CHIMERIX INC
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 June 30, 2014

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: 001-35867

CHIMERIX, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0903395**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2505 Meridian Parkway, Suite 340 **Durham, North Carolina**	**27713**
(Address of Principal Executive Offices)	(Zip Code)

(919) 806-1074

(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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) . Yes 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 August 1, 2014, the number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 35,669,451.

CHIMERIX, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHIMERIX, INC.

BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 119,601	$ 109,976
Short-term investments, available-for-sale	80,996	—
Accounts receivable	288	248
Prepaid and other current assets	3,246	2,765
Deferred financing costs, current portion	20	20
Total current assets	204,151	113,009
Property and equipment, net of accumulated depreciation	469	338
Deposits	32	30
Deferred financing costs, less current portion	6	10
Total assets	$ 204,658	$ 113,387
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,055	$ 2,214
Accrued liabilities	3,553	2,420
Loan payable, current portion	5,610	5,573
Total current liabilities	12,218	10,207
Other long-term liabilities	285	347
Loan payable, less current portion	1,480	4,294
Total liabilities	13,983	14,848
Commitments and contingencies	—	—
Stockholders' equity:		
	—	—

Preferred stock, $0.001 par value, 10,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding as of June 30, 2014 and December 31, 2013		
Common stock, $0.001 par value, 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 35,404,326 and 26,664,972 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	35	26
Additional paid-in capital	375,504	261,243
Accumulated other comprehensive loss	(20)	—
Accumulated deficit	(184,844)	(162,730)
Total stockholders' equity	190,675	98,539
Total liabilities and stockholders' equity	$ 204,658	$ 113,387

See accompanying notes to financial statements.

CHIMERIX, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Contract revenue	$ 919	$ 808	$ 1,699	$ 2,579
Total revenues	919	808	1,699	2,579
Operating expenses:				
Research and development	8,092	6,276	16,384	13,059
General and administrative	4,423	2,188	7,095	3,725
Loss from operations	(11,596)	(7,656)	(21,780)	(14,205)
Other expense:				
Interest expense, net	(138)	(415)	(334)	(771)
Fair value adjustments to warrant liability	—	(4,388)	—	(6,590)
Net loss	(11,734)	(12,459)	(22,114)	(21,566)
Other comprehensive loss:				
Unrealized gain (loss) on securities available-for-sale	12	1	(20)	1
Comprehensive loss	$ (11,722)	$ (12,458)	$ (22,134)	$ (21,565)
Net loss	(11,734)	(12,459)	(22,114)	(21,566)
Accretion of redeemable convertible preferred stock	—	(8,582)	—	(34,108)
Net loss attributable to common shareholders	$ (11,734)	$ (21,041)	$ (22,114)	$ (55,674)
Per share information:				
Net loss per common share, basic and diluted	$ (0.39)	$ (0.91)	$ (0.78)	$ (4.50)
Weighted-average shares outstanding, basic and diluted	30,111,380	23,067,201	28,446,074	12,360,125

See accompanying notes to financial statements.

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CHIMERIX, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	$ (22,114)	$ (21,566)
Adjustments to reconcile net loss to net cash used in operating activities**:**		
Depreciation	95	135
Non-cash interest expense	83	224
Amortization/accretion of premium/discount on investments	385	149
Share-based compensation costs	1,415	2,589
Fair value measurement of redeemable convertible preferred stock warrant liability	—	6,590
Changes in operating assets and liabilities:		
Accounts receivable	(40)	700
Prepaid expenses and other current assets and deposits	(489)	(2,051)
Accounts payable and accrued liabilities	1,912	(400)
Net cash used in operating activities	(18,753)	(13,630)
Investing activities:		
Purchase of property and equipment	(226)	(70)
Purchase of short-term investments	(88,641)	(1,851)
Maturities of short-term investments	7,240	3,957
Net cash (used in) provided by investing activities	(81,627)	2,036
Financing activities:		
Proceeds from exercise of stock options	781	55
Proceeds from employee stock purchase plan issuance	229	—
Proceeds from exercise of warrant	—	1,537
Proceeds from public offering, net of offering costs	111,845	107,634
Repayment of loan payable	(2,850)	(2,100)
Net cash provided by financing activities	110,005	107,126
Increase in cash and cash equivalents	9,625	95,532
Cash and cash equivalents, beginning of period	109,976	19,906
Cash and cash equivalents, end of period	$ 119,601	$ 115,438
Supplemental cash flow information:		
Interest payments	$ 370	$ 505

See accompanying notes to financial statements.

CHIMERIX, INC.

NOTES TO THE FINANCIAL STATEMENTS

(unaudited)

1. The Business and Summary of Significant Accounting Policies

Description of Business

Chimerix, Inc. (the Company) is a biopharmaceutical company dedicated to discovering, developing and commercializing novel, oral antivirals to address unmet medical needs. The Company was founded in 2000 based on the promise of its proprietary lipid technology to unlock the potential of some of the most potent antivirals by enhancing their antiviral activity and safety profiles in convenient, orally administered dosing regimens. Based on the Company's proprietary lipid technology, its lead compound, brincidofovir (BCV, CMX001), is in Phase 3 clinical development; in addition, the Company has an active discovery program focusing on viral targets for which no therapies are currently available.

On March 25, 2013, the Company's board of directors approved and implemented a 3.55-for-1 reverse split of the Company's outstanding common stock. The accompanying financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented.

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

On October 23, 2013, the Company completed an underwritten secondary public offering of 2,476,995 shares of common stock held by certain of the Company's existing stockholders at a price to the public of $16.50 per share. The

Company did not issue any shares of common stock and received no proceeds in connection with such offering. The principal purposes of the offering were to facilitate an orderly distribution of shares and to increase the Company's public float.

On May 27, 2014, the Company completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an over-allotment option previously granted to the underwriters. All of the shares were offered by the Company at a price to the public of $14.22 per share. Net proceeds to the Company from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by the Company, were approximately $111.8 million. The securities described above were offered by the Company pursuant to a shelf registration statement declared effective by the Securities and Exchange Commission (the SEC) on May 16, 2014.

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of the Company's management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of its financial position, operating results and cash flows for the periods presented have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the full year, for any other interim period or for any future year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

	June 30, 2014	Fair Value Measurements at June 30, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$118,228	$ 118,228	$ —	$ —
Short-term investments	80,996	—	80,996	—

	December 31, 2013	Fair Value Measurements at December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Cash equivalents	$107,349	$ 107,349	$ —	$ —

Short-term investments consist of corporate bonds, commercial paper and certificates of deposit.

Revenue Recognition

The Company’s revenues generally consist of revenue generated under federal contracts. Revenues are recognized when the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery of the products and/or services has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

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

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

Clinical Trial Accruals/Prepaids

As part of the process of preparing financial statements, the Company is required to estimate its expenses resulting from its obligation under contracts with vendors and consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary contract to contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company's objective is to reflect the appropriate clinical trial expenses in its financial statements by matching those expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. Depending on amounts paid to the contract research organization and other third-party vendors as compared to actual expenses incurred, there might be a prepaid balance recorded as a prepaid asset. The Company determines accrual estimates through discussion with applicable personnel and outside service providers as to the progress or state of completion of trials, or the services completed. During the course of a clinical trial, the Company adjusts its rate of clinical trial expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known at that time. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its understanding of status and timing of services performed relative to the actual status and timing of services performed may vary and may result in the Company reporting amounts that are too high or too low for any particular period. Through June 30, 2014, there had been no material adjustments to the Company's prior period estimates of accrued expenses for clinical trials. The Company's clinical trial accrual is dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors.

Basic and Diluted Net Loss Per Common Share

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of warrants and options to purchase common stock. Diluted net loss per common share is computed by dividing net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of warrants and options to purchase common stock outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during the periods of net loss, there was no difference between basic and diluted loss per share of common stock for the three months ended or the six months ended June 30, 2014 and 2013.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of warrants and options to purchase common stock, as the impact of such items are anti-dilutive during periods of net loss. Shares excluded from the calculations were 3,187,867 and 4,244,971 for the three months ended June 30, 2014 and 2013, respectively, and 3,189,265 and 7,808,128 for the six months ended June 30, 2014 and 2013, respectively.

Impact of Recently Issued Accounting Standards

During the quarter ended June 30, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for the Company on January 1, 2017. The adoption of this standard is not expected to have an impact on the Company’s financial position or results of operations.

2. Investments

The following table summarizes available-for-sale securities:

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate bonds	$49,992	$ 1	$ (18)	$ 49,975
Commercial paper	26,224	5	(4)	26,225
Certificates of deposit	4,800	—	(4)	4,796
Total	$81,016	$ 6	$ (26)	$ 80,996

The Company had no short or long-term investments at December 31, 2013. All of the Company’s investments as of June 30, 2014 had maturities of one year or less at the time of purchase.

3. Loan Payable

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

The first tranche was used to repay the remaining principal balance outstanding of $2.6 million under a previous loan. This repayment was deemed a modification of debt and therefore the remaining related deferred financing costs totaling $0.1 million remained in deferred financing costs and are being amortized over the term of the LSA through interest expense. The first tranche has an interest-only period of twelve months followed by a 30-month principal and interest amortization period with interest being charged at 8.25% per year for the full period of the LSA.

The Company met one of the financial and/or operational goals mentioned above and, in September 2012, the remaining $12.0 million was borrowed in the second tranche. The second tranche has a six-month interest-only period followed by a 32 month principal and interest amortization period with interest being charged at the same rate as the first tranche. There are certain fees in accordance with the LSA which are being recorded as discounts or other long and short-term liabilities depending on the nature of the fees. The fees are being accreted through interest expense. Approximately $24,000 and $37,000 was included in interest expense for the three months ended June 30, 2014 and 2013, respectively, and $51,000 and $75,000 for the six months ended June 30, 2014 and 2013, respectively.

Concurrently with entering into the LSA, the Company also granted SVB a warrant to purchase shares of Series F preferred stock. Upon the completion of the Company's IPO, this warrant was converted into a warrant to purchase 41,323 shares of common stock. In May 2013, SVB exercised the warrant in full and it is no longer outstanding.

4. Commitments and Contingencies

Leases

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

Rent expense under non-cancelable operating leases and other month-to-month equipment rental agreements, including common area maintenance fees, totaled approximately $0.2 million and $0.1 million for the three months ended June 30, 2014 and 2013, respectively, and approximately $0.3 million and $0.2 million for the six months ended June 30, 2014 and 2013, respectively.

Significance of Revenue Source

The Company is the recipient of federal research contract funds from BARDA. Periodic audits are required under the grant and contract agreements and certain costs may be questioned as appropriate under the agreements. Management believes that such amounts in the current year, if any, are not significant. Accordingly, no provision for refundable amounts under the agreements has been made as of June 30, 2014 and December 31, 2013.

5. Equity Transactions and Share-based Compensation

Warrants

Upon the completion of the Company's IPO, all outstanding warrants to purchase redeemable convertible preferred stock were marked to market resulting in a $4.3 million fair value adjustment for the three months ended June 30, 2013 and a $6.4 million fair value adjustment for the six months ended June 30, 2013. The warrants were then converted into warrants to purchase 1,613,395 shares of common stock and were no longer required to be measured at fair value.

The following warrants for the purchase of common stock were issued, outstanding and exercisable at June 30, 2014:

Class	Date	Shares	Price Per Share	Expiration
Common	February 7, 2011	1,330,958	$ 7.26	February 2018

Stock Options

In connection with the Company's IPO, the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The 2013 Plan provides for the grant of incentive stock options (ISOs), nonstatutory stock options (NSOs), stock appreciation rights, restricted stock awards, restricted stock unit (RSU) awards, performance-based stock awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and its affiliates. Additionally, the 2013 Plan provides for the grant of performance cash awards. On January 1, 2014, the common stock reserved for issuance under the 2013 Plan was automatically increased by 666,624 shares. As of June 30, 2014, there was a total of 1,433,054 shares reserved for future issuance under the 2013 Plan. At the Company's annual meeting held on June 20, 2014, shareholders approved a change to the annual automatic increase in the number of common shares to be reserved for issuance under the 2013 Plan by changing the percentage increase from 2.5% to 4.0% of the total number of shares of capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by

the Company’s board of directors.

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In February 2013, the Company's board of directors adopted the 2013 Employee Stock Purchase Plan (ESPP), which was subsequently ratified by stockholders and became effective in April 2013. The ESPP authorizes the issuance of 704,225 shares of common stock pursuant to purchase rights granted to the Company's employees or to employees of any of its designated affiliates. The number of shares of common stock reserved for issuance will automatically increase on January 1 of each calendar year, from January 1, 2014 through January 1, 2023 by the lesser of (a) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, (b) 422,535 shares, or (c) a number determined by the Company's board of directors that is less than (a) and (b). On January 1, 2014, the common stock reserved for issuance under the ESPP was automatically increased by 266,649 shares.

For awards with only service conditions and graded-vesting features, the Company recognizes compensation expense on a straight-line basis over the requisite service period. Compensation expense recognized related to stock options, RSUs and the ESPP is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Research and development:				
Employee	$ (471)	$ 1,574	$ (96)	$ 1,681
Non-employee	—	5	—	21
General and administrative:				
Employee	1,115	699	1,511	809
Non-employee	—	45	—	77
	$ 644	$ 2,323	$ 1,415	$ 2,588

During the three months ended June 30, 2014, the Company recorded an immaterial out of period adjustment of $1.4 million to properly state additional paid-in-capital with a resulting decrease in compensation expense related to restricted stock awards that vested in 2013 in connection with the IPO. On April 9, 2014, Kenneth I. Moch, the Company's then President and Chief Executive Officer, resigned. The Company entered into a severance agreement with Mr. Moch that provides for severance benefits to him in connection with his resignation. Among other benefits, Mr. Moch received accelerated vesting of all of his outstanding stock options as if he had continued service for an additional 15 month period. In addition, Mr. Moch's vested options were modified to extend his exercise period to December 31, 2014. The Company recorded a charge of $1.0 million to compensation expense on the date of his resignation related to the acceleration of vesting and the modification.

Employee Stock Purchase Plan

The Company has reserved a total of 970,874 shares of common stock to be purchased under the ESPP, of which 956,690 shares remain available for purchase at June 30, 2014. Eligible employees may authorize up to 15% of their salary to purchase common stock at the lower of 85% of the beginning price or 85% of the ending price during each six-month purchase interval. During the three months ended June 30, 2014, the Company did not issue any shares

pursuant to the ESPP; for the six months ended June 30, 2014, the Company issued 14,184 shares of common stock pursuant to the ESPP. Compensation expense for shares purchased under the ESPP related to the purchase discount and the “look-back” option were determined using a Black-Scholes option pricing model. The Company recorded compensation expense of $47,000 for the three months ended June 30, 2014 and $149,000 for the six months ended June 30, 2014. There was no compensation expense recorded for the three or six months ended June 30, 2013 since the ESPP was not active during that period.

6. Income Taxes

The Company estimates an annual effective tax rate of 0% for the year ending December 31, 2014 as the Company incurred losses for the six month period ended June 30, 2014 and is forecasting additional losses through the 4th quarter, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2014. Therefore, no federal or state income taxes are expected and none have been recorded at this time. Income taxes have been accounted for using the liability method in accordance with FASB Accounting Standards Codification 740.

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

At June 30, 2014, the Company had no unrecognized tax benefits that would reduce the Company’s effective tax rate if recognized.

7. Significant Agreements

The Regents of the University of California

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

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

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

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

The Company did not recognize expenses under this agreement for the three or six months ended June 30, 2014 or the year ended December 31, 2013.

Biomedical Advanced Research and Development Authority (BARDA)

In February 2011, the Company entered into a contract with BARDA for the development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended several times, most recently on April 10, 2014, to extend the first option segment until August 31, 2014.

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

The Company is currently performing under the first option segment of the contract during which the Company may receive up to a total of $5.3 million in expense reimbursement and fees. In April 2014, the Company and BARDA extended the term of the first option segment to a period of 15 months, currently scheduled to end on August 31, 2014. For the three and six months ended June 30, 2014, the Company recognized revenue of $0.9 million and $1.7 million, respectively, under this contract.

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 condensed financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2013 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission (SEC) on March 7, 2014. Past operating results are not necessarily indicative of results that may occur in future periods.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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 that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item IA, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

OVERVIEW

Chimerix is a biopharmaceutical company dedicated to discovery, developing and commercializing novel, oral antivirals to address unmet medical needs. We were founded in 2000 based on the promise of our proprietary lipid technology to unlock the potential of some of the most potent antivirals by enhancing their antiviral activity and safety profiles in convenient, orally administrated drug regimens. Based on our proprietary lipid technology, the Company's lead compound, brincidofovir (BCV, CMX001), has progressed to Phase 3 clinical development; in addition, we have an active discovery program focusing on viral targets for which no therapies are currently available.

Recent Developments

Initiation of Study 304: Treatment of AdV Infection

In March 2014, we reached agreement with the U.S. Food and Drug Administration (FDA) for the immediate initiation of a pilot trial of brincidofovir for the treatment of adenovirus (AdV) infections in immunocompromised transplant patients. On March 12, 2014, the first subject was enrolled into the pilot portion of this study, which will provide data to guide the finalization of the study design for a Phase 3 pivotal trial of brincidofovir for the treatment of adenovirus infection. To date the pilot study has treated 36 patients at 24 sites.

Appointment of M. Michelle Berrey, M.D., M.P.H. as President, Chief Executive Officer, and Chief Medical Officer

On April 9, 2014, our board of directors appointed M. Michelle Berrey to the position of President and Chief Executive Officer of the Company. Dr. Berrey also retained the role of Chief Medical Officer of the Company. Dr. Berrey replaced Kenneth I. Moch who resigned as our President and Chief Executive Officer effective April 9, 2014.

Public Offering of Common Stock

On May 27, 2014, we completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an option previously granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of $14.22 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately $111.8 million. The securities described above were offered by us pursuant to a shelf registration statement declared effective by the SEC on May 16, 2014.

Annual Meeting of Stockholders

Our annual meeting of stockholders was held on June 20, 2014, in Durham, North Carolina. Voting results consisted of the following:

- M. Michelle Berrey, M.D., M.P.H., Rodman L. Drake, and Lisa Ricciardi were elected class I directors of the Company;
- the 2013 Equity Incentive Plan, as amended, was approved; and
- the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014 was ratified.

Appointment of Additional Directors

On June 20, 2014, our board of directors appointed Jim Daly and John Leonard, M.D. to serve as class II directors of the Company and appointed Cathy Gillis, Ph.D., R.N., FAAN and C. Patrick Machado, J.D., to serve as class III directors of the Company. Mr. Machado was appointed to serve as a member of the Audit Committee of our board of directors.

Passing of Rodman L. Drake

On June 26, 2014, the Company marked the passing of our esteemed colleague and member of our board of directors, Rodman L. Drake. Mr. Drake joined the Board of Directors in 2013 and served as Chairman of the Compensation Committee.

Update on Clinical Development Program for brincidofovir (CMX001)

- Enrollment of our Phase 3 SUPPRESS trial (cytomegalovirus (CMV) prevention in HCT recipients) is currently underway at 40 sites across the United States, Canada and Europe. Enrollment is progressing steadily and is anticipated to be completed by year end 2014 or early 2015 with study data to be reported in the second half of 2015.

- A trial of brincidofovir for prevention of CMV infection in solid organ transplant recipients is under discussion with United States and European regulatory agencies. This trial may serve to correlate CMV viremia with the risk of progression to CMV disease in order to support traditional approval in the United States. We anticipate that this trial would be in progress in the United States, Canada, and/or Europe at the time of accelerated approval of brincidofovir in the United States.

Biomedical Advanced Research and Development Authority (BARDA)

We are currently in formal discussions with BARDA regarding future development of brincidofovir under the Animal Rule for the treatment of smallpox under a potential Option Segment 2 of the agreement.

FINANCIAL OVERVIEW

Revenues

To date, we have not generated any revenue from product sales. All of our revenue to date has been derived from government grants and contracts and the receipt of up-front proceeds under a collaboration and license agreement.

In February 2011, we entered into a contract with BARDA, a U.S. governmental agency that supports the advanced research and development, manufacturing, acquisition, and stockpiling of medical countermeasures. The contract originally consisted of an initial performance period, referred to as the base performance segment, which ended on May 31, 2013, plus up to four extension periods of approximately one year each, referred to as option segments. Subsequent option segments to the contract are not subject to automatic renewal and are not exercisable at Chimerix's discretion. The contract is a cost plus fixed fee development contract. Under the contract as currently in effect, we may receive up to $75.8 million in expense reimbursement and $5.3 million in fees if all remaining option segments are exercised. We are currently performing under the first option segment of the contract during which we may receive up to a total of $5.3 million in expense reimbursement and fees. The first option segment is scheduled to end in August 2014. As of June 30, 2014, we had recognized revenue in aggregate of $34.4 million with respect to the base performance segment and first extension period. For the six months ended June 30, 2014, we recognized $1.7 million with respect to the BARDA contract.

In the future, we may generate revenue from a combination of product sales, license fees, milestone payments and royalties from the sales of products developed under licenses of our intellectual property. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, milestone and other payments, and the amount and timing of payments that we receive upon the sale of our products, to the extent any are successfully commercialized. If we fail to complete the development of our product candidates in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected.

Research and Development Expenses

Since our inception, we have focused our resources on our research and development activities, including conducting preclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for our product candidates. We recognize research and development expenses as they are incurred. Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors. We cannot determine with certainty the duration and completion costs of the current or future clinical studies of our product candidates. Our research and development expenses consist primarily of:

- Fees paid to consultants and contract research organizations (CROs), including in connection with our preclinical and clinical trials, and other related clinical trial fees, such as for investigator grants, patient screening, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis;
- Salaries and related overhead expenses, which include stock option compensation and benefits, for personnel in research and development functions;
- Payments to third-party manufacturers, which produce, test and package our drug substance and drug product (including continued testing of process validation and stability); and
- Costs related to legal expenses related to regulatory compliance and patent expenses; and
- License fees for and milestone payments related to licensed products and technologies.

From our inception through June 30, 2014, we have incurred approximately $170.0 million in research and development expenses, of which $137.8 million relates to our development of brincidofovir. We plan to increase our research and development expenses for the foreseeable future as we continue development of brincidofovir for the prevention of CMV infection in HCT recipients, for the treatment of AdV infections, for the prevention of CMV in solid organ transplant recipients and for other indications, and to advance the development of our other product candidates, subject to the availability of additional funding.

The table below summarizes our research and development expenses for the periods indicated. Our direct research and development expenses consist primarily of external costs, such as fees paid to investigators, consultants, central laboratories and CROs, in connection with our clinical trials, preclinical development, and payments to third-party manufacturers of drug substance and drug product. We typically use our employee and infrastructure resources across multiple research and development programs.

	Six months Ended June 30,	
	2014	2013
	(unaudited)	
	(in thousands)	
Direct research and development expense	$ 10,680	$ 7,053
Personnel costs	4,303	5,029
Indirect research and development expense	1,401	977
	$ 16,384	$ 13,059

The successful development of our clinical and preclinical product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of any of our clinical or preclinical product candidates or the period, if any, in which material net cash inflows from these product candidates may commence. This is due to the numerous risks and uncertainties associated with the development of our product candidates, including:

- the uncertainty of the scope, rate of progress and expense of our ongoing, as well as any additional, clinical trials and other research and development activities;
- the potential benefits of our product candidates over other therapies;
- the ability to market, commercialize and achieve market acceptance for any of our product candidates that we are developing or may develop in the future;
- the results of ongoing or future clinical trials;
- the timing and receipt of any regulatory approvals; and
- the filing, prosecuting, defending and enforcing of patent claims and other intellectual property rights, and the expense of doing so.

A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate in the United States or in Europe, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time with respect to the development of that product candidate.

Brincidofovir

The majority of our research and development resources are currently focused on our Phase 3 trial of brincidofovir for prevention of CMV in HCT recipients, SUPPRESS, our recently initiated pilot study of brincidofovir as a treatment for AdV, and our other planned clinical and preclinical studies and other work needed to provide sufficient data supporting the safety, tolerability and efficacy of brincidofovir for approval in the United States and equivalent health authority approval outside the United States. We have incurred and expect to continue to incur significant expense in connection with these efforts, including expenses related to:

- manufacturing to produce, test and package our drug substance and drug product for brincidofovir;
- initiation, enrollment, and conduct of our Phase 3 clinical trial, SUPPRESS;
- initiation, enrollment, and conduct of our study of brincidofovir for the treatment of AdV.

In addition, pursuant to our contract with BARDA, we are evaluating brincidofovir for the treatment of smallpox. During the base performance segment of the contract, we incurred significant expense in connection with the development of orthopox virus animal models, the demonstration of efficacy and pharmacokinetics of brincidofovir in the animal models, the conduct of an open label clinical safety study for subjects with dsDNA viral infections, and the manufacture and process validation of bulk drug substance and brincidofovir 100 mg tablets. In June 2013, we initiated performance under the first option segment of the contract with BARDA. In April 2014, we entered into an amendment to our agreement with BARDA to extend the period of performance under the first option segment from May 2014 to August 2014.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for employees in executive, finance, marketing, investor relations, information technology, legal, human resources and administrative support functions, including stock-based compensation expenses and benefits. Other significant general and administrative expenses include the pre-launch activities for brincidofovir, accounting and legal services, cost of various consultants, director and officer liability insurance, occupancy costs and information systems.

We expect that our general and administrative expenses will continue to increase due to the potential commercialization of our product candidates. We believe that these increases will likely include increased costs for director and officer liability insurance, costs related to the hiring of additional personnel and increased fees for outside consultants, lawyers and accountants.

Interest Income (Expense), Net

Interest income consists of interest earned on our cash, cash equivalents and short-term investments. Interest expense consists primarily of interest accrued or paid on amounts outstanding under our Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB) and MidCap Financial SBIC, LP (MidCap).

Revaluation of Warrants

In conjunction with various financing transactions, we issued warrants to purchase shares of our preferred stock and common stock. The warrants related to our Series F preferred stock financing and to our term loan were considered redeemable at the option of the security holder. As a result, these warrants were classified as a liability and were marked-to-market at each reporting date. The fair value estimates of these warrants were determined using a Black-Scholes option-pricing model and are based, in part, on subjective assumptions. Non-cash changes in the fair value of the warrant liability were recorded as fair value adjustments to warrant liability. The final revaluation of the warrants occurred just prior to our IPO. Upon the IPO these warrants converted into warrants for common stock and therefore no longer require revaluation.

Stock-based Compensation

The Financial Accounting Standards Board authoritative guidance requires that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. Total stock-based compensation expense of $1.4 million and $2.6 million was recognized in the six months ended June 30, 2014 and 2013, respectively. The stock-based compensation expense recognized included expense from performance-based stock options, restricted stock units (RSUs) and our 2013 employee stock purchase plan (ESPP). The decrease in expense recognized during the six months ended June 30, 2014 compared with the six months ended June 30, 2013 was primarily due to the effect of an out-of-period adjustment in 2014 to additional paid-in capital related to RSUs and a decrease in stock compensation in connection with the vesting of RSUs in the second quarter of 2013 in connection with our IPO.

We estimate the fair value of our stock-based awards to employees and directors and our ESPP shares using the Black-Scholes pricing model. This estimate is affected by our stock price as well as assumptions including the risk-free interest rate, expected dividend yield, expected volatility, expected term, expected rate of forfeiture and the fair value of the underlying common stock on the date of grant.

For performance-based stock options and performance-based RSUs, we begin to recognize the expense when it is deemed probable that the performance-based goal will be met. We evaluate the probability of achieving performance-based goals on a quarterly basis.

Equity instruments issued to non-employees are periodically revalued as the equity instruments vest and are recognized as expense over the related service period.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 1 to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 7, 2014. There have been no material changes during the second quarter of 2014 to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2014 and 2013

The following table summarizes our results of operations for the three months ended June 30, 2014 and 2013, together with the changes in those items in dollars and percentage:

	Three Months Ended June 30,		Dollar Change	% Change
	2014	2013	Increase/(Decrease)	
	(unaudited) (in thousands)			
Revenue				
Contract revenue	$919	$808	$111	13.7 %
Operating expenses:				
Research and development	8,092	6,276	1,816	28.9 %
General and administrative	4,423	2,188	2,235	102.1 %
Loss from operations	(11,596)	(7,656)	3,940	51.5 %
Interest expense, net	(138)	(415)	(277)	(66.7)%
Fair value of warrant adjustments	-	(4,388)	(4,388)	*
Net loss	$(11,734)	$(12,459)	$(725)	(5.8)%

*Not meaningful or calculable.

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Contract Revenue

For the three months ended June 30, 2014, total revenue increased to $919,000 compared to $808,000 for the three months ended June 30, 2013. The increase of $111,000, or 13.7%, is related to an increase in reimbursable expenses related to our contract with BARDA.

Research and Development Expenses

For the three months ended June 30, 2014, our research and development expenses increased to $8.1 million compared to $6.3 million for the three months ended June 30, 2013. The increase of $1.8 million, or 28.9%, is primarily related to the following:

- an increase in clinical trial expenses of $3.2 million related to our ongoing Phase 3 SUPPRESS trial and the pilot portion of the Phase 3 study for the treatment of AdV infection, during the three months ended June 30, 2014; and partially offset by a decrease of $1.6 million in compensation expense primarily due to: (1) the effect of an
- out-of-period adjustment in 2014 to properly state additional paid in capital for RSUs and (2) a decrease in stock compensation related to the vesting of RSUs in the second quarter of 2013 in connection with our IPO.

General and Administrative Expenses

For the three months ended June 30, 2014, our general and administrative costs increased to $4.4 million compared to $2.2 million for the three months ended June 30, 2013. The increase of $2.2 million, or 102.1%, is primarily related to the following:

- a one-time severance charge related to our former CEO of $1.6 million of which $1.0 million relates to non-cash stock compensation; and
- an increase in costs associated with the growth of our corporate infrastructure as we begin preparations to launch
- brincidofovir and operate as a publicly-traded company, including filing fees, investor relations, insurance and non-employee director compensation.

Interest Expense, Net

For the three months ended June 30, 2014, our net interest expense decreased to $138,000 compared to $415,000 for the three months ended June 30, 2013. The decrease of $277,000, or 66.7%, is attributable to a decrease in interest expense associated with a smaller outstanding loan balance we had in the second quarter of 2014 compared to the second quarter of 2013 as we continue to pay down the outstanding principal balance.

Fair Value of Warrant Adjustment

Prior to our IPO, some of our outstanding warrants were deemed to be derivative instruments that required liability classification and mark-to-market accounting. As such, the applicable fair value of the warrants was determined using a two-stage, contingent claims model, resulting in the recognition of additional expenses of $4.4 million for the three

months ended June 30, 2013. These expenses were primarily due to the increased likelihood of the occurrence of a liquidity event as well as the underlying stock price. Upon the completion of our IPO, these warrants converted to common stock warrants and are no longer considered to be a derivative instrument. Consequently, these common stock warrants will not be valued at each reporting period.

Comparison of the Six Months Ended June 30, 2014 and 2013

The following table summarizes our results of operations for the six months ended June 30, 2014 and 2013, together with the changes in those items in dollars and percentage:

	Six Months Ended June 30,		Dollar Change	% Change
	2014	2013	Increase/(Decrease)	
	(unaudited) (in thousands)			
Revenue				
Contract revenue	$1,699	$2,579	$ (880)	(34.1)%
Operating expenses:				
Research and development	16,384	13,059	3,325	25.5 %
General and administrative	7,095	3,725	3,370	90.5 %
Loss from operations	(21,780)	(14,205)	7,575	53.3 %
Interest expense, net	(334)	(771)	(437)	(56.7)%
Fair value of warrant adjustments	-	(6,590)	(6,590)	*
Net loss	$(22,114)	$(21,566)	$ 548	2.5 %

*Not meaningful or calculable.

Contract Revenue

For the six months ended June 30, 2014, total revenue decreased to $1.7 million compared to $2.6 million for the six months ended June 30, 2013. The decrease of $880,000, or 34.1%, is related to a decline in reimbursable expenses related to our contract with BARDA.

Research and Development Expenses

For the six months ended June 30, 2014, our research and development expenses increased to $16.4 million compared to $13.1 million for the six months ended June 30, 2013. The increase of $3.3 million, or 25.5%, is primarily related to the following:

- an increase in clinical trial expenses of $4.6 million related to our ongoing Phase 3 SUPPRESS trial and the pilot portion of the Phase 3 study for the treatment of AdV infection, during the six months ended June 30, 2014; and
- partially offset by a decrease in compensation expense primarily related to the effect of a $1.0 million out-of-period adjustment in 2014 to properly state additional paid-in-capital for RSU's.

General and Administrative Expenses

For the six months ended June 30, 2014, our general and administrative costs increased to $7.1 million compared to $3.7 million for the six months ended June 30, 2013. The increase of $3.4 million, or 90.5%, is primarily related to the following:

- a one-time severance charge related to our former CEO of $1.6 million of which $1.0 million relates to non-cash stock compensation; and
- an increase in costs associated with the growth of our corporate infrastructure as we begin preparations to launch brincidofovir and operate as a publicly-traded company, including filing fees, investor relations, insurance and non-employee director compensation.

Interest Expense, Net

For the six months ended June 30, 2014, our net interest expense decreased to $334,000 compared to $771,000 for the six months ended June 30, 2013. The decrease of $437,000 is attributable to a decrease in interest expense associated with a smaller outstanding loan balance we had in the six months ending June 30, 2014 compared to the six months ending June 30, 2013 as we continue to pay down the principal balance.

Fair Value of Warrant Adjustment

Prior to our IPO, some of our outstanding warrants were deemed to be derivative instruments that required liability classification and mark-to-market accounting. As such, the applicable fair value of the warrants was determined using

a two-stage, contingent claims model, resulting in the recognition of additional expenses of $6.6 million for the six months ended June 30, 2013. These expenses were primarily due to the increased likelihood of the occurrence of a liquidity event as well as the underlying stock price. Upon the completion of our IPO, these warrants converted to common stock warrants and are no longer considered to be a derivative instrument. Consequently, these common stock warrants will not be valued at each reporting period.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses since our inception in 2000 and, as of June 30, 2014, we had an accumulated deficit of $184.8 million. We anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, government or other third-party funding, strategic alliances and licensing or collaboration arrangements.

On May 27, 2014, we completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an option previously granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of $14.22 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately $111.8 million. The securities described above were offered by us pursuant to a shelf registration statement declared effective by the SEC on May 16, 2014. The shelf registration statement allows us to issue shares of our common stock and preferred stock, various series of debt securities and warrants to purchase any of such securities, up to a total aggregate offering price of $200.0 million from time to time in one or more offerings. As of June 30, 2014, we had sold approximately $119.4 million of our common stock under this shelf registration statement.

We cannot assure you that adequate funding will be available on terms acceptable to us, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt may involve operating covenants that may restrict our business. If adequate funds are not available through these means, we may be required to curtail significantly one or more of our research or development programs, our pre-launch expenses, and any launch and other commercialization expenses for any of our products that may receive marketing approval. We cannot assure you that we will successfully develop or commercialize our products under development or that our products, if successfully developed, will generate revenues sufficient to enable us to earn a profit.

We believe that our existing cash, cash equivalents and short-term investments will enable us to fund our current operating expenses and capital requirements into 2016. Such operating and capital requirements do not contemplate incremental expenses associated with a full scale commercial launch of brincidofovir. However, changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate.

Since our inception through June 30, 2014, we have funded our operations principally with $433.7 million (net of issuance costs of $16.3 million) from the sale of common stock and preferred stock and the exercise of common stock warrants, including $219.4 million from our net proceeds from our recent public offering in May 2014 and our IPO in April 2013, approximately $37.4 million of research funding from our various National Institute of Allergy and Infectious Diseases awards and approximately $33.5 million in revenue from our BARDA contract, debt financings totaling $21.0 million, and $17.5 million of licensing revenue. As of June 30, 2014 we had cash, cash equivalents and short-term investments of approximately $200.6 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

During 2012, we entered into a loan and security agreement with SVB and MidCap allowing for borrowing up to $15.0 million. In January 2012, we borrowed $3.0 million under this agreement which had an interest only period for twelve months, followed by a thirty month principal and interest period at a rate of 8.25%. In September 2012, we borrowed an additional $12.0 million under this agreement which had an interest only period of six months, followed with a thirty-two month principal interest period at a rate of 8.25%. As of June 30, 2014, the balance of the loan was $7.2 million

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods set forth below:

	Six Months Ended June 30,	
	2014	2013
	(unaudited)	
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (18,753)	$ (13,630)
Investing activities	(81,627)	2,036
Financing activities	110,005	107,126
Net increase in cash	$ 9,625	$ 95,532

Operating Activities

Net cash used in operating activities of $18.8 million for the six months ended June 30, 2014 was primarily the result of our $22.1 million net loss, partially offset by the add-back of non-cash expenses of $1.4 million for stock based compensation and $385,000 of accretion on investments. The change in operating assets and liabilities include an increase in prepaid expenses and other current assets of $489,000 primarily related to activities of our Phase 3 clinical trials partially offset by an increase of $1.9 million in accounts payable and accrued expenses. Net cash used in operating activities of $13.6 million during the six months ended June 30, 2013 was primarily the result of our $21.6 million net loss, partially offset by the add-back of non-cash expenses of $6.6 million related to the revaluation of our warrant liability and $2.6 million for stock based compensation. The change in operating assets and liabilities include an increase in prepaid expenses and other current assets of $2.1 million primarily related to start-up activities of our

SUPPRESS study.

Investing Activities

Net cash used by investing activities of $81.6 million primarily relate to the purchase of short-term investments for the six months ended June 30, 2014 and net cash provided by investing activities of $2.0 million during the six months ended June 30, 2013 was primarily the result of the maturity of certain short-term investments.

Financing Activities

Net cash provided by financing activities of $110.0 million for the six months ended June 30, 2014 was primarily the result of approximately $111.8 million in net proceeds from the completion of our public offering and $1.0 million from the exercise of stock options and stock purchases through our ESPP, partially offset by $2.9 million in debt repayment. Net cash provided by financing activities of $107.1 million for the six months ended June 30, 2013 was primarily the result of approximately $107.6 million in net proceeds from the completion of our IPO and $1.5 million from the exercise of a warrant, partially offset by $2.1 million in debt repayment.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations and Commitments” as contained in our Annual Report on Form 10-K for the year ended December 31, 2013 filed by us with the SEC on March 7, 2014 except on May 5, 2014, we entered in a Severance Agreement and Release with Kenneth I. Moch, our former President and CEO. Under this agreement, we have a contractual obligation to pay Mr. Moch a total of approximately $586,000 over a fifteen month period that began on April 10, 2014. Of this total amount, $332,000 will be paid through December 31, 2014 and the remaining $254,000 will be paid during the period starting on January 1, 2015 and ending July 10, 2015.

Off-Balance Sheet Arrangements

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

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 U.S. interest rates. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

We do not believe that our cash, cash equivalents and available-for-sale investments have significant risk of default or illiquidity. While we believe our cash and cash equivalents and certificates of deposit do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our results of operations for the six months ending June 30, 2014 or 2013.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act) as of June 30, 2014, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) occurred during the three months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1 A. RISK FACTORS.

An investment in shares of our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information contained elsewhere in this report, before deciding whether to purchase, hold or sell shares of our common stock. The occurrence of any of the following risks could harm our business, financial condition, results of operations and/or growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. You should consider all of the risk factors described when evaluating our business. We have marked with an asterisk (*) those risk factors that reflect changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 7, 2014.

RISKS RELATED TO OUR FINANCIAL CONDITION AND NEED FOR ADDITIONAL CAPITAL

We have incurred significant losses since our inception. We anticipate that we will continue to incur significant losses for the foreseeable future, and we may never achieve or maintain profitability.*

We are a biopharmaceutical company focused primarily on developing our lead product candidate, brincidofovir. We have incurred significant net losses in each year since our inception, including net losses of approximately $22.1 million and $21.6 million for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, we had an accumulated deficit of approximately $184.8 million.

To date, we have financed our operations primarily through the sale of equity securities and, to a lesser extent, through government funding, licensing fees and debt. We have devoted most of our financial resources to research and development, including our preclinical development activities and clinical trials. We have not completed development of any product candidates. We expect to continue to incur losses and negative cash flows for the foreseeable future.

The size of our losses will depend, in part, on the rate of future expenditures and our ability to generate revenues. In particular, we expect to incur substantial and increased expenses as we:

- continue the development of our lead product candidate, brincidofovir, for the prevention of cytomegalovirus (CMV) infection in transplant recipients;
- pursue the development of brincidofovir for the treatment of adenovirus (AdV)infection ;
- seek to obtain regulatory approvals for brincidofovir;
- prepare for the potential commercialization of brincidofovir;
- scale up manufacturing capabilities to commercialize brincidofovir for any indications for which we receive regulatory approval;
- begin outsourcing of the commercial manufacturing of brincidofovir for any indications for which we receive regulatory approval;
- establish an infrastructure for the sales, marketing and distribution of brincidofovir for any indications for which we receive regulatory approval;
- expand our research and development activities and advance our clinical programs;
- maintain, expand and protect our intellectual property portfolio;
- continue our research and development efforts and seek to discover additional product candidates; and
- add operational, financial and management information systems and personnel, including personnel to support our product development and commercialization efforts and operations as a public company.

To become and remain profitable, we must succeed in developing and eventually commercializing products with significant market potential. This will require us to be successful in a range of challenging activities, including discovering product candidates, completing preclinical testing and clinical trials of our product candidates, obtaining regulatory approval for these product candidates, and manufacturing, marketing and selling those products for which we may obtain regulatory approval. We are only in the preliminary stages of some of these activities.

To date, we have not completed Phase 3 clinical trials or obtained regulatory approval for any of our product candidates, and none of our product candidates have been commercialized. We may never succeed in developing or commercializing any of our product candidates. If our product candidates are not successfully developed or commercialized, or if revenues from any products that do receive regulatory approvals are insufficient, we will not achieve profitability and our business may fail. Even if we successfully obtain regulatory approval to market our product candidates in the United States, our revenues are also dependent upon the size of markets outside of the United States, as well as our ability to obtain market approval and achieve commercial success outside of the United States.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of our company and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations. A decline in the value of our company could cause you to lose all or part of your investment.

Our ability to generate future revenues from product sales is uncertain and depends upon our ability to successfully develop, obtain regulatory approval for, and commercialize our product candidates.*

Our ability to generate revenue and achieve profitability depends on our ability, alone or with collaborators, to successfully complete the development, obtain the necessary regulatory approvals and commercialize our product candidates. We do not anticipate generating revenues from sales of our product candidates for the foreseeable future, if ever. Our ability to generate future revenues from product sales depends heavily on our success in:

- obtaining favorable results for and advancing the development of brincidofovir, initially for the prevention of CMV in hematopoietic cell transplant (HCT) recipients, including successfully completing Phase 3 clinical development;
- obtaining accelerated approval in the United States for brincidofovir, initially for the prevention of CMV infection in HCT recipients;
- obtaining United States and foreign regulatory approvals for brincidofovir for the treatment of adenovirus infection;
- launching and commercializing brincidofovir, including building a sales force and collaborating with third parties;
- achieving broad market acceptance of brincidofovir in the medical community and with third-party payors;
- obtaining traditional approval in the United States for brincidofovir for CMV prevention; and
- generating a pipeline of product candidates which progress to clinical development.

Conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data required to obtain regulatory approval and achieve product sales. Our anticipated development costs would likely increase if we do not obtain favorable results or if development of our product candidates is delayed. In particular, we would likely incur higher costs than we currently anticipate if development of our product candidates is delayed because we are required by the U.S. Food and Drug Administration (FDA) or foreign regulatory authorities to perform studies or trials in addition to those that we currently anticipate. Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of any increase in our anticipated development costs.

In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for a number of years, if at all. Even if one or more of our product candidates is approved for commercial sale, we anticipate incurring significant costs in connection with commercialization. As a result, we cannot assure you that we will be able to generate revenues from sales of any approved product candidates, or that we will achieve or maintain profitability even if we do generate sales.

If we fail to obtain additional financing, we could be forced to delay, reduce or eliminate our product development programs, seek corporate partners for the development of our product development programs or relinquish or license on unfavorable terms, our rights to technologies or product candidates.*

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a time-consuming, expensive and uncertain process that takes years to complete. We expect our research and development expenses to increase substantially in connection with our ongoing activities, particularly as we advance our clinical programs for brincidofovir.

Our existing cash, cash equivalents and short-term investments, will enable us to fund our operating expenses and capital requirements into 2016. However, changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate. For example, our clinical trials may encounter technical, enrollment or other difficulties that could increase our development costs more than we expected, or because the FDA or foreign regulatory authorities requires us to perform studies or trials in addition to those that we currently anticipate. We may need to raise additional funds if we choose to initiate clinical trials for our product candidates other than brincidofovir. In any event, we will require additional capital to commercialize our lead product candidate, brincidofovir.

On May 1, 2014, we filed a shelf registration statement with the SEC that was declared effective by the SEC on May 16, 2014. The shelf registration statement allows us to issue shares of our common stock and preferred stock, various series of debt securities and warrants to purchase any of such securities, up to a total aggregate offering price of $200.0 million from time to time in one or more offerings. As of June 30, 2014, we had sold approximately $119.4 million of our common stock under this shelf registration statement.

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

- significantly delay, scale back or discontinue the development or commercialization of our product candidates, including brincidofovir;
- seek corporate partners for brincidofovir or any of our other product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available; or

- relinquish or license on unfavorable terms, our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

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

RISKS RELATED TO CLINICAL DEVELOPMENT AND REGULATORY APPROVALS

We depend on the success of our lead product candidate, brincidofovir, which is still under clinical development, and may not obtain regulatory approval or be successfully commercialized.*

We have not marketed, distributed or sold any products. The success of our business depends upon our ability to develop and commercialize our lead product candidate, brincidofovir, which has completed a Phase 2 clinical trial for the prevention of CMV infection in adult HCT recipients. We do not currently have any other product candidates in active clinical development. In the third quarter of 2013, we initiated our Phase 3 clinical trial, known as SUPPRESS, of brincidofovir for the prevention of CMV infection in adult HCT recipients. We intend to use this trial as a basis to submit a new drug application (NDA) to the FDA under the accelerated approval pathway seeking regulatory approval to market brincidofovir in the United States and to file equivalent applications outside the United States. We also intend to conduct a CMV prevention trial in solid organ transplant recipients to fulfill the requirements for traditional approval for prevention of CMV infection. The study design for a trial for the prevention of CMV infection in solid organ transplant recipients is under discussion with the FDA and European health authorities. The Company has also completed a Phase 2 trial in adenovirus (AdV) infection and is currently enrolling a pilot portion of a pivotal Phase 3 trial of brincidofovir for treatment of AdV infections. There is no guarantee that our Phase 3 clinical trials will be completed or, if completed, will be successful. The success of brincidofovir will depend on several factors, including the following:

- successful completion of nonclinical studies and successful enrollment and completion of clinical trials;
- receipt of marketing approvals from the FDA and corresponding regulatory authorities outside the United States for our product candidates;
- establishing commercial manufacturing capabilities, either by building such facilities ourselves or making arrangements with third-party manufacturers;
- launching commercial sales of the product, whether alone or in collaboration with others;
- acceptance of the product by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- a continued acceptable safety profile of the product following approval; and
- obtaining, maintaining, enforcing and defending intellectual property rights and claims.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize brincidofovir, which would materially harm our business.

We have never obtained regulatory approval for a drug and we may be unable to obtain, or may be delayed in obtaining, regulatory approval for brincidofovir.*

We have never obtained regulatory approval for a drug. It is possible that the FDA and/or European health authorities may refuse to accept our NDA (or corresponding application) for substantive review or may conclude after review of our data that our application is insufficient to obtain regulatory approval of brincidofovir. If the FDA and/or European health authorities do not accept or approve our application, we may be required to conduct additional clinical, nonclinical or manufacturing validation studies and submit those data before reconsideration of our application occurs. Depending on the extent of these or any other required studies, approval of any NDA or application that we submit may be delayed by several years, or may require us to expend more resources than we have available. It is also possible that additional studies, if performed and completed, may not be considered sufficient by the FDA and/or European health authorities to approve our NDA/application.

Any delay in obtaining, or an inability to obtain, regulatory approvals would prevent us from commercializing brincidofovir, generating revenues and achieving and sustaining profitability. If any of these outcomes occur, we may be forced to abandon our development efforts for brincidofovir, which would have a material adverse effect on our business and could potentially cause us to cease operations.

We depend on the successful completion of clinical trials for our product candidates, including brincidofovir. The positive clinical results obtained for our product candidates in prior clinical studies may not be repeated in future clinical studies.*

Before obtaining regulatory approval for the sale of our product candidates, including brincidofovir, we must conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more of our clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval for their products.

We have completed a Phase 2 clinical study of brincidofovir for the prevention of CMV infection in HCT recipients and recently completed an exploratory Phase 2 study of brincidofovir as preemptive therapy for asymptomatic AdV infection in HCT recipients. However, we have never completed a pivotal Phase 3 clinical trial. The positive results we have seen to date in our Phase 2 clinical trial of brincidofovir for the prevention of CMV in HCT recipients or our Phase 2 trial of brincidofovir as preemptive therapy for asymptomatic AdV infection do not ensure that later clinical trials, such as our currently enrolling Phase 3 SUPPRESS trial and AdV treatment pilot Phase 3 trial, and any additional Phase 3 clinical trials, will demonstrate similar results. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy characteristics despite having progressed satisfactorily through preclinical studies and initial clinical testing. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience than us, have suffered significant setbacks in Phase 3 clinical development, even after seeing promising results in earlier clinical trials.

We may experience a number of unforeseen events during, or as a result of, clinical trials for our product candidates, including brincidofovir, that could adversely affect the completion of our clinical trials, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;
- the number of subjects required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be insufficient or slower than we anticipate or subjects may drop out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- we might have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the subjects are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate; and
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators to suspend or terminate the trials.

Negative or inconclusive results of our Phase 3 SUPPRESS trial of brincidofovir, or any other clinical trial we conduct, could cause the FDA and/or European health authorities to require that we repeat or conduct additional clinical studies. Despite the results reported in earlier clinical trials for brincidofovir, we do not know whether SUPPRESS or any other clinical trials we may conduct will demonstrate adequate efficacy and safety to result in regulatory approval to market our product candidates, including brincidofovir. If later stage clinical trials do not produce favorable results, our ability to obtain regulatory approval for our product candidates, including brincidofovir, may be adversely impacted.

We are developing brincidofovir to treat patients who are extremely ill, and patient deaths that occur in our clinical trials could negatively impact our business even if they are not shown to be related to brincidofovir.*

We are developing our lead product candidate, brincidofovir, for the prevention of CMV infection in HCT recipients through the Phase 3 SUPPRESS trial. These patients receive an HCT as a potential cure or remission for many cancers and genetic disorders.

To prepare for their transplant, such patients receive a pre-transplant conditioning regimen, which involves high-dose chemotherapy and may also include radiation therapy. The conditioning regimen suppresses the patient's immune system and/or own bone marrow in order to prevent it from attacking the newly transplanted cells. Generally, patients remain at high risk during the first 100 days following their transplant and are at increased risk of infections during that period, which can be serious and even life threatening due to their weakened immune systems.

We are also conducting a pilot study for the treatment of AdV infection, a less common but often-fatal infection, in immunocompromised pediatric and adult patients. These patients have an impaired immune system that renders them more likely to acquire an infection and more likely to suffer adverse outcomes as a result of infection.

As a result, it is likely that we will observe severe adverse outcomes during our Phase 3 trials for brincidofovir, including patient death. If a significant number of study subject deaths were to occur, regardless of whether such deaths are attributable to brincidofovir, our ability to obtain regulatory approval for brincidofovir may be adversely impacted and our business could be materially harmed.

Delays in clinical trials are common and have many causes, and any delay could result in increased costs to us and jeopardize or delay our ability to obtain regulatory approval and commence product sales.

Clinical testing is expensive, difficult to design and implement, can take many years to complete, and is uncertain as to outcome. We may experience delays in clinical trials at any stage of development and testing of our product candidates. Our planned clinical trials may not begin on time, have an effective design, enroll a sufficient number of subjects, or be completed on schedule, if at all.

Events which may result in a delay or unsuccessful completion of clinical trials, including our Phase 3 clinical trials for brincidofovir, include:

- inability to raise funding necessary to initiate or continue a trial;
- delays in obtaining regulatory approval to commence a trial;
- delays in reaching agreement with the FDA and foreign health authorities on final trial design;
- imposition of a clinical hold following an inspection of our clinical trial operations or trial sites by the FDA or other regulatory authorities;
- delays in reaching agreement on acceptable terms with prospective clinical research organizations (CROs) and clinical trial sites;
- delays in obtaining required institutional review board approval at each site;
- delays in recruiting suitable patients to participate in a trial;
- delays in having subjects complete participation in a trial or return for post-treatment follow-up;
- delays caused by subjects dropping out of a trial due to side effects or otherwise;
- clinical sites dropping out of a trial to the detriment of enrollment;
- time required to add new clinical sites; and
- delays by our contract manufacturers to produce and deliver sufficient supply of clinical trial materials.

For example, due to the specialized indication and patient populations being studied in our Phase 3 clinical trials of brincidofovir, the number of study sites available to us is relatively limited, and therefore enrollment of suitable patients to participate in the trial may take longer than is typical for studies involving other indications. This may result in a delay or unsuccessful completion of our Phase 3 clinical trial of brincidofovir for CMV prevention in HCT recipients.

After the completion of our clinical trials, we cannot predict whether or when we will obtain regulatory approval to commercialize brincidofovir and we cannot, therefore, predict the timing of any future revenue from brincidofovir.

We cannot commercialize our product candidates, including brincidofovir, until the appropriate regulatory authorities, have reviewed and approved the product candidate. The regulatory agencies may not complete their review processes in a timely manner, or we may not be able to obtain regulatory approval for brincidofovir. Additional delays in the United States may result if brincidofovir is brought before an FDA advisory committee, which could recommend restrictions on approval or recommend non-approval of the product candidate. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action, or changes in regulatory agency policy during the period of product development, clinical studies and the review process. As a result, we cannot predict when, if at all, we will receive any future revenue from commercialization of any of our product candidates, including brincidofovir.

Even if we obtain regulatory approval for brincidofovir and our other product candidates, we will still face extensive regulatory requirements and our products may face future development and regulatory difficulties.

Even if we obtain regulatory approval, the granting authority may still impose significant restrictions on the indicated uses or marketing of our product candidates, including brincidofovir, or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance. For example, the labeling ultimately approved for our product candidates, including brincidofovir, will likely include restrictions on use due to the specific patient population and manner of use in which the drug was evaluated and the safety and efficacy data obtained in those evaluations. In addition, the label for brincidofovir may be required to include a boxed warning, or "black box," regarding brincidofovir being carcinogenic, teratogenic and impairing fertility in animal studies, as well as a contraindication in patients who have had a demonstrated clinically significant hypersensitivity reaction to brincidofovir or CDV or any component of the formulation. The brincidofovir labeling may also include warnings or black boxes pertaining to gastrointestinal or liver-related adverse events (AEs) or safety laboratory value changes.

Brincidofovir and our other product candidates will also be subject to additional ongoing regulatory requirements governing the labeling, packaging, storage, distribution, safety surveillance, advertising, promotion, record-keeping and reporting of safety and other post-market information. In the United States, the holder of an approved NDA is obligated to monitor and report AEs and any failure of a product to meet the specifications in the NDA. The holder of an approved NDA must also submit new or supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process. Advertising and promotional materials must comply with FDA rules and are subject to FDA review, in addition to other potentially applicable federal and state laws. Furthermore, promotional materials must be approved by the FDA prior to use for any drug receiving accelerated approval, the pathway we are pursuing for an initial marketing approval of brincidofovir in the United States for prevention of CMV in HCT recipients.

In addition, manufacturers of drug products and their facilities are subject to payment of user fees and continual review and periodic inspections by regulatory authorities for compliance with current good manufacturing practices (cGMP), and adherence to commitments made in the application. If we, or a regulatory agency, discover previously unknown problems with a product, such as quality issues or AEs of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions relative to that product or the manufacturing facility, including requiring recall or withdrawal of the product from the market or suspension of manufacturing.

If we fail to comply with applicable regulatory requirements following approval of our product candidate, a regulatory agency may:

- issue an untitled or warning letter asserting that we are in violation of the law;

- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve a pending application or supplements to an application submitted by us;
- recall and/or seize product; or
- refuse to allow us to enter into supply contracts, including government contracts.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response and could generate negative publicity. The occurrence of any event or penalty described above may inhibit our ability to commercialize brincidofovir and our other product candidates and inhibit our ability to generate revenues.

Even if we obtain FDA approval for brincidofovir or any of our other products in the United States, we may never obtain approval for or commercialize brincidofovir or any of our other products outside of the United States, which would limit our ability to realize their full market potential.

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements on a country-by-country basis regarding safety and efficacy. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions. In addition, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not guarantee regulatory approval in any other country. Approval processes vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approval could result in difficulties and costs for us and require additional preclinical studies or clinical trials which could be costly and time consuming. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of our products in those countries. We do not have any product candidates approved for sale in any jurisdiction, including international markets, and we do not have experience in obtaining regulatory approval in international markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, or if regulatory approvals in international markets are delayed, our target market will be reduced and our ability to realize the full market potential of our products will be unrealized.

Our relationships with investigators, health care professionals, consultants, third party payors and customers are subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.*

Healthcare providers, physicians and others play a primary role in the recommendation and prescribing of any products for which we obtain marketing approval. Our current business operations and future arrangements with investigators, healthcare professionals, consultants, third-party payors and customers may expose us to broadly

applicable fraud and abuse and other healthcare laws and regulations. These laws may constrain the business or financial arrangements and relationships through which we research, market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations, include, but are not limited to, the following:

- the federal healthcare anti-kickback statute which prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid;
- the federal civil and criminal false claims laws and civil monetary penalties, including civil whistleblower or qui tam actions, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, to the federal government, claims for payment or approval that are false or fraudulent or from knowingly making a false statement to improperly avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) which, among other things, imposes criminal liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly or willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statement in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act (HITECH) and its implementing regulations, and as amended again by the final HIPAA omnibus rule, Modifications to the HIPAA Privacy, Security, Enforcement, and Breach Notification Rules Under HITECH and the Genetic Information Nondiscrimination Act; Other Modifications to HIPAA, published in January 2013, which imposes certain obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information without appropriate authorization by entities subject to the rule, such as health plans, clearinghouses and healthcare providers;
- the federal Food, Drug and Cosmetic Act (FDCA) which prohibits, among other things, the adulteration or misbranding of drugs and devices;
- the federal transparency law, enacted as part of the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Law), and its implementing regulations, which requires manufacturers of drugs, devices, biologicals and medical supplies to report to the U.S. Department of Health and Human Services information related to payments and other transfers of value made to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and

- analogous state laws and regulations, including: state anti-kickback and false claims laws, which may apply to our business practices, including but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by state governmental and non-governmental third-party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government; and state laws and regulations that require manufacturers to file reports relating to pricing and marketing information, which requires tracking gifts and other remuneration and items of value provided to healthcare professionals and entities.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these or any other health regulatory laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses or divert our management's attention from the operation of our business. If any of the physicians or other providers or entities with whom we expect to do business are found to be not in compliance with applicable laws, they also may be subject to criminal, civil or administrative sanctions, including, but not limited to, exclusions from government funded healthcare programs, which could also materially affect our business.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any products for which we obtain marketing approval.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Modernization Act) changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products. While the Medicare Modernization Act applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the Medicare Modernization Act may result in a similar reduction in payments from private payors.

More recently, in March 2010, the Health Care Reform Law was enacted to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for health care and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. The Health Care Reform Law revises the definition of "average manufacturer price" for reporting purposes, which could increase the amount of Medicaid drug rebates to states. Further, the new law imposes a significant annual fee on companies that manufacture or import branded prescription drug products. New provisions affecting compliance have also been enacted, which may affect our business practices with health care practitioners. We will not know the full effects of the Health Care Reform Law until applicable federal and state agencies issue regulations or guidance under the new law.

Although it is too early to determine the effect of the Health Care Reform Law, the new law appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We are not sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be.

RISKS RELATED TO OUR RELIANCE ON THIRD PARTIES

We rely on third-party manufacturers to produce our preclinical and clinical drug supplies, and we intend to rely on third parties to produce commercial supplies of any approved product candidates.

We do not own or operate, and we do not expect to own or operate, facilities for product manufacturing, storage and distribution, or testing. In the past, we have relied on third-party manufacturers for supply of our preclinical and clinical drug supplies. We expect that in the future we will continue to rely on such manufacturers for drug supply that will be used in clinical trials of our product candidates, including brincidofovir, and for commercialization of any of our product candidates that receive regulatory approval.

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

- inability to meet our product specifications and quality requirements consistently;
- delay or inability to procure or expand sufficient manufacturing capacity;
- manufacturing and product quality issues related to scale-up of manufacturing;
- costs and validation of new equipment and facilities required for scale-up;
- failure to comply with cGMP and corresponding foreign standards;
- inability to negotiate manufacturing agreements with third parties under commercially reasonable terms;
- termination or nonrenewal of manufacturing agreements with third parties in a manner or at a time that is costly or damaging to us;
- reliance on a limited number of sources, and in some cases, single sources for product components, such that if we are unable to secure a sufficient supply of these product components, we will be unable to manufacture and sell our product candidates in a timely fashion, in sufficient quantities or under acceptable terms;
- lack of qualified backup suppliers for those components that are currently purchased from a sole or single source supplier;
- operations of our third-party manufacturers or suppliers could be disrupted by conditions unrelated to our business or operations, including the bankruptcy of the manufacturer or supplier;
- carrier disruptions or increased costs that are beyond our control; and
- failure to deliver our products under specified storage conditions and in a timely manner.

Any of these events could lead to clinical study delays, failure to obtain regulatory approval or impact our ability to successfully commercialize our products. Some of these events could be the basis for FDA action, including injunction, recall, seizure, or total or partial suspension of production.

We rely on limited sources of supply for the drug component for our lead product candidate, brincidofovir, and any disruption in the chain of supply may cause delay in developing and commercializing brincidofovir.*

Manufacturing of drug components are subject to certain FDA qualifications with respect to manufacturing standards. We are currently transferring the drug substance manufacturing process to our selected contractor that will produce the commercial supply of drug substance and are currently evaluating manufacturers to optimize tablet and suspension formulation production to meet forecasted commercial demand. It is our expectation that only one supplier of drug substance and one supplier of drug product will be qualified as vendors with the FDA. If supply from an approved vendor is interrupted, there could be a significant disruption in commercial supply of brincidofovir. An alternative vendor would need to be qualified through an NDA supplement which could result in further delay. The FDA or other regulatory agencies outside of the United States may also require additional studies if a new drug substance or drug product supplier is relied upon for commercial production.

These factors could cause the delay of clinical trials, regulatory submissions, required approvals or commercialization of brincidofovir, and cause us to incur additional costs. Furthermore, if our suppliers fail to deliver the required commercial quantities of active pharmaceutical ingredient on a timely basis and at commercially reasonable prices, and we are unable to secure one or more replacement suppliers capable of production at a substantially equivalent cost, our clinical trials for brincidofovir may be delayed, which could inhibit our ability to generate revenues.

Manufacturing issues may arise that could increase product and regulatory approval costs or delay commercialization of brincidofovir.*

We have validated a process for drug substance production for brincidofovir at a manufacturer at a scale of 100 kg, and have a validated tablet manufacturing process at a 165 kg commercial scale. We are currently revalidating our drug substance and drug product processes at our intended commercial scale with our intended commercial manufacturers.

The revalidation processes, along with ongoing stability studies and analyses we are conducting, may reveal previously unknown impurities which could require resolution in order to proceed with our planned clinical trials and obtain regulatory approval for the commercial marketing of brincidofovir. In the future, we may identify significant impurities, which could result in increased scrutiny by the regulatory agencies, delays in clinical program and regulatory approval for brincidofovir, increases in our operating expenses, or failure to obtain or maintain approval for brincidofovir.

We rely on third parties to conduct, supervise and monitor our clinical studies, and if those third parties perform in an unsatisfactory manner, it may harm our business.*

We rely on CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials. While we have agreements governing their activities, we have limited influence over their actual performance. We have relied and plan to continue to rely upon CROs to monitor and manage data for our ongoing clinical programs for brincidofovir and our other product candidates, as well as the execution of nonclinical studies. We control only certain aspects of our CROs' activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards and our reliance on the CROs does not relieve us of our regulatory responsibilities.

We and our CROs are required to comply with the FDA's guidance, which follows the International Conference on Harmonization Good Clinical Practice (ICH GCP), which are regulations and guidelines enforced by the FDA for all of our product candidates in clinical development. The FDA enforces the ICH GCP through periodic inspections of trial sponsors, principal investigators and clinical trial sites. If we or our CROs fail to comply with the ICH GCP, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. For example, upon inspection, the FDA may determine that our Phase 3 clinical trial for brincidofovir, SUPPRESS, does not comply with the ICH GCP. In addition, our Phase 3 clinical trials for brincidofovir will require a sufficiently large number of test subjects to evaluate the safety and effectiveness of brincidofovir. Accordingly, if our CROs fail to comply with these regulations or fail to recruit a sufficient number of subjects, we may be required to repeat these Phase 3 clinical trials, which would delay the regulatory approval process.

Our CROs are not our employees, and we cannot control whether or not they devote sufficient time and resources to our ongoing clinical and nonclinical programs. These CROs may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical studies, or other drug development activities which could harm our competitive position. We face the risk of potential unauthorized disclosure or misappropriation of our intellectual property by CROs, which may reduce our trade secret protection and allow our potential competitors to access and exploit our proprietary technology. If our CROs do not successfully carry out their contractual duties or obligations, fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for any other reasons, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for, or successfully commercialize brincidofovir or our other product candidates. As a result, our financial results and the commercial prospects for brincidofovir and any other product candidates that we develop would be harmed, our costs could increase, and our ability to generate revenues could be delayed.

RISKS RELATED TO COMMERCIALIZATION OF OUR PRODUCT CANDIDATES

The commercial success of brincidofovir and our other product candidates will depend upon the acceptance of these products by the medical community, including physicians, patients and health care payors.*

If any of our product candidates, including brincidofovir, receive marketing approval, they may nonetheless not gain sufficient market acceptance by physicians, patients, healthcare payors and others in the medical community. If these products do not achieve an adequate level of market acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of any of our product candidates, including brincidofovir, will depend on a number of factors, including:

- demonstration of clinical safety and efficacy in our clinical trials;
- relative convenience, ease of administration and acceptance by physicians, patients and health care payors;

- prevalence and severity of any AEs;
- limitations or warnings contained in the FDA-approved label for the relevant product candidate;
- availability of alternative treatments;
- pricing and cost-effectiveness;
- effectiveness of our or any future collaborators' sales and marketing strategies;
- ability to obtain hospital formulary approval; and
- ability to obtain and maintain sufficient third-party coverage or reimbursement, which may vary from country to country.

If any of our product candidates, including brincidofovir, is approved but does not achieve an adequate level of market acceptance by physicians, patients, health care payors and others in the medical community, we may not generate sufficient revenue and we may not become or remain profitable.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate any revenue.*

We currently do not have an organization for the sales, marketing and distribution of pharmaceutical products and the cost of establishing and maintaining such an organization may exceed the cost-effectiveness of doing so. In order to market any products that may be approved, including brincidofovir, we must build our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. We may enter into strategic partnerships with third parties to commercialize our product candidates outside of the United States, including for brincidofovir. We intend to build our own sales force and to commercialize brincidofovir, but we will also consider the option to enter into strategic partnerships for our product candidates in the United States.

Our strategy for brincidofovir is to develop a hospital-directed sales force and/or collaborate with third parties to promote the product to healthcare professionals and third-party payors in the United States and elsewhere. Our future collaboration partners, if any, may not dedicate sufficient resources to the commercialization of our product candidates or may otherwise fail in their commercialization due to factors beyond our control. If we are unable to establish effective collaborations to enable the sale of our product candidates to healthcare professionals and in geographical regions, including the United States, that are not covered by our own marketing and sales force, or if our potential future collaboration partners do not successfully commercialize our product candidates, our ability to generate revenues from product sales, including sales of brincidofovir, will be adversely affected.

Building an internal sales force involves many challenges, including:

- recruiting and retaining talented people;
- training employees that we recruit;

- setting the appropriate system of incentives;
- managing additional headcount; and
- integrating a new business unit into an existing corporate architecture.

If we are unable to build our own sales force or negotiate a strategic partnership for the commercialization of brincidofovir in any markets, we may be forced to delay the potential commercialization of brincidofovir in those markets, reduce the scope of our sales or marketing activities for brincidofovir in those markets or undertake the commercialization activities for brincidofovir in those markets at our own expense. If we elect to increase our expenditures to fund commercialization activities ourselves, we will need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring brincidofovir to market or generate product revenue.

If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate sufficient product revenue and may not become profitable. We will be competing with many companies that currently have extensive and well-funded marketing and sales operations. Without an internal team or the support of a third party to perform marketing and sales functions, we may be unable to compete successfully against these more established companies.

In addition, there are risks involved with both establishing our own sales and marketing capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

If we obtain approval to commercialize any products outside of the United States, a variety of risks associated with international operations could materially adversely affect our business.

If our product candidates are approved for commercialization, we may seek to enter into agreements with third parties to market those product candidates outside the United States, including for brincidofovir. We expect that we will be subject to additional risks related to entering into international business relationships, including:

- different regulatory requirements for drug approvals in foreign countries;
- reduced protection for intellectual property rights;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;

- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods and fires.

We have limited experience in these areas. In addition, there are complex regulatory, tax, labor and other legal requirements imposed by both the European Union and many of the individual countries in Europe with which we will netom;background-color:#cceeff;">

Jeffry Flowers (1)
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David Friend
6,218

91,125

Peter Gyenes
8,301

9,000

Charles Kane
6,218

56,500

Todd Krasnow
6,218

60,500

Stephen Munford 6,218			
43,000			
Marina Levinson 13,680			
—			

(1) Mr. Flowers is no longer a member of the Board as of May 8, 2017.

PROPOSAL TWO
RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board has engaged Deloitte as our independent registered public accounting firm for the fiscal year ending December 31, 2018 and is seeking ratification of such selection by our stockholders at the Annual Meeting. Representatives of Deloitte are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our By-Laws nor other governing documents or law require stockholder ratification of the selection Deloitte as our independent registered public accounting firm. However, the Audit Committee is submitting the selection of Deloitte to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain Deloitte. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

Change in Independent Registered Public Accounting Firm

The Audit Committee of our Board determined, consistent with good governance practices, to review the selection of our independent auditor for the fiscal year ending December 31, 2017. We conducted a competitive request for proposal process with several independent registered public accounting firms, including our previous incumbent auditor, Ernst & Young LLP (“EY”). Following the conclusion of this process, the Audit Committee, on August 14, 2017, recommended and authorized the dismissal of EY as our independent registered public accounting firm, and authorized the engagement of Deloitte to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2017.

The reports of EY on our consolidated financial statements for each of the two fiscal years ended December 31, 2016 and 2015, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audits of our consolidated financial statements for each of the two fiscal years ended December 31, 2016 and 2015, and in the subsequent interim periods through August 14, 2017, there were no disagreements (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with EY on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of EY, would have caused EY to make reference to the matter in their report.

THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE RECOMMEND A VOTE FOR THE RATIFICATION OF THE SELECTION OF DELOITTE AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018.

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Audit-Related Matters

Report of the Audit Committee of the Board of Directors

The primary purpose of the Audit Committee is to oversee our financial reporting processes on behalf of our Board. The Audit Committee's functions are more fully described in its charter, which is available on our website at http://investor.carbonite.com/corporate-governance. Management has the primary responsibility for our financial statements and reporting processes, including our systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management Carbonite's audited consolidated financial statements as of and for the fiscal year ended December 31, 2017.

The Audit Committee has discussed with Deloitte, the Company's independent registered public accounting firm, the matters required to be discussed by Auditing Standard (AS) 1301, "Communications with Audit Committees" issued by the Public Company Accounting Oversight Board ("PCAOB"). In addition, the Audit Committee discussed with Deloitte their independence and received from Deloitte the written disclosures and the letter required by Ethics and Independence Rule 3526 of the PCAOB. The Committee has also considered whether, and to what extent, if any, the fact that Deloitte may, from time to time, provide non-audit services to the Company, is compatible with maintaining the auditor's independence and has discussed this with Deloitte. Finally, the Audit Committee discussed with Deloitte, with and without management present, the scope and results of Deloitte's audit of such financial statements.

Based on these reviews and discussions, the Audit Committee recommended to our Board that such audited consolidated financial statements be included in our Form 10-K for the year ended December 31, 2017. The Audit Committee has also engaged Deloitte as our independent registered public accounting firm for the fiscal year ending December 31, 2018 and is seeking ratification of such selection by the stockholders.

Audit Committee
Charles Kane, Chair
Todd Krasnow
Scott Daniels

Principal Accountant Fees and Services

The following table provides a summary of fees for professional services rendered by Deloitte for the fiscal year ended December 31, 2017 and EY for the fiscal year ended December 31, 2016. All services and fees described below were approved by our Audit Committee.

	Fiscal Year Ended December 31,	
	2017	2016
Audit Fees	$1,016,000	$1,911,073
Audit-Related Fees	$37,000	$1,733,000
Tax Fees	—	—
All Other Fees	—	$2,790
Total Fees	$1,053,000	$3,646,863

Audit Fees

Audit fees consist of fees incurred by Deloitte during the fiscal year 2017 and EY during the fiscal year 2016. Included in the balance are the aggregate fees for the audits of our annual consolidated financial statements, the audit of the effectiveness of our internal control over financial reporting, reviews of each interim consolidated financial statements included in our quarterly reports, and other matters related to our SEC compliance and filings. In the fiscal

year 2017, prior to their dismissal, we incurred audit fees of $694,000 from EY that are not included in the table above.

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Audit-Related Fees

Audit-related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit Fees.” In the fiscal year 2017, Deloitte's services related to due diligence activities and auditing of our acquisitions. In the fiscal year 2017, prior to their dismissal, we incurred audit-related fees of $293,000 from EY that are not included in the table above related to acquisition accounting and due diligence. In the fiscal year 2016, EY's fees related primarily to quarterly and annual audits, acquisition accounting, due diligence and other services in connection with our acquisition of assets from EVault, Inc.

All Other Fees

All other fees consist of aggregate fees billed for products and services provided by the independent registered public accounting firm other than those disclosed above. In the fiscal year 2017, prior to their dismissal, we incurred other fees of $314,000 related to capital market advisory services from EY that are not included in the table above. In 2016, these EY’s fees consisted of an amount paid for the use of an online accounting research tool.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and non-audit services provided by our independent registered public accounting firm. The Audit Committee approved all audit and other services provided by EY and Deloitte and the estimated costs of those services. Actual amounts billed, to the extent in excess of the estimated amounts, were periodically reviewed and approved by the Audit Committee.

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EXECUTIVE OFFICERS

The following is biographical information for our current executive officers other than Mr. Ali.

Name	Age	Position
Anthony Folger	46	Chief Financial Officer and Treasurer
Danielle Sheer	37	General Counsel and Secretary
Norman Guadagno	54	Senior Vice President of Marketing
Paul Mellinger	56	Senior Vice President of Global Sales
Deepak Mohan	56	Senior Vice President of Products & Engineering

Anthony Folger

Age: 46

Skills and Qualifications

Senior Leadership Experience: More than 20 years of experience in finance and global operations and more than 10 years of senior leadership experience with high growth, global technology companies.

Anthony Folger has served as our Chief Financial Officer and Treasurer since January 2013 and oversees our customer facing and business operations including customer support, data center operations, finance, investor relations, corporate development, information technology, business analytics and human resources.

From June 2006 to December 2012, Mr. Folger held senior leadership positions at Acronis AG, a leading provider of backup, disaster recovery and secure access solutions, including Chief Financial Officer from October 2008 to December 2012. Prior to Acronis, Mr. Folger held senior finance positions at Starent Networks Corp., an information technology products company, served as an audit manager at PricewaterhouseCoopers LLP and as corporate controller of Marketmax, Inc., a provider of planning software for the retail industry, and of Habama Inc., a software company, from July 2000 to July 2001. Mr. Folger began his career in various audit-related capacities at Deloitte & Touche, LLP.

Mr. Folger holds a B.A. in Accounting and Economics from The College of the Holy Cross, and he is a Certified Public Accountant.

Norman Guadagno

Age: 54

Skills and Qualifications

Senior Leadership Experience: More than a decade of experience at technology companies and specialized marketing agencies has enabled Mr. Guadagno to bring deep strategic, marketing, and technology insight to Carbonite. He has brought a billion dollars worth of products to market and created dozens of value-creating marketing programs. In 2015, he was named by Brand Quarterly Magazine as one of the top 50 over 50 marketing thought leaders in the world.

Norman Guadagno has served as our Senior Vice President of Marketing since January 6, 2016. He has direct responsibility over global marketing, brand strategy, channel marketing and product marketing, and oversees a multifunctional team managing all operational execution areas of the unit. Prior to Carbonite, Mr. Guadagno served as

Senior Vice President of Marketing Strategy for Wire Stone, LLC, an independent digital marketing agency, from July 2015 to December 2015, Vice President of Client Engagement from February 2014 to July 2015, Managing Director from March 2012 to February 2014, and Solution Architect from February 2011 to March 2012. Prior to Wire Stone, Mr. Guadagno served as a Principal for Methodologie, Inc., a design and communications strategy firm, from October 2009 to December 2010, where he was responsible for client strategy and account growth. Prior to Methodologie,

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Mr. Guadagno held various roles at Microsoft Corporation where he led various marketing and strategy teams, and was responsible for the Application Lifecycle Management business with revenue, adoption and field satisfaction targets.

Mr. Guadagno holds an M.A. in Psychology from Rice University and a B.A. in Psychology from the University of Rochester.

Paul Mellinger

Age: 56

Skills and Qualifications
Senior Leadership Experience: More than 15 years of service in various leadership and executive integration roles at IBM, Cognos and SPSS.

Paul Mellinger has served as our Senior Vice President of Global Sales since February 2017 and previously served as our Senior Vice President of EVault from January 2016 to February 2017. He has direct responsibility for Carbonite's worldwide sales business. From January 2013 to December 2015, Mr. Mellinger served as the Vice President of Software Sales at International Business Machines Corporation (“IBM”), where he was primarily responsible for leading IBMs worldwide team of software client leaders. From June 2008 to December 2012, Mr Mellinger also served as Vice President of Sales and Integration for Cognos, a software division of IBM, from June 2006 to June 2008 as Vice President of Software Sales, Asia Pacific, and from January 2003 to June 2006 as Vice President, Software Sales, North America. He serves on the Washington University Alumni and Parents Council.

Mr. Mellinger holds a B.S. in Mechanical Engineering from Washington University in St. Louis and an M.B.A. from the Olin School of Business at Washington University.

Danielle Sheer

Age: 37

Skills and Qualifications
Senior Leadership Experience: More than 12 years of experience in technology-related corporate matters, global mergers and acquisitions, public company reporting, and data security and privacy compliance. She is the founding member of Carbonite's legal team, leading the Company through its initial public offering, several technology acquisitions, and successfully defending against a hostile tender offer and activist shareholder proxy contests.

Danielle Sheer has served as our General Counsel since September 2009 and as our Corporate Secretary since 2011. She has direct responsibility for Carbonite’s global legal and corporate governance affairs, technology partnerships, intellectual property portfolio, and worldwide data security and privacy compliance. From August 2006 to September 2009, Ms. Sheer was a corporate attorney in New York with the law firm of Willkie Farr & Gallagher LLP, where she concentrated on business and securities transactions. Ms. Sheer serves on the board of directors of The Boston Club and the Board of Overseers of Beth Israel Deaconess Medical Center, on the advisory boards of LinkSquares, Inc. and Women in the Enterprise of Science and Technology. She has been named to the Boston Business Journal's “Forty under 40” list of emerging business leaders, honored by the Massachusetts Bar Association and Massachusetts Lawyers Weekly as an “In-house Leader in the Law,” as “Maverick of the Year” for Women in Business, and named an “Emerging Leader for Advancing Women Leaders” by the Boston Business Journal.

Ms. Sheer holds a J.D. from Georgetown University Law Center and a B.A. in Philosophy from George Washington University.

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Deepak Mohan

Age: 56

Skills and Qualifications

Senior Leadership Experience: More than 25 years of experience building secure and scalable commercial enterprise solutions for large and mid-market IT infrastructure. Deep understanding of the data protection space having led $1B+ product divisions at Symantec Corporation and EMC Corporation. Veteran at leading transition to cloud and SaaS applications. Functional expert across IT, software engineering, product management and agile processes.

Deepak Mohan has served as our Senior Vice President of Products and Engineering since February 21, 2017. He has direct responsibility over product strategy, engineering and product management for the entire Carbonite family of home and business solutions. Prior to Carbonite, Mr. Mohan served at Chief Executive Officer and Founder for ActoVoice, Inc., a mobile and cloud-based customer engagement platform, from October 2015 to Feb 2017. Prior to ActoVoice, Inc. Mr. Mohan served as Senior Vice President, Backup & Recovery Systems Division for EMC Corporation, a leading provider of IT storage hardware solutions, from July 2013 to September 2015. Prior to EMC Corporation, Mr. Mohan served as Senior Vice President, Information Management Group for Symantec Corporation, an information protection expert, from 1998 to 2013.

Mr. Mohan holds a Master’s Degree in Computer Science from New York University and a Bachelor’s Degree from the Indian Institute of Technology, Kanpur. India. He holds two patents in the data protection space.

PROPOSAL THREE
ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

In accordance with Section 14A of the Exchange Act, we are asking stockholders to approve, on an advisory (non-binding) basis, the 2017 compensation of our named executive officers (sometimes referred to as "say-on-pay"). We currently intend to submit the compensation of our named executive officers to stockholders annually, consistent with the advisory vote at our 2012 annual meeting of stockholders. Accordingly, you may vote on the following resolution at the Annual Meeting:

"RESOLVED that the stockholders approve, on an advisory (non-binding) basis, the 2017 compensation of the Company's named executive officers as disclosed in the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure in this Proxy Statement."

This vote is non-binding. However, our Board and the Compensation Committee value the opinions expressed by our stockholders and will carefully consider the outcome of this vote when making future compensation decisions for the Company's executive officers.

As described in detail in the Compensation Discussion and Analysis, our compensation programs are designed to motivate our executive officers to create a successful company. Our philosophy is to tie a greater percentage of an executive officer's compensation to stockholder returns and to keep cash compensation to a competitive level while providing the opportunity to be well-rewarded through equity if we perform well over time. We believe that our executive compensation program, with its balance of short-term incentives (including base salary and performance bonuses) and long-term incentives (including performance-based equity awards) reward sustained performance that is aligned with long-term stockholder interests. Stockholders are encouraged to read the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure for a comprehensive explanation and analysis of our executive compensation policies and practices.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE 2017 COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THE COMPENSATION DISCUSSION AND ANALYSIS, THE ACCOMPANYING COMPENSATION TABLES, AND THE RELATED NARRATIVE DISCLOSURE.

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COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the principles underlying our policies and decisions with respect to the compensation of our named executive officers who are included in the “2017 Summary Compensation Table.” These 2017 named executive officers were as follows:

Name	Title
Mohamad Ali	President and Chief Executive Officer (our “CEO”)
Anthony Folger	Chief Financial Officer and Treasurer (our “CFO”)
Danielle Sheer	General Counsel and Secretary
Norman Guadagno	Senior Vice President of Marketing
Paul Mellinger	Senior Vice President of Global Sales
Deepak Mohan	Senior Vice President, Product and Engineering

2017 Executive Summary

We believe we must attract, retain and motivate leaders who can position the Company to deliver financial and operational results for the benefit of our stockholders. Our executive compensation program, which is administered by the Compensation Committee, is designed to achieve this objective. The philosophy of how we will compensate our executive officers in the future may not be the same as how they have been compensated previously. The Compensation Committee will continue to review, evaluate, and modify our executive compensation program to support the Company’s business strategies and align our compensation program with commonly viewed executive compensation best practices, market trends and the success of our business.

Recent Compensation Actions

As part of its annual compensation process, the Compensation Committee of the Board approved the following compensation decisions with respect to the named executive officers:

- 2017 Cash Bonus Plan. Under the 2017 cash bonus plan, bonuses were determined based on the Company’s performance with respect to new bookings, renewal bookings and adjusted free cash flow targets, weighted 50%, 25% and 25%, respectively. Based on the Company’s goal attainment of 83%, 101%, and 102%, respectively, the Compensation Committee certified a bonus payout of 55% of target for the participating named executive officers, as further described in the section below titled "Elements of our Executive Compensation Program".

- 2017 Equity Incentives. The 2017 annual equity program consisted of RSUs and PRSUs as part of the annual equity grants in order to further align senior management compensation with stockholder value. Under the terms of the 2017 RSU award agreements, the RSUs vest in equal annual installments over four years from the date of grant. Under the terms of the 2017 PRSU award agreements, the PRSUs are earned if, within three years from the date of grant, the Company achieves a minimum stock price of $25 per share for 20 consecutive trading days, representing a 52% premium as compared to our December 31, 2016 closing stock price of $16.40 per share. Once the performance condition is satisfied, the PRSUs are subject to service vesting, with vesting of such PRSUs to occur quarterly over the one-year period from the date of performance achievement, subject to the recipient's continued service to the Company through the applicable vesting date. On January 26, 2018 the PRSUs achieved the $25.00 trading price for 20 consecutive trading days and as such the PRSUs began to vest subject to the service-based vesting conditions set forth in the respective PRSU agreement.

Stockholder Engagement

We believe in the importance of engaging with and listening to our stockholders. In recent years we have proactively reached out to many of our largest stockholders to solicit their feedback on our executive compensation, corporate governance, or our disclosure practices. We expect to continue to engage in an open dialogue with our stockholders through a combination of email exchanges, conference calls and in-person meetings. We received valuable feedback from stockholders, as well as appreciation of our ongoing outreach efforts and acknowledgment of our increased engagement from stockholders, and we believe we have addressed many of the topics raised by our stockholders.

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Changes We've Made in Response to Stockholder Feedback
ü Performance-Based Equity Program for 2017
ü Stock Ownership Guidelines for Board and Senior Executives
ü Independent Chairman of the Board
ü Commitment to Ongoing Stockholder Outreach & Engagement

Key Features of our Executive Compensation Program for Named Executive Officers

The Compensation Committee reviews on an ongoing basis the Company's executive compensation and benefits programs to evaluate whether these programs support the Company's compensation philosophy and objectives, as described below, and serve the interests of our stockholders. The Company's practices include the following, each of which the committee believes reinforces our executive compensation philosophy and objectives:

What We Do:

ü Performance-Based Equity - One-half of long-term incentives for all senior management was in the form of performance based restricted stock units (PRSUs) tied directly to stock price appreciation and, once achieved, subject to further time vesting, in order to further align senior management compensation with stockholder returns.

ü Linkage Between Performance Measures and Strategic and Operational Objectives - Our executive compensation program is designed to align compensation incentives with our strategic, business, and financial objectives and the long-term interests of our stockholders.

ü Pay for Performance - A significant percentage of our targeted annual compensation is delivered in the form of variable compensation that is connected to actual performance. For 2017, variable compensation comprised approximately 42% of the targeted annual compensation for our named executive officers.

ü Market Comparison of Executive Compensation Against a Relevant Peer Group

ü "Double Trigger" in the Event of a Change in Control - In the event of a change in control, cash severance benefits and unvested equity awards are predominantly payable or vest upon a "double trigger" for our senior executive officers.

ü Independent Compensation Consultant - The Compensation Committee retains its own compensation consultant to review and advise on the Company's executive compensation program and practices.

ü Maximum Payout Caps for Annual Cash Incentive Compensation

ü Share Ownership Guidelines - It is recommended that our Chief Executive Officer hold a number of shares of our common stock with a value in excess of 3x his or her annual base salary, and our other senior executive officers hold a number of shares of our common stock with a value in excess of 1x their annual base salaries, each within three years of the adoption of the guidelines or, if later, promotion or hire.

ü Emphasis on Future Pay Opportunity vs. Current Pay Opportunity - For 2017, all our long-term incentive awards were delivered 100% in the form of equity, designed to encourage retention and stock price appreciation through restricted stock units (RSUs) and PRSUs.

What We Don't Do:
ý No Change in Control or Perquisite Tax Gross-Ups
ý No Excessive Severance Benefits
ý No Service-Based Defined Benefit Pension Plan or Other Similar Benefits
ý No Repricing of Underwater Stock Options

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How We Set Executive Compensation

Executive Compensation Philosophy

We believe the achievement of our business and financial objectives will be reflected in the value of our equity. We also believe that equity compensation is a significant motivator in attracting qualified employees to technology companies such as ours. In order to align the incentives our executive officers receive with the creation of stockholder value, our compensation philosophy ties a significant percentage of an executive officer's compensation to stockholder returns. To this end, in 2017, we used RSUs and PRSUs as major components of our named executive officer annual compensation program.

Executive Compensation Objectives and Determination Process

We recognize that our ability to excel depends on the integrity, knowledge, imagination, skill, diversity, and teamwork of our employees. The principles and objectives of our compensation and benefits program for our employees generally, and for our named executive officers specifically, are to:

- attract, engage and retain individuals of superior ability, experience, and managerial talent, enabling us to be an employer of choice in the highly-competitive and dynamic technology industry;
- align compensation incentives with our strategic, business, and financial objectives and the long-term interests of our stockholders;
- motivate and reward executives whose knowledge, skills, and performance are deemed instrumental to our continued success; and
- provide total compensation that is fair, reasonable, and competitive.

Many of our compensation components simultaneously fulfill one or more of these principles and objectives. As discussed in further detail below, the material components of our 2017 executive compensation program consisted of base salary, annual cash incentive awards and equity compensation. In addition, our named executive officers are eligible to participate in our corporate-wide benefit programs and receive post-termination benefits upon a qualifying termination of employment. We view each component of executive compensation as related but distinct, and we review total compensation of our executive officers annually to determine whether our overall compensation objectives are achieved. While we have identified particular compensation objectives that each component of executive compensation serves, our compensation programs are designed to be flexible and complementary, and to collectively serve the executive compensation objectives described above.

We determine the appropriate level for each compensation component in part based on the compensation offered to similarly situated executives at a peer group of companies and as supported by relevant market surveys, as well as on the market experience of members of the Compensation Committee and the insight of the Compensation Committee's independent compensation consultant. In addition, we consider internal equity and consistency, the length of service of our executive officers, our overall performance, the executive officer's individual performance, retention, and for executives other than the Chief Executive Officer, recommendations by the Chief Executive Officer, and other considerations that the Compensation Committee deems relevant. Members of our human resources, finance, and legal departments attend Compensation Committee meetings from time-to-time at the request of the Compensation Committee and provide background on materials presented to the Compensation Committee.

Independent Compensation Consultant

In order to assist our Compensation Committee in making executive compensation decisions, the Compensation Committee has engaged Radford, an Aon Company. In 2015, the Compensation Committee directed Radford to conduct a competitive market analysis and compensation study for our executive positions to consider changes to be implemented in the 2016 and 2017 executive compensation program. Radford also provides assistance to the Compensation Committee on determining strategic financial and operational performance goals and advice on rules, regulations, and general compensation trends regarding executive compensation.

Radford is directly accountable to the Compensation Committee for the performance of its services. In its role as advisor to the Compensation Committee, a senior representative of Radford attends meetings of the Compensation Committee, as requested by the Chairperson of the Compensation Committee, and otherwise consults with members of the Compensation Committee as necessary. The Compensation Committee reviewed the independence of Radford under Nasdaq and SEC rules and concluded that its work as compensation consultant has not raised any conflict of interest issues.

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Competitive Peer Group

We operate in a competitive talent environment, particularly in the geographic areas in which we maintain a presence. As such, our Compensation Committee believes that it is important to review the executive compensation practices of companies that are similar in business and size to us to evaluate whether our executive compensation program is competitive and to assist us in meeting our overall executive compensation objectives. While the Compensation Committee factors peer compensation levels and practices into setting compensation levels, this peer information is one of many factors that the Compensation Committee considers in determining compensation levels, in addition to the other factors described above in "Executive Compensation Objectives and Determination Process". For base salary and target bonus, the Compensation Committee uses a guideline competitive positioning at the 50th percentile of the market data and for equity compensation uses a guideline competitive positioning at the 65th percentile of the market data. However, compensation may vary from the competitive positioning guidelines based on experience, scope of the position, individual performance and the overall performance of the Company.

In 2017, the Compensation Committee directed Radford to review the Company’s competitive peer group established in late 2016 to assess whether it remained appropriate for the Compensation Committee’s competitive market review. Based on that review, Radford recommended that the following companies be deleted from the Company’s historical peer group because they no longer met the requirements with regard to revenue, market capitalization or number of employees: Constant Contact, Covisint, Demandware, eGain, SciQuest, Upland Software and Zix. In addition, based on similar considerations and the structure of the Company’s business, Radford recommended the addition of: Barracuda Networks, Bottomline Technologies, inContact, Interactive Intelligence Group, Jive Software, Varonis Systems and VASCO Data Security. The following revised peer group was used for purposes of evaluating 2017 executive compensation decisions:

Barracuda Networks	Bazaarvoice, Inc.	Bottomline Technologies
Brightcove, Inc.	Callidus Software, Inc.	Cornerstone OnDemand, Inc.
Five9, Inc.	Guidance Software, Inc.	inContact
Interactive Intelligence Group	Intralinks Holdings, Inc.	Jive Software
Limelight Networks, Inc.	LivePerson, Inc.	LogMeIn, Inc.
Marchex, Inc.	PROS Holdings, Inc.	SPS Commerce, Inc.
Stamps.com Inc.	Tangoe, Inc.	TechTarget, Inc.
Varonis Systems	VASCO Data Security	XO Group, Inc.

Stockholder Advisory Vote on Executive Compensation

At our 2017 Annual Meeting, we conducted our annual non-binding advisory vote on the compensation of our named executive officers, commonly referred to as a “say-on-pay” vote, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. At our 2017 Annual Meeting, more than 97% of the votes cast by stockholders on this proposal were cast in support of the 2017 compensation of our named executive officers as reported in our 2017 Proxy Statement.

Elements of Our Executive Compensation Program
The summary table below and the narrative that follows identifies and describes the key elements of our 2017 annual executive compensation program:

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Element	Form of Compensation	Objective & Considerations
Base Salary	Fixed cash payment	Designed to establish a base foundation to attract, retain and motivate executive officers and for the Company to remain competitive among peer companies. Salary increases are determined after giving consideration to the base compensation paid to similarly situated executives within the peer group and making an assessment of each executive officer's responsibilities, individual performance and contributions, prior experience, current base salary, equity ownership, and the amounts paid to such executive officer's peers inside the Company.
Incentive Cash Bonus	Variable cash payment	Designed to motivate and reward executive officers for the achievement of pre-established performance goals for the applicable fiscal year, as set by the Compensation Committee. Our Compensation Committee determines target bonuses after considering incentive cash bonuses paid to similarly situated executives within the peer group and other factors such as each executive officer's responsibilities, individual contributions, prior experience, sustained performance, current base salary, equity ownership, and the target bonuses of such executive officer's peers inside the Company.
Equity Incentives	RSUs and PRSUs	Designed to align the interests of our named executive officers with the interests of our stockholders, with an emphasis on stock price appreciation through PRSUs, and encourage the retention of our named executive officers through the vesting period of the awards. Our Compensation Committee considers certain internal factors when granting equity awards, such as the relative job scope, the value of prior and outstanding equity awards, and individual performance and contributions, as well as certain external factors such as the levels of unvested equity awards held by our named executive officers in relation to similarly situated executives within the peer group.

Base Salaries

The initial base salaries for our named executive officers were established through arm's-length negotiations at the time that each executive was hired, taking into account the executive's qualifications, experience, expected position with the Company, and prior salary. After hire, the annual base salaries of our named executive officers are approved and reviewed annually by our Compensation Committee.

Early in 2017, our Compensation Committee approved the base salaries for each of our named executive officers after considering the base salary paid to similarly-situated executives in the peer group and making an assessment of each executive officer's responsibilities, individual performance and contributions, prior experience, current base salary, equity ownership, and the amounts paid to such executive officer's peers inside the Company. The base salary for Mr. Mohan was approved at his hire and was determined after considering market data, the Company's internal compensation practices and the compensation levels that he received from his prior employer. Our Compensation Committee set the annual base salaries of our named executive officers for 2017 as follows:

Name	2017 Base Salary	Percentage Increase over 2016 Base Salary
Mohamad Ali	$423,000	10%
Anthony Folger	$371,315	3%
Danielle Sheer	$289,224	5%
Norman Guadagno	$286,000	4%
Paul Mellinger	$309,000	3%
Deepak Mohan	$325,000	N/A

Incentive Cash Bonuses

Each of our named executive officers is eligible to participate in our incentive cash bonus plan based upon attainment of key corporate operating metrics, each of which are established annually by our Compensation Committee. Our Compensation Committee annually measures the attainment of these metrics and bonuses.

In 2017, our Compensation Committee approved incentive cash bonus arrangements for our named executive officers and other employees reporting directly to the CEO. Our Compensation Committee approved target bonuses for each of our executives for 2017 after considering incentive cash bonuses paid to similarly situated executives within the peer group and other factors such as each executive officer’s responsibilities, individual performance and contributions, current base salary, equity ownership, and the

target bonuses of such executive officer's peers inside the Company. The target bonus opportunity for Mr. Mohan was approved at his time of hire and determined after considering market data, the Company's internal compensation practices and the compensation levels that he received from his prior employer. Based on these considerations, for 2017, our Compensation Committee approved target bonus opportunities for each of our named executive officers as set forth in the table below.

Name	2017 Target Bonus Opportunity (as a % of Base Salary)
Mohamad Ali	100%
Anthony Folger	65%
Danielle Sheer	40%
Norman Guadagno	45%
Paul Mellinger	75%
Deepak Mohan	50%

In order to link the incentive cash bonus program with the Company's strategic operating plan, the Compensation Committee chose metrics that the Compensation Committee determined were supportive of our corporate operating objectives and based the underlying target goals on the Company's Board-approved budget and operating plan. The Compensation Committee established the payout formula for each of the performance metrics to encourage strong, focused performance. Given the economic and market conditions at the time the targets were set, the target payout level was designed to represent strong performance, while payout at the maximum level was designed to represent superior performance. For 2017, the Compensation Committee chose new bookings, renewal bookings and adjusted free cash flow as the performance metrics for the incentive cash bonus program, weighted 50%, 25% and 25%, respectively:

- New Bookings Target (weighted 50%). The bonus for the new bookings component is calculated based on a range of 85% to 115% achievement of the target goal, with linear calculations for achievement between 85% and 100% of target and achievement between 100% and 115% of target. In order to receive a threshold payout equal to 25% of a participant's bonus opportunity for this component, the Company must achieve at least 85% of the new bookings target. In addition, in order for the new bookings accelerator (i.e., a greater than 100% bonus payout) to become effective, the 2017 adjusted free cash flow achievement must be within the achievement range (at least 85% of target or $23.6 million). The 2017 new bookings target included new bookings of Double-Take Software, Inc., the assets of which were acquired by the Company in January 2017. For purposes of the 2017 incentive program, new bookings is defined as revenue recognized during the period plus the change in deferred revenue on a constant currency basis (excluding deferred revenue recorded in connection with acquisitions) during the same period minus renewal bookings made during the period. The following chart illustrates the 2017 performance measures and associated weightings for the new bookings component of the 2017 incentive cash bonus program for each of the eligible named executive officers.

For 2017, our new bookings target was $73.44 million and we achieved new bookings of $61.06 million or 83% of the target. Achievement of 83% of the target resulted in a payout of 0% for this portion of the incentive cash bonus.

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- Renewal Bookings (weighted 25%). The bonus for the renewal bookings component is calculated based on a range of 85% to 115% achievement of the target, with linear calculations for achievement between 85% and 100% of target and achievement between 100% and 115% of target. The 2017 renewal bookings target included renewal bookings of the Double-Take Software, Inc. business. For purposes of the 2017 incentive program, customer renewal bookings is defined as total bookings less new bookings, excluding any bookings associated with promotions that result in early renewal of subscriptions. The following chart illustrates the 2017 performance measures and associated weightings for the renewal bookings component of the 2017 incentive cash bonus program for each of the eligible named executive officers.

For 2017, the renewal bookings target was set at $180.34 million. In order to receive a threshold payout equal to 25% of a participant's bonus opportunity for this component, the Company was required to achieve a renewal rate of 85% of target, with a maximum payout if the Company achieved 115% of target. In 2017, the Company achieved a renewal booking of $182.84 million which is 101% of its renewal bookings target, resulting in a payout of 109% for this portion of the incentive cash bonus.

- Adjusted Free Cash Flow (weighted 25%). The bonus for the adjusted free cash flow component is calculated based on a range of 85% to 130% achievement of the target goal, with linear calculations for achievement between 85% and 100% of target and achievement between 100% and 130% of target. For purposes of the 2017 incentive cash bonus program, adjusted free cash flow is defined as cash from operating activities less capital expenditures and adjusted for currency fluctuations from budgeted rates and less extraordinary items, such as nonrecurring litigation costs and certain M&A and stock offering costs. The following chart illustrates the 2017 performance measures and associated weightings for the free cash flow component of the 2017 incentive cash bonus program for each of the eligible named executive officers.

For 2017, the adjusted free cash flow target was set at $27.82 million. In order to receive a threshold payout equal to 25% of a participant's bonus opportunity for this component, the Company was required to achieve adjusted free cash flow of $23.65 million, with a maximum payout if the Company achieved adjusted free cash flow of $32 million. The adjusted free cash

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flow target was set based on the Board approved plan for the year. In 2017, the Company achieved $28.35 million in adjusted free cash flow which is 102% of its adjusted free cash flow, resulting in a payout of 113% for this portion of the incentive cash bonus.

The table below sets forth the incentive cash bonuses paid to each of our participating named executive officers based on the 2017 incentive cash bonus program.

Name	2017 Target Bonus Opportunity	2017 Bonus Payouts	2017 Payout as a % of Target
Mohamad Ali	$416,875	$229,506	55%
Anthony Folger	$240,183	$132,144	55%
Danielle Sheer	$115,128	$63,341	55%
Norman Guadagno	$127,875	$70,362	55%
Paul Mellinger	$230,625	$126,885	55%
Deepak Mohan	$139,479	$76,713	55%

Sign-On Bonus

In connection with the commencement of his employment, Mr. Mohan received a cash sign-on bonus of $30,000. Mr. Mohan was obligated to repay a prorated portion of this sign-on bonus in the event he voluntarily terminated his employment with the Company prior to the one year anniversary of his employment.

Equity Incentives

The goal of our equity incentive awards is to align the interests of our named executive officers with the interests of our stockholders. Our equity incentive awards are designed to encourage the retention of our named executive officers through the vesting period of the awards and to further align the interests of our named executive officers with stockholders through the use of PRSUs. In determining the size of the equity incentives to be awarded to our named executive officers, we take into account a number of internal factors, such as the relative job scope, the value of prior and outstanding equity awards, and individual performance and contributions, as well as external factors such as the levels of unvested stock options held by our executive officers in relation to similarly situated executives within the peer group and the equity grant practices within the peer group and the broader market.

We use equity grants to compensate our named executive officers both in the form of initial grants in connection with the commencement of employment and additional, or “refresher,” grants. Our Compensation Committee considers the award of refresher grants on an annual basis; however, the Committee retains discretion to make equity grants to our employees, including our named executive officers, at any time, including in connection with the promotion of an employee, to reward an employee, for retention purposes, or for other circumstances recommended by management.

To reward and retain our named executive officers in a manner that aligns their interests with stockholders’ interests, we historically used stock options as the primary incentive vehicles for long-term compensation. Although the Compensation Committee believes that stock options are a useful tool for meeting our compensation goal of increasing long-term stockholder value by tying the value of the stock options to our future performance, in 2017 we used RSUs and PRSUs so that, in the interest of retention, our executives would obtain some value from their equity interests independent of appreciation in the market price of our stock while still being incentivized to achieve increases in the value of our Common Stock over time.

Our Compensation Committee granted RSU and PRSU awards to each of our named executive officers, as set forth in the table below. The number of shares of our Common Stock subject to each award was determined based on the

current and projected value of previously granted equity awards and the percentage of such existing equity awards that have vested, relative to similarly situated executives within the peer group and/or individual and company performance. The table below sets forth the February 2017 equity grants to each of our named executive officers. Under the terms of the 2017 RSU award agreements, the RSUs vest in equal annual installments over four years from the date of grant. Under the terms of the 2017 PRSU award agreements, the PRSUs are earned if, within three years from the date of grant, the Company achieves a minimum stock price of $25 per share for 20 consecutive trading days, representing a 52% premium as compared to our December 31, 2016 closing stock price of $16.40 per share. Once the performance condition is satisfied, the PRSUs are subject to service vesting, with vesting of such PRSUs to occur quarterly over the one-year period from the date of performance achievement, subject to the recipient's continued service to the Company through the applicable vesting date. On January 26, 2018, the PRSUs achieved the $25.00 trading price for 20 consecutive trading days and as such the PRSUs began to vest subject to the service-based vesting conditions set forth in the respective PRSU agreement.

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Name	Shares of Common Stock Subject to PRSU Award	Shares of Common Stock Subject to RSU Award
Mohamad Ali	59,623	59,632
Anthony Folger	25,761	25,761
Danielle Sheer	15,742	15,742
Norman Guadagno	17,174	17,174
Paul Mellinger	20,036	20,036
Deepak Mohan	19,315	19,900

In connection with the commencement of his employment with the Company, Mr. Mohan received a RSU grant with respect to 19,900 shares of our common stock and a PRSU grant with respect to 19,315 shares of our common stock, in each instance subject to the same vesting conditions as the RSUs and PRSUs granted to our other named executive officers. The Committee approved these grants as inducements for Mr. Mohan to join the Company and to incentivize performance over the vesting period. On January 26, 2018 the PRSUs achieved the $25.00 trading price for 20 consecutive trading days and as such the PRSUs began to vest subject to the service-based vesting conditions set forth in the respective PRSU agreement.

Equity Ownership Guidelines

On February 1, 2016, the Board approved stock ownership guidelines for the Board and senior executives. The Board believes that significant stock ownership by Board members and Section 16 officers of the Company further aligns their interests with the interests of the Company's stockholders. The ownership guidelines recommend that within three (3) years after (i) the effective date of the guidelines or (ii) being elected or appointed to a position as a Section 16 officer of the Company, whichever is later, (i) the Chief Executive Officer shall own shares of the Company's common stock having a value, at a minimum, of three times his or her annual base salary; and (ii) each other Section 16 officer shall own shares of the Company's common stock having a value, at a minimum, of one time his or her annual base salary. Shares that count toward the ownership guideline include shares owned by the Section 16 officer in the open market, shares held in trust for the benefit of the Section 16 officer or the benefit of the Section 16 officer's immediate family, shares held in qualified plans, and unvested restricted stock units subject only to time-based vesting. Unvested and unexercised stock options and performance-based restricted stock awards that have not yet been earned and vested do not count toward the ownership guidelines.

Other Benefits

Our named executive officers participate in our corporate-wide benefit plans and programs, which includes participation in our tax-qualified defined contribution plan. We do not offer a service-based defined benefit pension plan or other similar benefits to our employees. Similarly, we do not provide nonqualified retirement programs.

Separation Benefits

Historically, at the time an executive commences employment with the Company, the Company entered into an offer letter agreement, severance agreement or employment agreement with that executive which provided for certain termination benefits if the executive's employment was terminated by the Company without cause or due to good reason. As noted above, in February 2016, the Compensation Committee adopted a Severance Plan for members of the Company's senior executive team, including each of the named executive officers, other than Mr. Ali. Mr. Ali is

entitled to severance benefits under the terms of his employment agreement.

The Severance Plan provides for the payment of severance and other benefits to eligible senior executives in the event of a termination of employment with the Company (i) by the Company other than for cause or (ii) by a senior executive for good reason within twelve (12) months following a sale event, each as defined in the Severance Plan (each a "Terminating Event"). In the event of a termination by the Company other than for cause and not in connection with a sale event, the executive would receive a lump sum payment equal to half of the executive's annual base salary and Company-paid COBRA premiums for up to six months. If the Terminating Event occurs within a certain time period in connection with a sale event with respect to the Company, the executive would be eligible to receive a lump sum payment equal to (i) the sum of the executive's annual base salary, (ii) the sum of the target bonus as if it had been achieved at 100% for the fiscal year in which the sale event occurred, and (iii) COBRA premiums for up to 18-months post-termination.

In approving executive severance arrangements, our Compensation Committee considered the Company's historical compensation practices as well as termination benefits provided to similarly situated employees within the peer group. We believe that severance arrangements help secure the continued employment and dedication of our named executive officers and are important as a recruitment and retention device as many of the companies with which we compete for executive talent have similar arrangements in place for their senior management.

Additional information regarding the severance arrangements with each of our named executive officers as of December 31, 2017, including a quantification of benefits that would have been received by each named executive officer had his or her employment terminated on December 31, 2017, is provided under “2017 Potential Payments upon Termination or Change in Control.”

CEO Pay Ratio

We have determined the internal pay ratio between our chief executive officer’s total compensation and the median annual total compensation of all employees (except the chief executive officer). We identified the “Median Employee” based on the annual total compensation of all full-time, part-time, and temporary employees employed by us on December 31, 2017. We annualized new-hire salaries using a mid-month convention based on hire date and included in gross pay the value of shares vested during the year in gross pay. For employees hired through an acquisition, we annualized their compensation based on the payroll integration date to ensure capture of a full year of earnings. Our chief executive officer had annual total compensation of $2,940,954 and our Median Employee had annual total compensation of $87,367. Therefore, our chief executive officer’s annual total compensation is 34 times that of the median of the annual total compensation of all of our employees. The CEO pay ratio disclosure rules of Item 402(u) of Regulation S-K provide significant flexibility regarding the methodology used to identify the median employee and calculate the median employee’s annual total compensation. Our methodology may differ materially from the methodology used by other companies to prepare their CEO pay ratio disclosures. Moreover, differences in employee populations, geographic locations, business strategies and compensation practices may contribute to a lack of comparability between our CEO pay ratio and the CEO pay ratio reported by other companies, including those within our industry.

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2017 Summary Compensation Table

The following table summarizes the compensation earned by our chief executive officer, chief financial officer and our four other most highly compensated executive officers as of December 31, 2017.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation ($) (4)	Total ($)
Mohamad Ali, President and Chief Executive Officer	2017	415,933	—	2,283,906	—	229,506	11,610	2,940,954
	2016	384,375	—	1,105,250	—	434,345	10,600	1,934,570
	2015	375,000	—	—	—	277,500	2,190	654,690
Anthony Folger, Chief Financial Officer and Treasurer	2017	369,235	—	986,646	—	132,144	11,610	1,499,635
	2016	358,750	—	485,500	—	263,502	6,955	1,114,707
	2015	336,667	—	2,795,694	184,723	124,567	17,765	3,459,416
Danielle Sheer General Counsel and Corporate Secretary	2017	287,604	—	602,918	—	63,341	11,286	965,149
	2016	279,000	—	442,100	—	126,108	12,226	859,434
	2015	267,917	20,000	253,348	147,778	79,303	25,009	793,355
Paul Mellinger Senior Vice President of Global Sales	2017	307,269	20,235	767,378	—	126,885	26,681	1,248,448
	2016	298,864	—	464,442	—	151,972	38,985	954,263
Norman Guadagno Senior Vice President of Marketing	2017	283,885	—	657,764	—	70,362	42,697	1,054,708
	2016	268,750	65,000	464,442	—	136,659	9,830	944,681
Deepak Mohan Senior Vice President of Product and Engineering	2017	267,500	30,000	840,342	—	76,713	28,721	1,243,277

(1) The amounts reported in this column represent discretionary bonuses paid by the Company, including cash sign-on bonuses to Mr. Guadagno and Mr. Mohan, a retention bonus paid to Ms. Sheer and a spot bonus paid to Mr. Mellinger.

(2) The amounts reported in these columns represent the aggregate grant date fair value of the RSU and PRSU awards, in each case calculated in accordance with FASB ASC Topic 718, except that no forfeiture assumptions were included. Under FASB ASC Topic 718, the vesting condition related to the 2015, 2016 and 2017 PRSUs is considered a market condition and not a performance condition. Accordingly, there is no grant date fair value below or in excess of the amount reflected in the table above that could be calculated and disclosed based on achievement of the underlying market condition. For a discussion of the assumptions made in the valuations reflected in this column, see Note 10 of the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2017. Note that amounts reported in this column reflect the accounting cost for these equity awards, and do not correspond to the actual economic value that may be received by the recipients of these equity awards.

(3) The amounts reported in this column represent incentive cash bonuses paid by the Company.

(4) The amounts reported in this column for 2017 include life insurance premiums, 401(k) match contributions for each of the named executive officers ($10,800 for each of Ms. Sheer and Messrs. Ali and Folger) as well as housing allowances for Mr. Guadagno and Mr. Mellinger ($37,010 for Mr. Guadagno in 2017 and $29,200 for Mr. Mellinger in 2016). The cost for Mr. Mellinger's housing allowance is based on amounts actually paid by him.

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2017 Grants of Plan-Based Awards Table

The following table provides information regarding grants of plan-based awards made to the named executive officers during the year ended December 31, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units (#) (3)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards ($/SH)	Grant Date Fair Value of Stock & Option Awards ($) (4)
		Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)				
Mohamad Ali	2/1/2017	104,219	416,875	833,750	—	—	—	—	—	—	
	2/10/2017	—	—	—	14,908	59,632	59,632	—	—	—	1,141,953
	2/10/2017	—	—	—	—	—	—	59,632	—	—	1,141,953
Anthony Folger	2/1/2017	60,046	240,183	480,366	—	—	—	—	—	—	
	2/10/2017	—	—	—	6,440	25,761	25,761	—	—	—	493,323
	2/10/2017	—	—	—	—	—	—	25,761	—	—	493,323
Danielle Sheer	2/1/2017	28,782	115,128	230,256	—	—	—	—	—	—	
	2/10/2017	—	—	—	3,936	15,742	15,742	—	—	—	301,459
	2/10/2017	—	—	—	—	—	—	15,742	—	—	301,459
Norman Guadagno	2/1/2017	31,969	127,875	255,750	—	—	—	—	—	—	
	2/10/2017	—	—	—	4,294	17,174	17,174	—	—	—	328,882
	2/10/2017	—	—	—	—	—	—	17,174	—	—	328,882
Paul Mellinger	2/1/2017	57,656	230,625	461,250	—	—	—	—	—	—	
	2/10/2017	—	—	—	5,009	20,036	20,036	—	—	—	383,689
	2/10/2017	—	—	—	—	—	—	20,036	—	—	383,689
Deepak Mohan	2/1/2017	34,870	139,479	278,958	—	—	—	—	—	—	
	5/5/2017	—	—	—	—	—	—	19,900	—	—	431,830
	8/4/2017	—	—	—	4,829	19,315	19,315	—	—	—	408,512

(1) These amounts consist of the threshold, target and maximum cash award levels set in 2017 under the Company's incentive cash bonus program. The amount actually earned by each named executive officer is included in the Non-Equity Incentive Plan Compensation column in the 2017 Summary Compensation Table. Please see "Compensation Discussion and Analysis" for further information regarding the incentive cash bonuses.

(2) These amounts consist of PRSUs awards that vest in quarterly increments, subject to the Company's attainment of a stock price of $25.00 per share for 20 consecutive trading days within three years from the date of grant. On January 26, 2018, the PRSUs achieved the $25.00 trading price for 20 consecutive trading days and as such the PRSUs began to vest subject to the service-based vesting conditions set forth in the PRSU Agreement.

(3)

These RSUs vest in equal annual installments over four years from the vesting commencement date set forth in the award agreement until all shares subject to the RSUs are vested.

(4) The amounts reported in this column represent the aggregate grant date fair value of the RSU and PRSU awards, calculated in accordance with FASB ASC Topic 718, except that no forfeiture assumptions were included. Under FASB ASC Topic 718, the vesting condition related to the PRSU awards is considered a market condition and not a performance condition. Accordingly, there is no grant date fair value below or in excess of the amount reflected in the table above for the 2017 PRSUs that could be calculated and disclosed based on achievement of the underlying market condition. For a discussion of the assumptions made in the valuations reflected in this column, see Note 10 of the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2017. Note that amounts reported in this column reflect the accounting cost for these equity awards, and do not correspond to the actual economic value that may be received by the recipients of these equity awards.

Outstanding Equity Awards at Fiscal Year-End Table

The following table shows grants of stock options and unvested stock awards held by the named executive officers as of December 31, 2017.

	Option Awards							Stock Awards			
Name	Date of Grant	Vesting Commencement Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Mohamad Ali	12/3/2014	12/3/2014 (1)	250,000	—	—	14.44	12/03/2024	—	—	—	—
	12/3/2014	12/3/2014 (2)	—	—	—	—	—	100,000	2,510,000	—	—
	2/1/2016	2/1/2016 (3)	—	—	—	—	—	56,250	1,411,875	—	—
	2/1/2016	2/1/2016 (3)	—	—	—	—	—	59,632	1,496,763	—	—
	2/10/2017	2/10/2017(4)	—	—	—	—	—	—	—	59,632	1,496,763
Anthony Folger	1/31/2013	1/31/2013 (5)	125,000	—	—	9.62	1/31/2023	—	—	—	—
	2/25/2014	2/25/2014 (6)	46,875	3,125	—	10.17	2/25/2024	—	—	—	—
	2/12/2015	2/12/2015 (6)	17,188	7,812	—	14.89	2/12/2025	—	—	—	—
	2/25/2014	2/25/2014 (7)	—	—	—	—	—	1,562	39,206	—	—
	2/12/2015	2/12/2015 (3)	—	—	—	—	—	15,000	376,500	—	—
	6/3/2015	6/3/2015 (3)	—	—	—	—	—	50,000	1,255,000	—	—
	2/1/2016	2/1/2016 (3)	—	—	—	—	—	22,500	564,750	—	—
	2/10/2017	2/10/2017(3)	—	—	—	—	—	25,761	646,601	—	—
	6/3/2015	6/3/2015 (8)	—	—	—	—	—	50,000	1,255,000	—	—
	2/10/2017	2/10/2017(4)	—	—	—	—	—	—	—	25,761	646,601
Danielle Sheer	01/31/2013	01/31/2013(5)	1,250	—	—	9.62	1/31/2023	—	—	—	—
	02/25/2014	02/25/2014(6)	5,000	1,250	—	10.17	2/25/2024	—	—	—	—
	02/12/2015	02/12/2015(6)	5,000	6,250	—	14.89	2/12/2025	—	—	—	—
	02/25/2014	02/25/2014(7)	—	—	—	—	—	625	15,688	—	—

	06/11/2014	06/11/2014(7)	—	—	—	—	—	2,187	54,894	—	—
	02/12/2015	02/12/2015(3)	—	—	—	—	—	7,500	188,250	—	—
	02/01/2016	02/01/2016(3)	—	—	—	—	—	22,500	564,750	—	—
	02/10/2017	02/10/2017(3)	—	—	—	—	—	15,742	395,124	—	—
	02/10/2017	02/10/2017(4)	—	—	—	—	—	—	—	15,742	395,124
Norman Guadagno	1/7/2016	1/11/2016 (3)	—	—	—	—	—	15,384	386,138	—	—
	2/1/2016	2/1/2016 (3)	—	—	—	—	—	11,250	282,375	—	—
	2/10/2017	2/10/2017 (3)	—	—	—	—	—	17,174	431,067	—	—
	2/10/2017	2/10/2017(4)	—	—	—	—	—	—	—	17,174	431,067
Paul Mellinger	1/7/2016	1/4/2016 (3)	—	—	—	—	—	15,384	386,138	—	—

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	2/1/2016	2/1/2016 (3)	——	1,250	282,375	—	—
	2/10/2017	2/10/2017(3)	——	20,036	502,904	—	—
	2/10/2017	2/10/2017(4)	———	—		20,036	502,904
Deepak Mohan	5/5/2017	2/21/2017(3)	——	19,900	499,490	—	—
	8/4/2017	8/4/2017(4)	———	—		19,315	484,807

(1) These stock options vest on the first day after the completion of a Trading Period based on the Company's Common Stock's satisfaction of certain Performance Criteria. As used herein, the term "Trading Period" means a period of 20 consecutive days in which the Common Stock has satisfied the requisite Performance Criteria. As used herein, the term "Performance Criteria" means that the Company's Common Stock has traded on the NASDAQ Global Market at a price per share of $15.00 (with respect to 25% of the shares); $17.50 (with respect to 25% of the shares); $20.00 (with respect to 25% of the shares); and $22.50 (with respect to 25% of the shares). On November 7, 2016, December 9, 2016, July 5, 2017, and December 14, 2017 the stock options achieved the $15.00, $17.50, $20.00, and $22.50 trading price targets for 20 consecutive trading days, respectively.

(2) These RSUs vested as to 50,000 units on December 31, 2015, and as to the remaining 400,000 units, 25% vested on December 3, 2015, the balance of which shall vest in equal quarterly installments over the next 36 months and will be settled on each applicable vest date in shares of Common Stock.

(3) These RSUs will vest in four equal annual installments and will be settled on each applicable vesting date in shares of the Company's Common Stock.

(4) These PRSU awards vest in quarterly increments, subject to the Company’s attainment of a stock price of $25.00 per share for 20 consecutive trading days within three years from the date of grant. On January 26, 2018, the PRSUs achieved the $25.00 trading price for 20 consecutive trading days and as such the PRSUs began to vest subject to the service-based vesting conditions set forth in the PRSU Agreement.

(5) These stock options vest as to 25% the shares subject to the options on the first anniversary of the vesting commencement date and as to the balance of the shares subject to the options in equal quarterly installments until all shares subject to the options are vested.

(6) These stock options vest as to the shares subject to the options in equal quarterly installments over four years commencing on the date of grant until all shares subject to the options are vested.

(7) These RSUs vest in equal quarterly installments and will be settled on each applicable vest date in shares of the Company's Common Stock.

(8) These PRSUs will begin to accrue as to 25% on each one year anniversary of the date of grant, but shall only become vested and settled in shares of the Company's Common Stock as to any then-accrued portion with respect to (i) 50,000 PRSUs if the Company's Common Stock attains an average price of at least $14.00, and (ii) 50,000 PRSUs if the Company's Common Stock attains an average price of at least $18.00 per share. On October 13, 2016 and March 1, 2017 the PRSUs achieved the $14.00 and $18.00 trading price hurdles for 20 consecutive days and the PRSUs became vested as to the market based performance goal. A portion of the awards are still subject to time-based vesting.

2017 Option Exercises and Stock Vested Table

The following table sets forth, for each named executive officer, the number of shares acquired upon exercise of stock options and vesting of stock awards and the value realized during the year ended December 31, 2017.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Mohamad Ali	—	—	218,750	4,606,563
Anthony Folger	—	—	113,750	2,725,221
Danielle Sheer	126,250	945,853	58,125	1,227,931
Norman Guadagno	—	—	38,878	804,585
Paul Mellinger	—	—	38,878	810,226
Deepak Mohan	—	—	—	—

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Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our named executive officers during the year ended December 31, 2017.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our named executive officers during the year ended December 31, 2017.

Potential Payments Upon Termination or Change in Control

The following is a summary of the severance arrangements that were in place with each of our named executive officers as of December 31, 2017. As discussed above, in February 2016, the Compensation Committee adopted the Severance Plan that replaced the severance terms provided for in the existing severance arrangements with our named executive officers, other than Mr. Ali.

Employment Agreement with Mohamad Ali

On December 3, 2014, the Company entered into an employment agreement with Mr. Ali setting forth the terms of his employment as the Company's President and Chief Executive Officer, including his eligibility to receive severance benefits. Under the employment agreement, Mr. Ali is entitled to continued payment of his base salary for twelve months and an additional payment in an amount equal to twelve times the Company's contribution amount for the monthly health insurance premium during the month immediately prior to termination, in each case, subject to Mr. Ali's execution and delivery of a full release in favor of the Company. In addition, the 450,000 RSUs granted to Mr. Ali pursuant to his employment agreement are subject to the following termination and change in control provisions:

- The portion of the 400,000 RSUs granted under the employment agreement (the "Four-Year RSUs") and the unvested shares subject to all outstanding annual equity grants, if any, that would have vested during the twelve month period following the date of termination or change of control, as applicable, will fully accelerate upon the earlier of (i) a change of control or (ii) termination of Mr. Ali's employment without Cause or upon his resignation for Good Reason (each as defined in Mr. Ali's employment agreement). Any shares that are scheduled to vest after the 12-month anniversary of the change of control, will remain subject to Mr. Ali's continued service through the applicable vesting date, unless vesting is accelerated due to a qualifying termination of employment.

- The balance of the Four-Year RSUs and the unvested shares subject to all outstanding equity grants, if any, will fully accelerate upon the occurrence of either (A) termination of Mr. Ali's employment with the Company without Cause or upon his resignation for Good Reason within one year following or three months prior to, a change of control or (B) upon the first anniversary of the change of control, provided that Mr. Ali is employed by the Company or the acquirer in such change of control on such first anniversary date.

Executive Severance Plan

The Company adopted the Executive Severance Plan, which provides for the payment of severance and other benefits to eligible senior executives, in a standardized manner, in the event of a termination of employment with the Company (i) by the Company other than for cause or (ii) by a senior executive for good reason within twelve (12) months following a sale event, each as defined in the Severance Plan (each, a "Terminating Event"). In the event of a termination by the Company other than for cause and not in connection with a sale event, the executive would receive

a lump sum payment equal to half of the executive's annual base salary and Company paid COBRA premiums for up to six months. If the Terminating Event occurs within a certain time period in connection with a sale event with respect to the Company, the executive would be eligible to receive a lump sum payment equal to (i) the sum of the executive's annual base salary, (ii) the sum of the target bonus as if it had been achieved at 100% for the fiscal year in which the sale event occurred, and (iii) COBRA premiums for up to 18-months post-termination.

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Potential Payments Upon Termination, Upon a Change in Control, and Upon Termination Following a Change in Control

The following table sets forth quantitative estimates of the payments and benefits that would have accrued to each of our named executive officers upon a termination of employment or a change in control of the Company as of December 31, 2017, as described above pursuant to the terms of the Executive Severance Plan or, with respect to Mr. Ali, the employment agreement in effect as of December 31, 2017.

Name	Involuntary Termination Without Cause or For Good Reason/Constructive Termination ($)	Involuntary Termination Without Cause or For Good Reason/Constructive Termination in Connection with a Change in Control ($)	Change in Control ($)
Mohamad Ali			
Salary Continuation	652,506	652,506	—
Value of Accelerated Options (1)	—	—	—
Value of Accelerated RSUs(1)	2,510,000	6,915,401	2,510,000
Value of Continued Health Care Coverage Premiums	—	—	—
Total	3,162,506	7,567,907	2,510,000
Anthony Folger			
Salary Continuation	185,658	611,498	—
Value of Accelerated Options (1)	—	274,519	—
Value of Accelerated RSUs(1)	—	4,783,658	—
Value of Continued Health Care Coverage Premiums	8,048	24,144	—
Total	193,706	5,693,819	—
Danielle Sheer			
Salary Continuation	144,612	404,352	—
Value of Accelerated Options (1)	—	188,250	—
Value of Accelerated RSUs(1)	—	1,613,830	—
Value of Continued Health Care Coverage Premiums	8,048	24,144	—
Total	152,660	2,230,576	—
Norman Guadagno			
Salary Continuation	143,000	413,875	—
Value of Accelerated Options (1)	—	—	—
Value of Accelerated RSUs(1)	—	1,530,648	—
Value of Continued Health Care Coverage Premiums	—	—	—
Total	143,000	1,944,523	—
Paul Mellinger			
Salary Continuation	154,500	461,250	—
Value of Accelerated Options (1)	—	—	—
Value of Accelerated RSUs(1)	—	1,674,321	—
Value of Continued Health Care Coverage Premiums	7,389	22,167	—

Total	161,889	2,157,738	—
Deepak Mohan			
Salary Continuation	162,500	464,479	—
Value of Accelerated Options (1)	—	—	—
Value of Accelerated RSUs(1)	—	984,297	—
Value of Continued Health Care Coverage Premiums	8,308	24,925	—
Total	170,808	1,473,701	—

(1) The amounts were calculated based on the aggregate amount by which the fair market value of our Common Stock subject to unvested equity awards exceeded the aggregate exercise price of the awards as of December 31, 2017, using $25.10 per share, the closing market price of our Common Stock as of December 30, 2017.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement, which will be incorporated by reference into our Form 10-K for the fiscal year ended December 31, 2017.

Compensation Committee
Todd Krasnow, Chair
Peter Gyenes
Stephen Munford

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 15, 2018, information regarding beneficial ownership of our Common Stock by:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our Common Stock;
- each executive officer whose name appears in the Summary Compensation Table in this Proxy Statement;
- each of our directors and director nominees; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined according to the rules of the SEC and generally means that a person has beneficial ownership of a security if such person possesses sole or shared voting or investment power of that security, including options and warrants that are currently exercisable or exercisable within 60 days of March 15, 2018. Except as indicated in the footnotes below, we believe, based on the information furnished to us and SEC filings, that the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock shown that they beneficially own, subject to community property laws where applicable. The information does not necessarily indicate beneficial ownership for any other purpose.

Shares of Common Stock subject to stock options currently exercisable or exercisable within 60 days of March 15, 2018, are deemed to be outstanding for computing the percentage ownership of the person holding these options and the percentage ownership of any group of which the holder is a member but are not deemed outstanding for computing the percentage of any other person.

We have based our calculation of the percentage of beneficial ownership on 28,548,353 shares of Common Stock outstanding on March 15, 2018. Unless otherwise noted below, the address for each of the stockholders in the table below is c/o Carbonite, Inc., Two Avenue de Lafayette, Boston, Massachusetts, 02111.

	Shares of Common Stock Beneficially Owned (1)			
Name of Beneficial Owner	Common Stock	Shares Subject to Options Exercisable Within 60 Days	Number of Shares Beneficially Owned	Percent
5% Stockholders:				
Renaissance Technologies LLC (2) 800 Third Avenue New York, NY 10022	1,716,100	—	1,716,100	6.0%
BlackRock, Inc. (3) 55 East 52nd Street New York, NY 10055	1,626,512	—	1,626,512	5.7%
The Vanguard Group (4) 100 Vanguard Blvd. Malvern, PA 19355	1,603,221	—	1,603,221	5.6%
ArrowMark Colorado Holdings LLC (5) 100 Fillmore Street, Suite 325 Denver, Colorado 80206	1,467,017	—	1,467,017	5.1%
Named Executive Officers and Directors:				
David Friend (6)	1,217,443	81,251	1,298,694	4.5%
Todd Krasnow (7)	337,230	60,500	397,730	1.4 %
Charles Kane	33,459	56,500	89,959	*
Stephen Munford	38,459	43,000	81,459	*
Peter Gyenes	36,459	9,000	45,459	*

Scott Daniels	35,959	—	35,959	*	
Marina Levinson	13,680	—	13,680	*	
Mohamad Ali	271,741	264,908	536,649	1.9%	
Anthony Folger	57,779	201,754	259,533	*	
Danielle Sheer	24,888	20,028	44,916	*	
Norman Guadagno	26,430	4,293	30,723	*	
Paul Mellinger	14,874	5,009	19,883	*	
Deepak Mohan	3,374	4,829	8,203	*	
Executive Officers and Directors as a Group (13 persons) (6)(7)	2,111,775	751,072	2,892,847	9.8	%

*Represents beneficial ownership of less than one percent (1%) of our outstanding Common Stock.

(1) Shares shown in the table above include shares held in the beneficial owner's name or jointly with others, or in the name of a bank, nominee, or trustee for the beneficial owner's account.

(2) Based solely upon a Schedule 13G filed with the SEC on February 14, 2018, Renaissance Technologies LLC has the sole power to vote 1,716,100 shares of Common Stock and the sole power to dispose of 1,716,100 shares of Common Stock. Renaissance Technologies Holdings Corporation owns a majority of the capital stock of Renaissance Technologies LLC and has the sole power to direct the vote of 1,716,100 shares of Common Stock, the sole power to direct the disposition of 1,716,100 shares of Common Stock and the shared power to direct the disposition of 200 shares of Common Stock.

(3) Based solely upon a Schedule 13G filed with the SEC on February 1, 2018, BlackRock Inc. has the sole power to vote 1,572,349 shares of Common Stock and the sole power to dispose of 1,626,512 shares of Common Stock.

(4) Based solely upon a Schedule 13G filed with the SEC on February 8, 2018, The Vanguard Group has the sole power to vote 47,193 shares of Common Stock and the sole power to dispose of 1,555,350 shares of Common stock and the shared power to dispose of 47,871 shares of Common Stock. The Vanguard Group owns a majority of the capital stock of Vanguard Fiduciary Trust Company and has the sole power to direct the vote of 45,871 shares. The Vanguard Group owns a majority of the capital stock of Vanguard Investments Australia, Ltd. and has the sole power to direct the vote of 3,322 shares of Common Stock.

(5) Based solely upon a Schedule 13G filed with the SEC on February 9, 2018, ArrowMark Colorado Holdings LLC has the sole power to vote 1,467,017 shares of Common Stock and the sole power to dispose of 1,467,017 shares of Common Stock.

(6) Includes 132,391 shares of Common Stock held by the David Friend Revocable Trust, 24,525 shares held by Margaret F. A. Shepherd, and 27,006 shares owned by the Margaret F.A. Shepherd Revocable Trust.

(7) Includes 15,000 shares of Common Stock held by the Rachel L. Krasnow Trust, 15,000 shares of Common Stock held by the Charles S. Krasnow Trust, 15,000 shares of Common Stock held by the Eric J. Krasnow Trust, 25,000 shares of Common Stock held by the Todd and Deborah Krasnow Charitable Remainder Trust, 30,000 shares of Common Stock held by the Todd and Deborah Krasnow Charitable Trust, and 10,000 shares of Common Stock held by the Hobart Road Charitable Remainder Trust.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Based solely on the Company's review of the reports that have been filed by or on behalf of such persons in this regard and written representations from our executive officers and directors that no other reports were required, during and for the fiscal year ended December 31, 2017, the Company believes that all Section 16(a) filing requirements applicable to the Company's directors, executive officers, and greater than 10% stockholders were met, except for: (i) the Form 4 filed by Norman Guadagno on January 17, 2017, relating to the withholding of shares to satisfy withholding obligations (one transaction reported late); (ii) the Form 4 filed by Cassandra Hudson on February 3, 2017, relating the exercise and sale of Common Stock pursuant to a 10b5-1 Trading Plan (two transactions reported late); (iii) the Form 3 filed by Deepak Mohan on February 21, 2017, relating to securities beneficially owned (one transaction reported late); (iv) the Form 4 filed by Jeffry Flowers on March 7, 2017, relating to the sale of shares of Common Stock (one transaction reported late); (v) the Form 4 filed by Danielle Sheer on March 16, 2017, relating to the sale of shares to satisfy tax withholding obligations (one transaction reported late); (vi) the Form 4 filed by Norman Guadagno on March 16, 2017, relating to the sale of shares to satisfy tax withholding obligations (one transaction reported late); (vii) the Form 4 filed by Mohamad Ali on June 8, 2017, related to the withholding of shares to satisfy tax withholding obligations (one transaction reported late); and (viii) the Form 4 filed by Anthony Folger on June 8, 2017, related to the sale of shares to satisfy tax withholding obligations (one transaction reported late).

PROPOSAL FOUR

ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

In addition to providing stockholders with the opportunity to cast an advisory vote on executive compensation, we are also conducting an advisory (non-binding) vote to ask stockholders whether future advisory votes on executive compensation should be held every one, two, or three years.

The Board believes that an annual stockholder advisory vote on executive compensation will facilitate more direct stockholder input about executive compensation. An annual stockholder advisory vote on executive compensation is consistent with our policy of reviewing our compensation program annually, as well as being accountable to our stockholders on executive compensation and corporate governance matters. We believe that an annual vote would be the best governance practice for us at this time.

This vote is non-binding. However, the Board and the Compensation Committee value the opinions expressed by our stockholders and expect to implement the vote frequency receiving the most support from the Company’s stockholders. While the Board believes that a vote every year is the best choice for the Company and our stockholders, the Board acknowledges that there are a number of points of view regarding the relative benefits of the frequency of stockholder advisory votes an executive compensation. You will not be voting to approve or disapprove the Board’s recommendation of holding future advisory votes every year, but rather have the opportunity to vote for future advisory votes every 1-year, 2-years, or 3-years. You may also abstain from voting on this item.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE OPTION OF EVERY 1-YEAR FOR FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION.

ANNUAL REPORTS

The Company's 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (our "2017 Annual Report"), contains consolidated financial statements for the 2017 fiscal year and is being mailed along with this Proxy Statement to those stockholders that choose to receive a copy of the proxy materials in the mail. Stockholders that receive the Notice can access this Proxy Statement and our 2017 Annual Report to stockholders at www.proxyvote.com, which does have "cookies" that identify visitors to the site. Requests for copies of our 2017 Annual Report and Form 10-K may also be directed to Investor Relations, Carbonite, Inc., Two Avenue de Lafayette, Boston, Massachusetts 02111.

We have filed our Form 10-K for the year ended December 31, 2017 with the SEC. It is available free of charge at the SEC's website at www.sec.gov. Upon written request by a Carbonite stockholder, we will mail without charge a copy of our Form 10-K, including the financial statements and financial statement schedules, but excluding exhibits to the Form 10-K. Exhibits to the Form 10-K are available upon payment of a reasonable fee, which is limited to our expenses in furnishing the requested exhibit. All requests should be directed to Investor Relations, Carbonite, Inc., Two Avenue de Lafayette, Boston, Massachusetts 02111.

By Order of the Board of
Directors,

Danielle Sheer
General Counsel and Secretary

March 29, 2018

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements, annual reports, and notices of internet availability of proxy materials with respect to two or more stockholders sharing the same address by delivering a single copy of the applicable document(s) addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for stockholders and cost savings for companies.

Brokers with account holders who are Carbonite stockholders may be “householding” our proxy materials. A single Proxy Statement or Notice may be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that it will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you notify your broker or the Company that you no longer wish to participate in “householding.”

If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate Proxy Statement, 2017 Annual Report (as defined below), and/or Notice you may (1) notify your broker, (2) direct your written request to: Investor Relations, Carbonite, Inc., Two Avenue de Lafayette, Boston, Massachusetts 02111 or (3) contact our Investor Relations department by e-mail at Investor.Relations@carbonite.com. Stockholders who currently receive multiple copies of the Proxy Statement and/or Notice at their address and would like to request “householding” of their communications should contact their broker. In addition, the Company will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of our 2017 Annual Report, Proxy Statement, and/or Notice to a stockholder at a shared address to which a single copy of the document(s) was delivered.

OTHER MATTERS

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

2018 Notice of Meeting and Proxy Statement

Appendix A: Reconciliation of GAAP to Non-GAAP Measures

RECONCILIATION OF GAAP TO NON-GAAP MEASURES
(amounts in thousands)
(unaudited)

Calculation of Bookings

	Twelve Months Ended December 31,	
	2017	2016
Revenue	$ 239,462	$ 206,986
Add:		
Deferred revenue ending balance	124,514	107,591
Deferred revenue divested	373	—
Impact of foreign exchange	—	240
Less:		
Impact of foreign exchange	1,474	—
Beginning deferred revenue from acquisitions	9,420	6,830
Deferred revenue beginning balance	107,591	98,703
Change in deferred revenue balance	6,402	2,298
Bookings (1)	$ 245,864	$ 209,284

(1) Bookings represent the aggregate dollar value of customer subscriptions received during a period and are calculated as revenue recognized during a particular period plus the change in total deferred revenue, excluding deferred revenue recorded in connection with acquisitions, net of foreign exchange during the same period.

2018 Notice of Meeting and Proxy Statement

Calculation of Non-GAAP Net Income (Loss) and Non-GAAP Net Income (Loss) per Share

	Twelve Months Ended December 31,	
	2017	2016
Net loss (1)	$ (4,002)	$ (4,099)
Add:		
Fair value adjustment of acquired deferred revenue	6,628	2,314
Amortization of intangibles	10,271	3,870
Stock-based compensation expense	12,742	8,900
Patent litigation-related expense	374	1
Restructuring-related expense	1,047	852
Acquisition-related expense	6,794	5,464
Hostile takeover-related expense	352	—
CEO transition expense	4,434	—
Less:		
Income tax effect of non-GAAP adjustments	$ 15,807	$ 876
Non-GAAP net income (loss)	$ 22,833	$ 16,423
GAAP net (loss) income per share:		
Basic	$ (0.14)	$ (0.15)
Assuming Dilution	$ (0.14)	$ (0.15)
Non-GAAP net income per share:		
Basic	$ 0.82	$ 0.61
Assuming Dilution	$ 0.79	$ 0.60
Weighted-average shares outstanding:		
Basic	$ 27,779,098	$ 27,028,636
Diluted	$ 27,779,098	$ 27,028,636
Non-GAAP net income (loss) per share:		
Basic	$ 27,779,098	$ 27,028,636
Diluted	$ 29,079,105	$ 27,491,064

(1) Non-GAAP net income and non-GAAP net income per share excludes the impact of purchase accounting adjustments on acquired deferred revenue, amortization expense on intangible assets, stock-based compensation expense, litigation-related expense, restructuring-related expense, acquisition-related expense, intangible asset impairment charges, non-cash convertible debt interest expense and the income tax effect of non-GAAP adjustments.

The Company believes that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to the Company's financial condition and results of operations. The Company's management uses these non-GAAP measures to compare the Company's performance to that of prior periods and uses these measures in financial reports prepared for management and the Board. The Company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other software-as-a-service companies, many of which present similar non-GAAP financial measures to investors.

The Company does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant items that are required by GAAP to be recorded in the Company's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management. In order to compensate for these limitations, management presents its non-GAAP financial measures in connection with its GAAP results. The Company urges investors to review the reconciliation of its non-

GAAP financial measures to the comparable GAAP financial measures, which it includes in its financial statements and publicly filed reports, and not to rely on any single financial measure to evaluate the Company’s business.

CARBONITE, INC. TWO AVENUE DE LAFAYETTE BOSTON, MA 02111	VOTE BY INTERNET Before The Meeting - Got to www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 PM Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. During The Meeting - Got to www.virtualshareholdermeeting.com/carb2018 You may attend the meeting via the Internet and vote during the meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 PM Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
M73179-P50198 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

CARBONITE, INC.

For All	Withhold All	For All Except

To withhold authority to vote for any individual nominee(s), mark “For All Except” and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR ALL on the following:

1. Election of Directors Nominees:
   - 01) Mohamad Ali
   - 02) Scott Daniels
   - 03) Peter Gyenes

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The Board of Directors recommends you vote FOR the following proposals:

	For	Against	Abstain
2. To ratify the selection of Deloitte & Touche LLP as Carbonite, Inc.’s independent registered public accounting firm for the fiscal year ending December 31, 2018.			
3. To approve, on an advisory basis, the 2017 compensation of Carbonite, Inc.’s named executive officers.			

The Board of Directors recommends you vote for 1-YEAR on the following proposal:

	1 Year	2 Years	3 Years	Abstain
4. To vote, on an advisory basis, on the frequency of future executive compensation advisory votes.				

NOTE: Such other business as may properly come before the meeting or any adjournment or postponement thereof.
Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Annual Report and Notice and Proxy Statement are available at www.proxyvote.com

M73180-P50198
CARBONITE, INC.
2018 Annual Meeting of Stockholders
May 8, 2018 9:00 AM ET

This proxy is solicited by the Board of Directors

The stockholder(s) hereby appoint(s) Mohamad Ali and Danielle Sheer, or either of them, as proxies, each with the power to appoint his or her substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of CARBONITE, INC. that the stockholder(s) is/are entitled to vote at the 2018 Annual Meeting of Stockholders on May 8, 2018, beginning at 9:00 AM ET at www.virtualshareholdermeeting.com/carb2018, and any adjournment or postponement thereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations: FOR all of the director nominees listed under Proposals 1, FOR Proposals 2 and 3 and for the ONE YEAR frequency under Proposal 4.

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