CATABASIS PHARMACEUTICALS INC
Form 10-Q
November 12, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x 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

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

For the transition period from to

Commission File Number: 001-37467

Catabasis Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-3687168**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
One Kendall Square **Bldg. 1400E, Suite B14202** **Cambridge, Massachusetts** (Address of Principal Executive Offices)	**02139** (Zip Code)

(617) 349-1971

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of November 1, 2015, there were 15,297,794 shares of the registrant s Common Stock, par value $0.001 per share, outstanding.

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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management and expected market growth are forward-looking statements. The words anticipate, believe, continue, could, estimate, expect, intend, may, plan, potential, should, target, would and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These forward-looking statements include, among other things, statements about:

- our plans to identify, develop and commercialize novel small molecule drugs based on our SMART linker technology platform;

- ongoing and planned clinical trials for our product candidates, whether conducted by us or by any future collaborators, including the timing of initiation of these trials and of the anticipated results;

- our plans to enter into collaborations for the development and commercialization of product candidates;

- the potential benefits of any future collaboration;

- our ability to receive research and development funding and achieve anticipated milestones under our collaborations;

- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;

- the rate and degree of market acceptance and clinical utility of any products for which we receive marketing approval;

- our commercialization, marketing and manufacturing capabilities and strategy;
- our intellectual property position and strategy;
- our ability to identify additional products or product candidates with significant commercial potential;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- developments relating to our competitors and our industry; and
- the impact of government laws and regulations.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this

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Quarterly Report on Form 10-Q, particularly in the Risk Factors section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures or investments that we may make or enter into.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Catabasis Pharmaceuticals, Inc.

Condensed Balance Sheets

(in thousands, except share and per share data)

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 72,709	$ 14,668
Prepaid expenses and other current assets	591	354
Total current assets	73,300	15,022
Property and equipment, net	216	288
Restricted cash	113	113
Other non-current assets	28	541
Total assets	$ 73,657	$ 15,964
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,783	$ 1,132
Accrued expenses	2,437	2,793
Current portion of notes payable, net of discount	3,191	309
Total current liabilities	7,411	4,234
Deferred rent, net of current portion	39	67
Notes payable, net of current portion and discount	6,549	4,439
Other liability	114	23
Warrant liability		108
Total liabilities	14,113	8,871
Commitments (Note 7)		
Convertible preferred stock:		
Series A convertible preferred stock, $0.001 par value per share; 0 and 68,837,703 shares authorized, issued and outstanding at September 30, 2015 and December 31, 2014, respectively		47,898
Series B convertible preferred stock, $0.001 par value per share; 0 and 37,830,473 shares authorized, and 0 and 34,129,571 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively		32,248
Stockholders equity (deficit):		
Preferred stock, $0.001 par value per share, 5,000,000 and 0 shares authorized at September 30, 2015 and December 31, 2014, respectively, 0 shares issued and outstanding		
	15	1

Common stock, $0.001 par value, 150,000,000 shares authorized at September 30, 2015 and 132,000,000 shares authorized at December 31, 2014; 15,297,794 and 493,200 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively				
Additional paid-in capital		157,933		2,326
Accumulated deficit		(98,404)		(75,380)
Total stockholders equity (deficit)		59,544		(73,053)
Total liabilities, convertible preferred stock and stockholders equity (deficit)	$	73,657	$	15,964

The accompanying notes are an integral part of these condensed financial statements.

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Catabasis Pharmaceuticals, 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
Operating expenses:				
Research and development	$ 5,813	$ 4,543	$ 16,360	$ 11,361
General and administrative	2,388	1,427	5,966	4,443
Total operating expenses	8,201	5,970	22,326	15,804
Loss from operations	(8,201)	(5,970)	(22,326)	(15,804)
Other (expense) income:				
Other (expense) income, net	(2)	2	11	3
Interest expense	(282)	(57)	(709)	(57)
Total other expense	(284)	(55)	(698)	(54)
Net loss and comprehensive loss	$ (8,485)	$ (6,025)	$ (23,024)	$ (15,858)
Net loss per share - basic and diluted	$ (0.55)	$ (13.55)	$ (4.11)	$ (38.34)
Weighted-average common shares outstanding used in net loss per share - basic and diluted	15,297,794	444,787	5,596,412	413,622

The accompanying notes are an integral part of these condensed financial statements.

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Catabasis Pharmaceuticals, Inc.

Condensed Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating activities		
Net loss	$ (23,024)	$ (15,858)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation and amortization	130	190
Stock-based compensation expense	1,143	605
Non-cash interest expense	209	21
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(237)	(126)
Other assets	2	
Accounts payable	619	544
Accrued expenses	112	151
Deferred rent	(4)	(19)
Net cash used in operating activities	(21,050)	(14,492)
Investing activities		
Purchases of available-for-sale securities		(4,976)
Purchases of property and equipment	(60)	(159)
Net cash used in investing activities	(60)	(5,135)
Financing activities		
Proceeds from initial public offering, net of issuance costs	61,776	
Proceeds from issuance of preferred stock, net of issuance costs	12,331	
Proceeds from exercise of common stock options	51	110
Proceeds from borrowings	5,000	5,000
Debt issuance costs	(7)	(282)
Net cash provided by financing activities	79,151	4,828
Net increase (decrease) in cash and cash equivalents	58,041	(14,799)
Cash and cash equivalents, beginning of period	14,668	30,474
Cash and cash equivalents, end of period	$ 72,709	$ 15,675
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 500	$ 1
Non-cash financing activities		
Warrants for the purchase of series B preferred stock issued in conjunction with credit facility	$ 107	$ 110
Initial public offering costs in accounts payable and accrued liabilities	$ 32	$
Reclassification of deferred IPO costs from non-current assets to additional paid-in capital	$ 1,787	$
Reclassification of warrant liability to additional paid-in capital	$ 206	$

The accompanying notes are an integral part of these condensed financial statements.

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Catabasis Pharmaceuticals, Inc.

Notes to Condensed Financial Statements

(Unaudited)

1. Organization and Operations

The Company

Catabasis Pharmaceuticals, Inc. (the Company) is a clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of novel therapeutics based on the Company s proprietary Safely Metabolized And Rationally Targeted, or SMART, linker technology platform. The Company s SMART linker technology platform is based on the concept of treating diseases by simultaneously modulating multiple biological targets in one or more related disease pathways. The Company engineers bi-functional product candidates that are conjugates of two molecules, or bioactives, each with known pharmacological activity, joined by one of the Company s proprietary SMART linkers. The SMART linker conjugates are designed for enhanced efficacy and improved safety and tolerability. The Company seeks to develop therapies that modulate multiple targets in the disease pathway. The Company targets therapeutic areas and specific diseases with significant unmet medical needs where it believes it will have a competitive advantage. The Company s focus is on treatments for rare diseases, such as Duchenne Muscular Dystrophy (DMD). The Company is also developing other product candidates for the treatment of serious lipid disorders. The Company was incorporated in the State of Delaware on June 26, 2008.

Initial Public Offering

In June 2015, the Company completed its Initial Public Offering (the IPO). All of the shares issued and sold in the IPO were registered pursuant to a registration statement on Form S-1, as amended. An aggregate of 5,750,000 shares of Common Stock registered pursuant to the registration statement were sold at a price to the public of $12.00 per share (including 750,000 shares of Common Stock sold pursuant to the exercise of an overallotment option granted to the Company s underwriters in connection with the IPO). Net proceeds of the IPO were $61.7 million, after deducting underwriting discounts, commissions and offering-related expenses payable by the Company of approximately $7.3 million. In connection with the IPO, all shares of the Company s convertible preferred stock (the Preferred Stock) were automatically converted into an aggregate of 9,029,549 shares of its Common Stock and its outstanding warrants to purchase 315,688 shares of Preferred Stock were automatically converted into warrants to purchase 24,566 shares of Common Stock.

As of September 30, 2015, the Company had an accumulated deficit of $98.4 million. The Company has been primarily involved with research and development activities and has incurred operating losses and negative cash flows from operations since inception. The Company is subject to a number of risks similar to other life science companies, including, but not limited to, successful discovery and development of its drug candidates, raising additional capital, development by its competitors of new technological innovations, protection of proprietary technology and market acceptance of the Company s products. The Company anticipates that it will continue to incur significant operating losses for the next several years as it continues to develop its product candidates.

2. Summary of Significant Accounting Policies

Reverse stock split

In connection with the IPO, the Company s board of directors and stockholders approved a 1-for-12.85 reverse stock split of the Company s Common Stock which was effected on June 11, 2015. Stockholders entitled to fractional shares as a result of the reverse stock split received a cash payment in lieu of receiving

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fractional shares. All share, share equivalent and per share amounts presented herein have been adjusted to reflect the reverse stock split. The ratios by which shares of Preferred Stock were convertible into shares of Common Stock have been adjusted to reflect the effects of the reverse stock split. Shares of Common Stock reserved for future issuance have been presented on an as converted basis and the financial statements disclose the adjusted conversion ratios.

Basis of Presentation

The accompanying financial statements and the related disclosures are unaudited and have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) and include all adjustments necessary for the fair presentation of the Company s financial position for the periods presented.

The unaudited interim condensed financial statements of the Company included herein have been prepared, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. Accordingly, these condensed financial statements should be read in conjunction with the financial statements as of and for the year ended December 31, 2014 and notes thereto, included in the Company s prospectus dated June 24, 2015, filed with the SEC pursuant to Rule 424(b)(4) on June 25, 2015 (the Prospectus).

The unaudited interim condensed financial statements have been prepared on the same basis as the audited financial statements. In the opinion of the Company s management, the accompanying unaudited interim condensed financial statements contain all adjustments which are necessary to fairly present the Company s financial position as of September 30, 2015, the results of its operations for the three and nine months ended September 30, 2015 and 2014 and its cash flows for the nine months ended September 30, 2015 and 2014. Such adjustments are of a normal and recurring nature. The results for the nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015, or for any future period.

Use of Estimates

The preparation of the Company s financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from such estimates.

The Company utilized significant estimates and assumptions in determining the fair value of its Common Stock prior to completion of the IPO. The board of directors determined the estimated fair value of the Common Stock based on a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector and the prices at which the Company sold shares of convertible preferred stock, the achievement of research and development milestones, the superior rights and preferences of securities senior to the Common Stock at the time and the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company.

The Company utilized various valuation methodologies in accordance with the framework of the American Institute of Certified Public Accountants (AICPA), Audit and Accounting Practice Aid Series: Valuation of Privately Held Company Equity Securities Issued as Compensation (AICPA Practice Aid), to estimate the fair value of its Common Stock. The methodologies included the Option Pricing Method utilizing the Backsolve Method (a form of the market approach defined in the AICPA Practice Aid) and the Probability-Weighted Expected Return Method based upon the probability of occurrence of certain future liquidity events such as an initial public offering or sale of the Company. Each valuation methodology includes estimates and assumptions

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that required the Company s judgment. Significant changes to the key assumptions used in the valuations could result in different fair values of Common Stock at each valuation date.

The Company utilizes certain estimates to record expenses relating to research and development contracts. These contract estimates, which are primarily related to the length of service of each contract, are determined by the Company based on input from internal project management, as well as from third-party service providers.

Fair Value of Financial Instruments

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts reflected in the balance sheets for cash equivalents, restricted cash, prepaid expenses and other current assets, other assets, accounts payable and accrued expenses approximate their fair values at September 30, 2015 and December 31, 2014, due to their short-term nature. There have been no changes to the valuation methods during the year ended December 31, 2014 or the nine months ended September 30, 2015. The Company evaluates transfers between levels at the end of each reporting period. There were no transfers of assets or liabilities between levels during the year ended 2014 or the nine months ended September 30, 2015. At September 30, 2015, the carrying value of the Company s debt approximated fair value, which was determined using Level 3 inputs, including a quoted interest rate.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability rather than as a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its financial statements.

In 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements Going Concern (ASU 2014-15), which is effective for annual periods ending after December 15, 2016. Early adoption is permitted. ASU 2014-15 provides new guidance on (1) management s responsibility in evaluating whether or not there is substantial doubt about a company s ability to continue as a going concern within one year from the date the financial statements are issued each reporting period and (2) related financial statement disclosures. The Company has not adopted the guidance

prescribed by ASU 2014-15 and does not expect the new guidance to have a significant effect on its financial statements.

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3. Financial Instruments

The following tables present information about the Company s financial assets and liabilities that have been measured at fair value, and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value. The Company determines the fair value of the preferred stock warrants (Note 6) using Level 3 inputs. Below is a summary of assets and liabilities measured at fair value on a recurring basis (in thousands):

	As of September 30, 2015			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	72,005			72,005
Total	$ 72,005	$	$	$ 72,005

	As of December 31, 2014			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	13,506			13,506
Total	$ 13,506	$	$	$ 13,506
Liabilities:				
Warrant Liability			108	108
Total	$	$	$	$ 108

As of September 30, 2015 and December 31, 2014, the Company s cash equivalents consisted principally of money market funds, which approximate their fair value due to their short-term nature. In connection with the completion of the IPO, warrants exercisable for Preferred Stock were automatically converted into warrants exercisable for Common Stock, resulting in the reclassification of the related warrant liability to additional paid-in capital as the warrants to purchase shares of Common Stock are accounted for as equity instruments (Note 6).

4. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

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	September 30, 2015	December 31, 2014
Accrued compensation	$ 1,237	$ 796
Accrued contracted research costs	800	1,109
Accrued professional fees	159	791
Accrued other	241	97
Total	$ 2,437	$ 2,793

5. Notes Payable

On August 27, 2014, the Company entered into a credit facility with MidCap Financial Trust, Flexpoint MCLS Holdings, LLC and Square 1 Bank, which was subsequently amended on March 31, 2015 (as amended, the Credit Facility). The Credit Facility provides for initial borrowings of $5.0 million under a term loan (Term Loan A) and additional borrowings of up to $20.0 million under other term loans, for a maximum of $25.0 million. On August 27, 2014, the Company received proceeds of $5.0 million from the issuance of promissory notes under Term Loan A. On March 31, 2015, the Company received proceeds of $5.0 million from the issuance of promissory notes under another term loan (Term Loan B). The remaining amounts available for borrowing under this arrangement expired unused as of July 31, 2015, leaving total borrowings under the Credit Facility at $10.0 million. All amounts outstanding under the Credit Facility are due on October 1, 2018 and are collateralized by substantially all of the Company s personal property, other than its intellectual property.

Interest-only payments were due monthly on amounts outstanding under the Credit Facility until September 1, 2015 and, thereafter, interest and principal payments are due in 36 equal monthly installments from October 1, 2015 through September 1, 2018. Amounts due under the Credit Facility bear interest at an annual rate of 7.49%. In addition, a final payment equal to 3.48% of any amounts drawn under the Credit Facility is due upon the earlier of the maturity date, acceleration of the term loans or prepayment of all or part of the term loans. The final payment is being accrued as additional interest expense using the effective-interest method from the date of issuance through the maturity date, and is recorded within other long-term liabilities. In the event of prepayment, the Company is obligated to pay 1% to 3% of the amount of the outstanding principal depending upon the timing of the prepayment. The effective interest rate as of September 30, 2015 was 11.2%.

In conjunction with Term Loan A, the Company issued warrants to purchase 157,844 shares of series B convertible preferred stock at an exercise price of $0.9503 per share (the 2014 Warrants) to the lenders. In conjunction with Term Loan B, the Company issued warrants to purchase an additional 157,844 shares of series B convertible preferred stock at an exercise price of $0.9503 per share (the 2015 Warrants) to the lenders (see Note 6). The 2014 Warrants and 2015 Warrants were exercisable immediately and have seven-year lives. The 2014 Warrants and 2015 Warrants were initially valued at $0.1 million and $0.1 million, respectively, using the Black-Scholes option-pricing model. The Company recorded debt discounts of $0.1 million and $0.1 million upon issuance of the 2014 Warrants and 2015 Warrants, respectively, which are being accreted as interest expense using the effective-interest method over the remaining term of the loan.

There are no financial covenants associated with the Credit Facility; however, there are negative covenants restricting the Company s activities, including limitations on asset dispositions, mergers or

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acquisitions; encumbering or granting a security interest in its intellectual property; incurring indebtedness or liens; paying dividends; making certain investments; and entering into certain other business transactions.

Upon the occurrence and continuation of an event of default, the lenders have the right to exercise certain remedies against the Company and the collateral securing the loans under the Credit Facility, including cash. Events of default include, among other things, failure to pay amounts due under the Credit Facility, insolvency, the occurrence of a material adverse event, which includes a material adverse change in the business, operations or conditions (financial or otherwise) of the Company or a material impairment of the prospect of repayment of any portion of the obligations, the occurrence of any default under certain other indebtedness and a final judgment against the Company in an amount greater than $250,000. The occurrence of a material adverse change could result in acceleration of the payment of the debt. At September 30, 2015 and December 31, 2014, the Company concluded that the likelihood of the acceleration of the debt was remote, as a material adverse change had not occurred and was unlikely to occur and therefore the debt was classified in current and long-term liabilities based on scheduled principal payments. Following the occurrence and during the continuance of an event of default, borrowings under the Credit Facility shall bear interest at a rate per annum, which is five hundred basis points, or 5.0%, above the rate that is otherwise applicable.

The Company assessed all terms and features of the Credit Facility in order to identify any potential embedded features that would require bifurcation or any beneficial conversion features. As part of this analysis, the Company assessed the economic characteristics and risks of the Credit Facility, including put and call features. The Company determined that all features of the Credit Facility were clearly and closely associated with a debt host and did not require bifurcation as a derivative liability, or the fair value of the feature was immaterial to the Company s financial statements. The Company will continue to reassess the features on a quarterly basis to determine if they require separate accounting.

The Company accounted for the amendment to the Credit Facility, effective March 31, 2015, as a debt modification pursuant to ASC Topic 470-50 *Modifications and Extinguishments.*

Estimated future principal payments at September 30, 2015 are as follows (in thousands):

Period Ending December 31,		**Amount**
Remainder 2015	$	834
2016		3,333
2017		3,333
2018		2,500
Total	$	10,000
Less: discount for warrants and costs paid to lender		(260)
Less: current portion		(3,191)
Note payable, net of current portion and discount	$	6,549

Estimated future principal payments at December 31, 2014 are as follows (in thousands):

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Year Ending December 31,		Amount
2015	$	416
2016		1,667
2017		1,667
2018		1,250
Total	$	5,000
Less: discount for warrants and costs paid to lender		(252)
Less: current portion		(309)
Note payable, net of current portion and discount	$	4,439

During the three and nine months ended September 30, 2015, the Company recognized $0.3 million and $0.7 million, respectively, of interest expense related to the Credit Facility.

6. Warrants

On August 27, 2014 and March 31, 2015, the Company issued the 2014 Warrants and 2015 Warrants to purchase an aggregate 315,688 shares of series B convertible preferred stock at an exercise price of $0.9503 per share to the lenders in connection with the Credit Facility (Note 5). The 2014 Warrants and 2015 Warrants were exercisable immediately on issuance and have a seven-year life. The 2014 Warrants and 2015 Warrants were recorded as a liability and re-measured at each reporting date using the then-current assumptions. In connection with the completion of the IPO, the 2014 Warrants and the 2015 Warrants were automatically converted into warrants exercisable for Common Stock, resulting in the reclassification of the related warrant liability to additional paid-in capital as the warrants to purchase shares of Common Stock met the criteria to be accounted for as equity instruments. The warrant liability was re-measured to fair value prior to reclassification to additional paid-in capital. As of September 30, 2015, the Company had no outstanding warrant liability.

The following table provides a roll-forward of the fair value of the 2014 Warrants and 2015 Warrants determined by Level 3 inputs (in thousands):

		Fair Value
Balance at December 31, 2014	$	108
Issuance of warrants at fair value		107
Change in fair value, recorded as a component of the other (expense) income, net		(9)
Reclassification to additional paid-in capital		(206)
Balance at September 30, 2015	$	

The fair value of warrants exercisable for 315,688 shares of series B convertible preferred stock, which upon the IPO were automatically converted into warrants exercisable for 24,566 shares of Common Stock with an exercise price of $12.14, was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

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	June 30, 2015 (1)	December 31, 2014
Risk-free interest rate	1.97%	1.95%
Expected dividend yield	0.00%	0.00%
Expected term (in years)	6.5	6.7
Expected volatility	75.79%	78.16%

(1) Represents the date the warrants for series B convertible preferred stock converted to warrants for common stock

7. Commitments

In November 2010, the Company entered into a five-year, non-cancelable operating lease for office and laboratory space. In December 2011, the Company signed a lease amendment (the 2011 Lease Amendment) that expanded the leased premises beginning in the second quarter of 2012. The 2011 Lease Amendment also extended the term of the existing lease through June 30, 2017. The 2011 Lease Amendment includes a free rent period for the expansion premises and escalating rent payments. In July, 2015, the Company signed another lease amendment (the 2015 Lease Amendment) that expanded the leased premises beginning in the third quarter of 2015. The 2015 Lease Amendment includes escalating rent payments and is effective through June 30, 2017. The Company is recognizing rent expense on a straight-line basis over the lease term. The lease agreement provides for a five-year extension upon the completion of the lease term.

Future minimum payments required under the non-cancelable operating lease as of September 30, 2015 are summarized as follows (in thousands):

Period Ending December 31,		Amount
Remainder 2015	$	235
2016		937
2017		467
Total minimum lease payments	$	1,639

Rent expense for the three months ended September 30, 2015 and 2014 was $0.2 million and $0.2 million, respectively. Rent expense for the nine months ended September 30, 2015 and 2014 was $0.6 million and $0.5 million, respectively.

8. Convertible Preferred Stock

On March 13, 2015, the Company s board of directors authorized the Company to increase the authorized number of shares of Series B Preferred Stock to 56,026,590 in connection with an anticipated Series B Preferred Stock financing. The Company subsequently issued 13,062,965 shares of Series B Preferred Stock at $0.9503 per share, and received net proceeds of $12.3 million.

Upon closing the Company s IPO on June 30, 2015, all outstanding shares of the Company s preferred stock were automatically converted into 9,029,549 shares of Common Stock. As of September 30, 2015, the Company has 5,000,000 shares of preferred stock authorized for issuance, $0.001 par value per share, with none issued or outstanding.

Preferred stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed in the resolutions providing for the issue of such series adopted by the board of

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directors of the Company. Preferred Stock which may be redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law.

9. Common Stock Reserved for Future Issuance

The Company has reserved for future issuance the following number of shares of Common Stock:

	September 30, 2015	December 31, 2014
Conversion of Series A Preferred Stock		5,356,996
Conversion of Series B Preferred Stock		2,655,992
Warrants for the purchase of Preferred Stock		12,283
Warrants for the purchase of Common Stock	59,405	34,839
Options to purchase Common Stock	2,572,959	1,385,341
Employee Stock Purchase Plan	182,352	
Total	2,814,716	9,445,451

10. Stock-based compensation

Prior to the Company s IPO, the Company granted awards to eligible participants under the 2008 equity incentive plan (2008 Plan). In June 2015, the Company s board of directors adopted and the Company s stockholders approved the 2015 Stock Incentive Plan (2015 Plan), which became effective immediately prior to the effectiveness of the Company s IPO. Subsequent to the Company s IPO, option grants are awarded to eligible participants only under the 2015 Plan.

The 2015 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units, stock appreciation rights and other stock-based awards. The Company s employees, officers, directors and consultants and advisors are eligible to receive awards under the 2015 Plan. The maximum number of shares of Common Stock that may be delivered in satisfaction of awards under the 2015 Plan is 1,068,287 shares, plus (1) 25,942 shares that were available for grant under the 2008 Plan immediately prior to the closing of the IPO, (2) the number of shares of Common Stock subject to outstanding awards under the 2008 Plan upon closing of the IPO that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right and (3) an annual increase, to be added the first day of each fiscal year, beginning with the fiscal year ending December 31, 2016 and continuing until, and including, the fiscal year ending December 31, 2025, equal to the lowest of 1,297,334 shares of Common Stock, 4% of the number of shares of Common Stock outstanding on the first day of the fiscal year and an amount determined by the Company s board of directors.

As of September 30, 2015, the Company had reserved 1,466,274 shares of Common Stock under the 2008 Plan, of which none remained available for future issuance. As of September 30, 2015, the Company had reserved 1,106,685 shares of Common Stock under the 2015 Plan, of which 860,948 shares remained available for future issuance.

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Stock Options

A summary of the Company s stock option activity and related information follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Agregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	1,226,140	$ 4.14	8.15	$ 6,579
Granted	550,797	11.69		
Exercised	(25,045)	2.05		
Cancelled or forfeited	(39,881)	5.46		
Outstanding at September 30, 2015	1,712,011	$ 6.57	8.11	$ 4,560
Exercisable at September 30, 2015	755,860	$ 3.27	6.89	$ 3,659
Vested or expected to vest at September 30, 2015	1,586,233	$ 6.30	8.02	$ 4,489

The total intrinsic value of options exercised for the three months ended September 30, 2015 and 2014 was $0, and $0.2 million, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2015 and 2014 was $0.2 million and $0.3 million, respectively.

At September 30, 2015, the total unrecognized compensation expense related to unvested stock option awards, including estimated forfeitures, was $5.2 million. The Company expects to recognize that cost over a weighted-average period of approximately 3.1 years.

Stock-based compensation expense

Total stock-based compensation expense is recognized for stock options granted to employees and non-employees and has been reported in the Company s statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Research and development	$ 173	$ 100	$ 505	$ 289
General and administrative	315	132	638	316
Total	$ 488	$ 232	$ 1,143	$ 605

Employee Stock Purchase Plan

In June 2015, the Company s board of directors adopted and the Company s stockholders approved the 2015 Employee Stock Purchase Plan (the 2015 ESPP) which became effective upon closing of the Company s IPO. The 2015 ESPP authorizes the initial issuance of up to a total of 182,352 shares of Common Stock to participating eligible employees. The number of shares increases each January 1, commencing on January 1, 2016 and ending on December 31, 2026, by an amount equal to the lesser of one percent of the Company s outstanding shares as of the end of the immediately preceding fiscal year, 364,705 shares and any lower amount determined by the Company s board of directors. As of September 30, 2015 there has been no activity under the 2015 ESPP.

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11. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted average shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method. For purposes of the diluted net loss per share calculation, preferred stock, stock options, warrants to purchase Common Stock and warrants to purchase preferred stock are considered to be common stock equivalents but are excluded from the calculation of diluted net loss per share, as their effect would be anti-dilutive; therefore, basic and diluted net loss per share were the same for all periods presented.

The following common stock equivalents were excluded from the calculation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Convertible preferred stock		8,012,987		8,012,987
Stock options	1,712,011	1,214,700	1,712,011	1,214,700
Common stock warrants	59,405	34,839	59,405	34,839
Preferred stock warrants		12,283		12,283
	1,771,416	9,274,809	1,771,416	9,274,809

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

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited condensed financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q.

Our actual results and timing of certain events may differ materially from the results discussed, projected, anticipated, or indicated in any forward-looking statements. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this Quarterly Report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report, they may not be predictive of results or developments in future periods.

Overview

We are a clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of novel therapeutics based on our proprietary Safely Metabolized And Rationally Targeted, or SMART, linker technology platform. Our SMART linker technology platform is based on the concept of treating diseases by simultaneously modulating multiple biological targets in one or more related disease pathways. We engineer bi-functional product candidates that are conjugates of two molecules, or bioactives, each with known pharmacological activity, joined by one of our proprietary SMART linkers. Our SMART linker conjugates are designed for enhanced efficacy and improved safety and tolerability, and we seek to develop therapies that modulate multiple targets in the disease pathway. We target therapeutic areas and specific diseases with significant unmet medical need where we believe we will have a competitive advantage. Our focus is on treatments for rare diseases, such as Duchenne muscular dystrophy, or DMD. We are also developing other product candidates for the treatment of serious lipid disorders.

We have applied our SMART linker technology platform to build a development pipeline that includes three clinical-stage product candidates and multiple programs in preclinical development. Our current drug candidates are small molecules. CAT-1004 is an oral small molecule that we believe has the potential to be a disease-modifying therapy for the treatment of DMD, which may be able to regenerate muscle in boys regardless of the underlying dystrophin mutation. DMD is an ultimately fatal genetic disorder involving progressive muscle degeneration. In June 2015, we initiated enrollment in a Phase 1 / 2 clinical trial of CAT-1004 in boys affected by DMD, which we refer to as the MoveDMDSM trial. Our two other clinical-stage product candidates, CAT-2054 and CAT-2003, are members of our CAT-2000 series of molecules. We are initially developing CAT-2054 for the treatment of patients with hypercholesterolemia, or elevated low density lipoprotein cholesterol, or LDL-C, levels, for whom existing treatments are insufficient. Hypercholesterolemia is a disease that increases the risk of cardiovascular events. In January 2015, we initiated a Phase 1 clinical trial to assess the safety, tolerability and pharmacokinetics of CAT-2054 in healthy volunteers. In August 2015, we reported top-line data for the full range of doses tested in the single and multiple ascending dose portions of the trial. We have completed three Phase 2a trials of CAT-2003 in patient populations with elevated triglycerides or hypertriglyceridemia. CAT-4001 is in preclinical studies and is being developed for the treatment of severe, rare neurodegenerative diseases, such as Friedreich s ataxia and amyotrophic lateral sclerosis, two diseases of the central nervous system in which the Nrf2 and NF-κB pathways have been implicated.

Since our inception in June 2008, we have devoted substantially all of our resources to developing our proprietary platform technology, identifying potential product candidates, undertaking preclinical studies and

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conducting clinical trials for our three clinical-stage compounds, building our intellectual property portfolio, organizing and staffing our company, business planning, raising capital, and providing general and administrative support for these operations. To date, we have primarily financed our operations through private placements of our preferred stock, a secured debt financing, and our initial public offering, or IPO.

In June 2015, we completed our IPO, in which we sold an aggregate of 5,750,000 shares of our common stock, including 750,000 shares of common stock sold pursuant to the underwriters exercise of their option to purchase additional shares of common stock, at a price to the public of $12.00 per share. Net proceeds from the IPO were $61.7 million, after deducting underwriting discounts, commissions and offering-related expenses of approximately $7.3 million.

In connection with our IPO, all shares of our preferred stock were automatically converted into an aggregate of 9,029,549 shares of our common stock and our outstanding warrants to purchase 315,688 shares of preferred stock were automatically converted into warrants to purchase 24,566 shares of common stock.

In connection with the IPO, we also effected a one-for-12.85 reverse split of our common stock. All share, share equivalent and per share amounts presented herein have been adjusted to reflect the reverse stock split. The ratios by which shares of preferred stock are convertible into shares of common stock have been adjusted to reflect the effects of the reverse stock split.

We have not generated any revenue to date. We have incurred significant annual net operating losses in every year since our inception and expect to incur a net operating loss in 2015 and continue to incur net operating losses for the foreseeable future. As of September 30, 2015, we had an accumulated deficit of $98.4 million. We expect to continue to incur significant expenses and increasing operating losses for the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase significantly if and as we continue to develop and conduct clinical trials with respect to our CAT-1004 and CAT-2054 product candidates; initiate and continue research, preclinical and clinical development efforts for our other product candidates and potential product candidates; maintain, expand and protect our intellectual property portfolio; establish a commercial infrastructure to support the marketing and sale of certain of our product candidates; hire additional personnel, such as clinical, regulatory, quality control and scientific personnel; and operate as a public company.

From our inception through September 30, 2015, we had raised an aggregate of $172.1 million, composed of $92.9 million from private placements of preferred stock, $69.0 million in gross proceeds from our IPO, $10 million from a secured debt financing and $0.2 million from common stock option exercises.

Financial Overview

Revenue

To date, we have not generated any revenue from product sales or any other source and do not expect to generate any revenue from the sale of products in the near future. In the future, we will seek to generate revenue primarily from a combination of product sales and collaborations with

strategic partners.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our drug discovery efforts, and the development of our product candidates, which include:

- employee-related expenses including salaries, benefits and stock-based compensation expense;

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- expenses incurred under agreements with third parties, including contract research organizations, or CROs, that conduct clinical trials and research and development and preclinical activities on our behalf;

- the cost of consultants;

- the cost of lab supplies and acquiring, developing and manufacturing preclinical study materials; and

- facilities and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies.

Research and development costs are expensed as incurred. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

The following summarizes our most advanced current research and development programs:

- CAT-1004 is an orally administered SMART linker conjugate of salicylate and the omega-3 fatty acid docosahexaenoic acid, or DHA, that we designed to enhance the activity of salicylate and DHA in modulating the NF-κB pathway at multiple points. NF-κB, or nuclear factor kappa- light-chain-enhancer of activated B cells, is a protein that coordinates cellular response to damage, stress and inflammation and plays an important role in muscle health. We initiated patient enrollment in a Phase 1/2 clinical trial of CAT-1004 for the treatment of DMD in June 2015. There are three cohorts in the dose-ranging Part A of the trial and we have completed dosing for cohorts 1 and 2 and are currently scheduling cohort 3. We expect to release results for safety, tolerability, and pharmacokinetics from Part A of this trial early in the first quarter of 2016. Assuming adequate safety, tolerability, and pharmacokinetics in Part A of the trial, we intend to initiate the 12-week, double-blind, placebo-controlled efficacy Part B portion of this trial in the first half of 2016 and expect to report efficacy data from Part B in late 2016. If the results from our Phase 1/2 clinical trial and discussions with regulatory authorities regarding a pivotal trial are positive, we intend to initiate a six-month Phase 3 pivotal clinical trial of CAT-1004 in 2017 and to seek marketing approval based on this Phase 3 trial. The U.S. Food and Drug Administration has granted CAT-1004 orphan drug, fast track and rare pediatric disease designations for the treatment of DMD. The European Commission has granted CAT-1004 orphan medicinal product designation for DMD.

- CAT-2054 is an orally administered SMART linker conjugate of the omega-3 fatty acid eicosapentaenoic acid, or EPA, and nicotinic acid, designed to modulate the SREBP pathway primarily in the liver. SREBP is a master

regulator of lipid metabolism. We are initially developing CAT-2054 to treat patients with hypercholesterolemia for whom existing treatments are insufficient. In January 2015, we initiated a Phase 1 clinical trial to assess the safety, tolerability and pharmacokinetics of CAT-2054 in healthy volunteers. In August 2015, we reported top-line data for the full range of doses tested in the single and multiple ascending dose portions of the trial. We are actively recruiting and expect to begin dosing for a four-week Phase 2a randomized, double-blind, placebo-controlled trial of CAT-2054 in hypercholesterolemia in the fourth quarter of 2015. We plan to enroll approximately 150 patients. The primary efficacy endpoint for this trial will be percent reduction in LDL cholesterol on top of atorvastatin 40 mg. We also will explore the activity of CAT-2054 on other metabolic parameters such as triglycerides and glucose. We expect to report data from the CAT-2054 Phase 2a trial in the third quarter of 2016. Depending on the results of the planned Phase 2a clinical trial, we may initiate a

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Phase 2b clinical trial of CAT-2054 in hypercholesterolemia or another SREBP-mediated disease such as non-alcoholic steatohepatitis.

- CAT-2003 is an orally administered SMART linker conjugate of EPA and nicotinic acid that we designed to modulate the SREBP pathway. We have completed three Phase 2a trials of CAT-2003 in patient populations with elevated triglycerides or hypertriglyceridemia.

Other research and development programs include our CAT-4001 development program and activities related to exploratory efforts, target validation and lead optimization for our early stage programs and our proprietary platform technology.

We typically use our employee, consultant and infrastructure resources across our development programs. We track outsourced development costs by product candidate or development program, but we do not allocate personnel costs, other internal costs or external consultant costs to specific product candidates or development programs. We record our research and development expenses net of any research and development tax incentives we are entitled to receive from government authorities.

The following table summarizes our research and development expenses by program (in thousands):

	Nine Months Ended September 30,	
	2015	2014
CAT-1004	$ 4,200	$ 340
CAT-2054	3,354	2,566
CAT-2003	927	2,656
Other research and platform programs	1,654	976
Costs not directly allocated to programs:		
Employee expenses including cash compensation, benefits and stock-based compensation	4,651	3,385
Facilities	611	552
Consultants and professional expenses, including stock-based compensation	609	527
Other	354	359
Total costs not directly allocated to programs	$ 6,225	$ 4,823
Total research and development expenses	$ 16,360	$ 11,361

The successful development of our product candidates is highly uncertain. Accordingly, at this time, we cannot reasonably estimate the nature, timing and costs of the efforts that will be necessary to complete the remainder of the development of these product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from CAT-1004, CAT-2054 or any of our other current or potential product candidates. This is due to the numerous risks and uncertainties associated with developing medicines, including the uncertainties of:

- establishing an appropriate safety profile with investigational new drug application, or IND, enabling toxicology studies;

- successful enrollment in, and completion of clinical trials;

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- receipt of marketing approvals from applicable regulatory authorities;

- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;

- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;

- launching commercial sales of the products, if and when approved, whether alone or in collaboration with others; and

- a continued acceptable safety profile of the products following approval.

A change in the outcome of any of these variables with respect to the development of any of our product candidates would significantly change the costs and timing associated with the development of that product candidate.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect research and development costs to increase significantly for the foreseeable future as our product candidate development programs progress. However, we do not believe that it is possible at this time to accurately project total program-specific expenses through commercialization. There are numerous factors associated with the successful commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs, including stock-based compensation, for personnel in executive, finance, accounting, business development and human resources functions. Other significant costs include facility costs not otherwise included in research and development expenses, legal fees relating to patent and corporate matters, and fees for accounting and consulting services.

We anticipate that our general and administrative expenses will increase in the future to support continued research and development activities, potential commercialization of our product candidates and increased costs of operating as a public company. These increases will likely include

increased costs related to the hiring of additional personnel and fees to outside consultants, lawyers and accountants, among other expenses. Additionally, we anticipate increased costs associated with being a public company including expenses related to services associated with maintaining compliance with exchange listing and Securities and Exchange Commission requirements, insurance costs and investor relations costs.

Other (Expense) Income, Net

Other (expense) income, net consists of interest expense incurred on debt instruments, amortized deferred financing costs and amortized debt discount, and changes in the fair value of the warrant liability, as offset by any interest income earned on our cash and cash equivalents. Upon completion of our IPO in June 2015,

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warrants to purchase preferred stock were converted to warrants to purchase common stock and as a result, the Company no longer records fair value adjustment for its warrants.

Critical Accounting Policies and Significant Judgments and Estimates

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used. The preparation of financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate estimates, which include, but are not limited to, estimates related to clinical trial accruals, stock-based compensation expense, warrants to purchase redeemable securities, and reported amounts of expenses during the reported period. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from those estimates or assumptions.

There have been no material changes to our accounting policies from those described in our prospectus filed with the SEC pursuant to Rule 424(b)(4) on June 25, 2015, or the Prospectus. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Prospectus.

Results of Operations

Comparison of the Three Months Ended September 30, 2015 and 2014

The following table summarizes our results of operations for the three months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30, 2015	2014	Period to Period Change
Operating expenses:			
Research and development	$ 5,813	$ 4,543	$ 1,270
General and administrative	2,388	1,427	961
Total operating expenses	8,201	5,970	2,231
Loss from operations	(8,201)	(5,970)	(2,231)
Other expense, net	(284)	(55)	(229)
Net loss	$ (8,485)	$ (6,025)	$ (2,460)

Research and Development Expenses

Research and development expenses increased by $1.3 million to $5.8 million for the three months ended September 30, 2015 from $4.5 million for the three months ended September 30, 2014, an increase of 29%. The increase in research and development expenses was primarily attributable to a net increase of $0.7 million in employee compensation, of which, $0.4 million was attributable to obligations under a letter agreement with a former employee, pursuant to which we agreed to make severance payments. The remaining $0.3 million of the

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employee compensation increase was driven by a 21% increase in headcount, primarily in the area of development and manufacturing. Direct program costs also increased by $0.5 million, reflecting an increase of $1.3 million for CAT-1004 driven by the start of a Phase 1/2 clinical trial, and an increase of $0.2 million in our general research and platform programs. These increases were partially offset by a decrease of $0.9 million in CAT-2003 costs due to the completion of two Phase 2 clinical trials that were active in the three months ended September 30, 2014 and a decrease of $0.1 million for CAT-2054 attributable to the completion of pre-clinical manufacturing efforts that were active in the three months ended September 30, 2014.

General and Administrative Expenses

General and administrative expenses increased by $1.0 million to $2.4 million for the three months ended September 30, 2015 from $1.4 million for the three months ended September 30, 2014, an increase of 71%. The increase in general and administrative expenses was primarily attributable to increased employee costs of $0.4 million associated with salaries, benefits, and stock-based compensation expenses from hiring additional senior personnel; increased consulting and professional fees of $0.4 million, including fees for market assessments for our lead drug programs, public company directors fees and compensation consultant fees; and increased fees and insurance expense of $0.2 million due to our public company directors and officers insurance policy and various expenses associated with public company filings.

Other (Expense) Income, Net

Other (expense) income, net consists of interest expense, which increased by $0.2 million for the three months ended September 30, 2015 due to the interest expense on our credit facility, which we entered into in August 2014.

Comparison of the Nine Months Ended September 30, 2015 and 2014

The following table summarizes our results of operations for the nine months ended September 30, 2015 and 2014, together with the dollar change in those items (in thousands):

	Nine Months Ended September 30, 2015	2014	Period to Period Change
Operating expenses:			
Research and development	$ 16,360	$ 11,361	$ 4,999
General and administrative	5,966	4,443	1,523
Total operating expenses	22,326	15,804	6,522
Loss from operations			