funded by issuances of debt or additional equity, which could impact your rights as a holder of our common stock and may dilute your ownership percentage. Any of the foregoing could have a significant adverse effect on our business, financial condition and results of operations.

Risks Related To Production and Supply

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

We do not have experience in manufacturing nor do we have the resources or facilities to manufacture flavor ingredients on a commercial scale. Therefore, the commercialization of our flavor ingredients depends in part on our or our collaborators' ability to manufacture, or to contract with third-party manufacturers of our flavor ingredients, on a large scale, at a competitive cost, with the specified quality and in accordance with relevant food, beverage and ingredient regulatory requirements. Any such collaborators or third-party manufacturers may encounter manufacturing difficulties at any time that could result in delays in the commercialization of potential flavor ingredients.

Our inability to find capable manufacturing capacity or to enter into agreements on acceptable terms with third party manufacturers could delay commercialization of any products we may develop and may harm our relationships with our existing and any future product discovery and development collaborators and our customers. Moreover, if we or our collaborators are required to change from one third-party manufacturer to another for any reason, the commercialization of our products may be delayed further. In addition, if any manufacturer of our flavor ingredients fail to comply with the FDA's good manufacturing practice regulations or similar regulations in other countries, then we or our collaborators may be subject to adverse regulatory action including product recalls, warning letters and withdrawal of our products, or our collaborators' or customers' products, from the market, any of which may harm our reputation and our business.

Further, because our flavor ingredients are regulated as food products under the FD&C Act, we and the third parties with which we collaborate or contract to manufacture, process, pack, import or otherwise handle our products or our product ingredients, may be required to comply with certain registration, prior notice submission, recordkeeping and other regulatory requirements. Failure of any party in the chain of distribution to comply with any applicable requirements under the FD&C Act or any new regulations implemented by the FDA, or similar regulations in other countries, may adversely affect the manufacture and/or distribution of our products in commerce.

We currently expect to rely on outside suppliers for our flavor ingredients to support our direct sales program, including Firmenich as sole supplier of our sweet flavor ingredients. If Firmenich or other suppliers are unable to supply us with our required amounts of our flavor ingredients on a timely basis, our results of operations may be adversely affected.

We have agreed to utilize Firmenich as our exclusive manufacturer of any sweet flavor ingredient for our direct sales program that Firmenich has selected to develop under the terms of our collaboration agreement. We have also entered into supply agreements with manufacturers for our savory flavor ingredients and bitter blockers and may enter into

additional manufacturing arrangements in the future. Because Firmenich and our other suppliers are third party manufacturers, we have only limited control over the timing and level of their production volumes. If Firmenich or our other suppliers fail to supply us with required amounts of our flavor ingredients under our agreements, we would not be able to meet our customers' demands unless we were able to utilize alternative sources of supply, which may be more costly and may not even be available on acceptable terms or within an acceptable timeframe. Accordingly, if Firmenich or our other suppliers are unable to supply us with our required amounts of flavor ingredients on a timely basis and with acceptable quality, it may have a material adverse effect on our results of operations.

We hold inventory to support our direct sales program. If our inventory cannot be sold, our results of operations and/or financial position may be adversely affected.*

We hold inventory of commercial quantities of certain of our flavor ingredients for use in our direct sales program. We expect to make future purchases of our flavor ingredients in advance of customer orders. We may have excess inventory on-hand and we may be required to purchase excessive amounts of flavor ingredients in order to establish manufacturing relationships with third parties or to give potential customers greater confidence in the reliability of our supply, which may have a material adverse effect on our results of operations and/or financial position.

Risks Related To Our Industry

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

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

In particular, we face substantial competition from companies pursuing the commercialization of products and services relevant to taste using more traditional methods for the discovery of flavor ingredients, or for the reduction of salt, sugar, monosodium glutamate, or MSG, or bitter taste. These competitors include leading flavor companies, such as Firmenich, Givaudan SA, International Flavors & Fragrances Inc., Symrise and Takasago. These companies provide flavors and other ingredients, such as essential oils, extracts and distillates, to consumer products companies for use in a wide variety of products including foods, beverages, confectionaries, dairy products and pharmaceuticals. Competitors currently developing or marketing high intensity sweeteners include Ajinomoto, BRAIN AG, or Biotechnology Research and Information Network AG, Cargill, GLG Life Tech, Natur Research Ingredients, Nutrasweet, Nutrinova GMBH, PureCircle Limited and Tate & Lyle. Competitors currently developing or marketing menthol or cooling agents include International Flavors and Fragrances, Givaudan, Jindal Drugs, Mentha & Allied, Sharp Menthol, Symrise, Takasago and Renessenz LLC. We currently compete and will continue to compete in the future with these companies in collaborating with and selling flavor ingredients for incorporation in food and beverage products. Many of these companies have substantially greater capital resources, research and development resources and experience, manufacturing capabilities, regulatory expertise, sales and marketing resources, established relationships with consumer products companies and production facilities.

Savory flavor ingredients, particularly inosine monophosphate, or IMP, are commercially available, and we will compete with the companies that produce these flavor ingredients. IMP is widely available and is a generally accepted food additive by the food, beverage and ingredient industries. As a result, our existing and future collaborators may choose to incorporate IMP or similar savory flavor ingredients into their food, beverage and ingredient products instead of our savory flavor ingredients. We may compete with bitter masking or bitter blocking compounds, such as adenosine 5’ monophosphate, or AMP. We may also compete with known methods for reducing sodium, such as the use of potassium chloride in combination with flavors and masking agents. In addition, we may compete with existing cooling agents, such as menthol and WS-3, which are currently in use.

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

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

Our competitors, either alone or with their collaborative partners, may succeed in developing technologies or discovering flavor ingredients that are more effective, more affordable or more easily commercialized than ours, and our competitors may obtain intellectual property protection or commercialize products sooner than we do.

Developments by others may render our product candidates or our technologies obsolete. In addition, our current product discovery and development collaborators are not prohibited from entering into research and development collaboration agreements with third parties in any product field. Our failure to compete effectively would have a significant adverse effect on our business, financial condition and results of operations.

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

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

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

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

Technologies licensed to us by others, or in-licensed technologies, are important to our business. In particular, we depend on technology related to certain taste receptor sequences that we license from the University of California and others and technology related to compound libraries that we license from third parties. In addition, we may in the future acquire rights to additional technologies by licensing such rights from existing licensors or from third parties.

Such in-licenses may be costly. Also, we generally do not control the patent prosecution, maintenance or enforcement of in-licensed technologies. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we do over our internally developed technologies. Moreover, some of our academic institution licensors, collaborators and scientific advisors have rights to publish data and information to which we have rights. If we cannot maintain the confidentiality of our technologies and other confidential information in connection with our collaborations, our ability to protect our proprietary information or obtain patent protection in the future may be impaired, which could have a significant adverse effect on our business, financial condition and results of operations.

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

Many of the patent applications filed by us and our licensors were filed recently with the United States Patent and Trademark Office and in foreign patent offices and some have not been substantively examined and may result in granted patents with claims of narrow scope that may not sufficiently deter competitors or may not result in patents being issued. Some of these patent applications claim sequences that were identified from different publicly available sequence information sources such as the High-Throughput Genomic Sequences division of GenBank. It is difficult to predict whether all of our or our licensors' applications will ultimately be found to be patentable or, if so, to predict the scope of any allowed claims. In addition, the disclosure in our or our licensors' patent applications, particularly in respect of the utility of our claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. As a result, it is difficult to predict whether all of our or our licensors' applications will be allowed, or, if so, to predict the scope of any allowed claims or the enforceability of the patents. Even if enforceable, others may be able to design around any patents or develop similar technologies that are not within the scope of such patents. Our and our licensors' patent applications may not issue as patents that will provide us with any protection or competitive advantage, which may have a material adverse effect on our business.

The Supreme Court recently determined in the Myriad decision that some isolated naturally occurring nucleic acids are ineligible for United States patent protection. This decision may raise concerns as to the validity of some or all of our granted claims, and those in our licensors' patents, and the patentability of our or our licensors' pending claims, which are directed to isolated, naturally occurring nucleic acids. Also, while the Supreme Court in the Myriad decision did not address the patentability of other isolated, naturally occurring materials (i.e., non-nucleic acids), it is possible that later courts may determine that other isolated naturally occurring materials are similarly ineligible for United States patent protection. This may raise concerns as to the validity of some or all of our granted claims, and those in our licensors' patents, which are directed to isolated naturally occurring materials such as isolated, naturally occurring taste receptor polypeptides or isolated, naturally occurring flavor ingredients. In recently issued interim guidance, the United States Patent and Trademark Office has interpreted the Myriad decision as applying to any isolated naturally occurring material including non-nucleic acids. Thus, pending patent applications filed by us or our licensors that are directed to isolated naturally occurring materials may not issue in the United States, which could have a significant adverse effect on our business, financial condition and results of operations.

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

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

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

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

Should any person have filed patent applications or obtained patents that claim inventions also claimed by us, we may have to participate in an interference proceeding or derivative proceeding declared by the relevant patent regulatory

agency to determine priority of invention or derivation and, thus, the right to a patent for these inventions in the United States. Such a proceeding could result in substantial cost to us even if the outcome is favorable. Even if successful on priority grounds, an interference action may result in loss of claims based on patentability grounds raised in the interference action. Litigation, interference proceedings, derivative proceedings, or other proceedings could divert management's time and efforts. Even unsuccessful claims could result in significant legal fees and other expenses, diversion of management's time and disruption in our business. Uncertainties resulting from initiation and continuation of any patent proceeding or related litigation could harm our ability to compete and could have a significant adverse effect on our business, financial condition and results of operations.

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

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

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

Risks Related to Quality and Safety

Concerns with safety and quality could cause customers to avoid products that contain our flavor ingredients.

Adverse publicity about the safety of certain foods due to the actual or potential existence of certain artificial flavors or other ingredients has heightened the sensitivities of many consumers. These safety and quality issues, whether real or perceived, may discourage customers from buying products containing or perceived to contain the ingredients which give rise to such concerns. We could be adversely affected if our customers or the ultimate consumers of our products lose confidence in the safety and quality of our flavor ingredients. Any negative perceptions about the safety and quality of our flavor ingredients could adversely affect our business and financial condition.

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

Because our business strategy involves the development and sale of commercial products incorporating our flavor ingredients, we may be sued for product liability and we may also be the subject of product recalls, product seizures and related adverse publicity. Product liability claims and recalls of products that contain any of our flavor ingredients

could result from such things as contamination, spoilage, product misbranding or product tampering, whether real or perceived.

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

Any alleged illness or injury associated with any of our flavor ingredients, product defect, product liability judgment or product recall may negatively impact our financial results depending on the reaction of our collaborators, scope, competitive reaction, and consumer attitudes. Even if such an allegation or product liability claim lacks merit, cannot be substantiated, is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our flavor ingredients or products that incorporate our flavor ingredients caused illness, injury or death could adversely affect our reputation with existing and potential collaborators and licensees and our corporate image and could cause a decline in our stock price.

Our product liability insurance may not be sufficient to cover our potential liabilities in the case of a product recall or other safety-related claims.

Our product liability insurance may not fully cover our potential liabilities associated with the sale of commercial products incorporating any of our flavor ingredients. Insurance coverage for such risks may be expensive and difficult to obtain, and we may be unable to obtain coverage in the future on acceptable terms, if at all. Our inability to obtain sufficient insurance coverage to protect against potential product liability claims could prevent or inhibit the commercialization of products developed by us or our product discovery and development collaborators. We may be obligated to indemnify our product discovery and development collaborators or customers of our direct sales program for product liability or other losses they incur as a result of our flavor ingredients. Any indemnification we receive from such collaborators or customers for product liability that does not arise from our flavor ingredients may not be sufficient to satisfy our liability to injured parties. If we are sued for any injury caused by our flavor ingredients or products incorporating our flavor ingredients, our liability could exceed our total assets.

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

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

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

Risks Related To Our Common Stock

The price of our common stock is volatile.

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

- delays in commercialization of our flavor ingredients;
- our ability to generate significant revenues from our direct sales program;
- developments concerning our collaboration agreements;
- failure of any of our flavor ingredients, if approved, to achieve commercial success;
- fluctuations in our operating results;
- public concern as to the safety of our flavor ingredients or other unfavorable publicity regarding our flavor ingredients or our research methods;
- developments related to the United States and international regulatory approval of our products;
- results of safety evaluation of our flavor ingredients;
- government regulation;
- the discovery of a product defect or the commencement of a product recall;
- an allegation of illness or injury relating to our flavor ingredients, whether meritorious or not, or any product liability judgment;
- developments in patent or other proprietary rights;
- announcements of technological innovations by us or others;

- changes in our management, key personnel or members of our Board of Directors;
- future sales of our common stock by existing stockholders;
- comments by securities analysts; and
- general market conditions.

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

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

- authorize the issuance of “blank check” preferred stock by our board of directors, without stockholder approval, which could increase the number of outstanding shares and prevent or delay a takeover attempt;
- limit who may call a special meeting of stockholders;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

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

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation as currently in effect (filed as Exhibit 3.1 to Registration Statement File No. 333-113998).
3.2	Amended and Restated Bylaws as currently in effect (filed as Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on December 20, 2007).
4.1	Form of Common Stock Certificate (filed as Exhibit 4.1 to Registration Statement File No. 333-113998).
31.1	Certification of John Poyhonen, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Antony Rogers, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of John Poyhonen, Chief Executive Officer, and Antony Rogers, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Senomyx, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) condensed balance sheets, (ii) condensed statements of operations, (iii) condensed statements of cash flows, and (iv) notes to condensed financial statements.

SIGNATURES

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

Senomyx, Inc.

Date: October 29, 2015 By: /S/ JOHN POYHONEN
John Poyhonen

President, Chief Executive Officer and Director

(on behalf of the registrant and as the registrant's
Principal Executive Officer)

By: /S/ ANTONY ROGERS
Antony Rogers

Senior Vice President and Chief Financial Officer

(on behalf of the registrant and as the registrant's
Principal Financial and Accounting Officer)