

SunOpta Inc.  
Form 10-Q  
November 09, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended **October 1, 2011**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-34198

**SUNOPTA INC.**

*(Exact name of registrant as specified in its charter)*

**CANADA**

*(State or other jurisdiction of incorporation or  
organization)*

**Not Applicable**

*(I.R.S. Employer Identification No.)*

**2838 Bovaird Drive West**

**Brampton, Ontario L7A 0H2, Canada**

*(Address of principal executive offices)*

**(905) 455-1990**

*(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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of the registrant's common shares outstanding as of November 1, 2011 was 65,744,268.

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**SUNOPTA INC.**  
**FORM 10-Q**  
**For the quarterly period ended October 1, 2011**  
**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

<b>Item 1. Financial Statements</b>	
Consolidated Statements of Operations for the quarter and three quarters ended October 1, 2011 and October 2, 2010	4
Consolidated Statements of Comprehensive Earnings (Loss) for the quarter and three quarters ended October 1, 2011 and October 2, 2010	6
Consolidated Balance Sheets as at October 1, 2011 and January 1, 2011	8
Consolidated Statements of Shareholders' Equity as at and for the three quarters ended October 1, 2011 and October 2, 2010	9
Consolidated Statements of Cash Flows for the quarter and three quarters ended October 1, 2011 and October 2, 2010	10
Notes to Consolidated Financial Statements	12
<b>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>34</b>
<b>Item 3 Quantitative and Qualitative Disclosures about Market Risk</b>	<b>60</b>
<b>Item 4 Controls and Procedures</b>	<b>62</b>

**PART II - OTHER INFORMATION**

<b>Item 1 Legal Proceedings</b>	<b>63</b>
<b>Item 1A Risk Factors</b>	<b>63</b>
<b>Item 6 Exhibits</b>	<b>63</b>

All financial information is expressed in United States Dollars. The closing rate of exchange on November 1, 2011 was CDN \$1 = U.S. \$0.9815.

**Forward-Looking Statements**

This quarterly report of SunOpta Inc. (the "Company") for the quarterly period ended October 1, 2011 contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as anticipate, estimate, intend, project, potential, continue, believe, could, would, should, might, plan, will, may, the negatives of such terms, and words and phrases of similar meaning. These forward-looking statements include, but are not limited to references to possible operational consolidation, reduction of non-core assets and operations, business strategies, plant and production capacities, revenue generation potential, competitive strengths, goals, capital expenditure plans, business and operational growth and expansion plans, anticipated operating margins and operating income increases, gains or losses associated with business transactions, cost reductions, rationalization and improved efficiency initiatives, potential new product offerings, and references to the future growth of the business and global markets for the Company's products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments as well as other factors that we believe are appropriate in the circumstances.

Whether actual results and developments will agree with our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- we have continuing indemnification obligations relating to our recent dispositions;

- our credit agreement restricts how we may operate our business, and our business may be materially and adversely affected if these restrictions prevent us from implementing our business plan;
- our inability to meet the covenants of our credit facilities could materially and adversely affect our business;
- we may require additional capital to maintain current growth rates, which may not be available on favourable terms or at all;
- our customers generally are not obligated to continue purchasing products from us;
- consumer preferences for natural and organic food products are difficult to predict and may change;
- we operate in a highly competitive industry;
- an interruption at one of our manufacturing facilities could negatively affect our business;
- if we lose the services of our key management, our business could suffer;
- if we do not manage our supply chain effectively, our operating results may be adversely affected;
- volatility in the prices of raw materials, packaging and energy could increase our cost of sales and reduce our gross margins;
- climate change legislation could have an impact on our financial condition and consolidated results of operations;
- adverse weather conditions could impose costs on our business;
- the exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities could dilute the value of our common shares;
- impairment charges in goodwill or other intangible assets could adversely impact our financial condition and consolidated results of operations;
- technological innovation by our competitors could make our food products less competitive;
- we rely on protection of our intellectual property and proprietary rights;
- we are subject to substantial environmental regulation and policies;
- SunOpta Foods is subject to significant food and health regulations;
- our operations are influenced by agricultural policies;
- product liability suits, recalls and threatened market withdrawals, could have a material adverse effect on our business;
- litigation and regulatory enforcement concerning marketing and labeling of our food products could negatively affect our business;
- our lack of management and operational control over Mascoma may limit our ability to protect or increase the value of our interest in Mascoma;
- loss of a key customer could materially reduce revenues and earnings;
- fluctuations in exchange rates, interest rates and certain commodities could adversely affect our results of operations, financial condition and liquidity;
- we may not be able to effectively manage our growth and integrate acquired companies; and
- our operating results and share price are subject to significant volatility.

Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our Annual Report on Form 10-K for the fiscal year ended January 1, 2011. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

**PART I - FINANCIAL INFORMATION**

**Item 1 Financial Statements**

**Consolidated Financial Statements**

**SunOpta Inc.**

**For the quarter and three quarters ended October 1, 2011 and October 2, 2010  
(Unaudited)**

SUNOPTA INC.

3

October 1, 2011 10-Q

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**SunOpta Inc.**

## Consolidated Statements of Operations

For the quarter ended October 1, 2011 and October 2, 2010

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	<b>Quarter ended October 1, 2011</b>	Quarter ended October 2, 2010
<b>Revenues</b>	<b>\$ 272,420</b>	\$ 217,487
<b>Cost of goods sold</b>	<b>239,478</b>	184,723
<b>Gross profit</b>	<b>32,942</b>	32,764
Selling, general and administrative expenses	22,981	21,118
Intangible asset amortization	1,413	1,155
Other expense, net (note 13)	321	7,453
Goodwill impairment (note 4)	-	1,654
Foreign exchange loss (gain)	934	(58)
<b>Earnings from continuing operations before the following</b>	<b>7,293</b>	1,442
Interest expense, net	2,033	2,036
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>5,260</b>	(594)
<b>Provision for (recovery of) income taxes</b>	<b>1,438</b>	(1,053)
<b>Earnings from continuing operations</b>	<b>3,822</b>	459
<b>Discontinued operations (note 3)</b>		
Loss from discontinued operations, net of income taxes	(383)	(15,616)
Gain on sale of discontinued operations, net of income taxes	71	49,867
<b>(Loss) earnings from discontinued operations, net of taxes</b>	<b>(312)</b>	34,251
<b>Earnings</b>	<b>3,510</b>	34,710
Earnings attributable to non-controlling interests	144	643
<b>Earnings attributable to SunOpta Inc.</b>	<b>\$ 3,366</b>	\$ 34,067
<b>Earnings (loss) per share - basic (note 7)</b>		
-from continuing operations	\$ 0.06	\$ -
-from discontinued operations	(0.01)	0.53
	\$ 0.05	\$ 0.53
<b>Earnings (loss) per share - diluted (note 7)</b>		
-from continuing operations	\$ 0.06	\$ -
-from discontinued operations	(0.01)	0.52
	\$ 0.05	\$ 0.52

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(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

4

October 1, 2011 10-Q

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**SunOpta Inc.**

## Consolidated Statements of Operations

For the three quarters ended October 1, 2011 and October 2, 2010

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	<b>Three quarters ended October 1, 2011</b>	Three quarters ended October 2, 2010
<b>Revenues</b>	<b>\$ 823,562</b>	\$ 667,727
<b>Cost of goods sold</b>	<b>721,324</b>	561,932
<b>Gross profit</b>	<b>102,238</b>	105,795
Selling, general and administrative expenses	<b>69,150</b>	70,670
Intangible asset amortization	<b>4,191</b>	3,474
Other (income) expense, net (note 13)	<b>(2,506)</b>	8,812
Goodwill impairment (note 4)	<b>-</b>	1,654
Foreign exchange loss (gain)	<b>1,012</b>	(1,494)
<b>Earnings from continuing operations before the following</b>	<b>30,391</b>	22,679
Interest expense, net	<b>6,537</b>	7,625
<b>Earnings from continuing operations before income taxes</b>	<b>23,854</b>	15,054
<b>Provision for income taxes</b>	<b>8,566</b>	3,277
<b>Earnings from continuing operations</b>	<b>15,288</b>	11,777
<b>Discontinued operations (note 3)</b>		
Loss from discontinued operations, net of income taxes	<b>(988)</b>	(15,096)
Gain on sale of discontinued operations, net of income taxes	<b>71</b>	63,676
<b>(Loss) earnings from discontinued operations, net of income taxes</b>	<b>(917)</b>	48,580
<b>Earnings</b>	<b>14,371</b>	60,357
Earnings attributable to non-controlling interests	<b>1,523</b>	1,211
<b>Earnings attributable to SunOpta Inc.</b>	<b>\$ 12,848</b>	\$ 59,146
<b>Earnings (loss) per share basic (note 7)</b>		
-from continuing operations	<b>\$ 0.21</b>	\$ 0.16
-from discontinued operations	<b>(0.01)</b>	0.75
	<b>\$ 0.20</b>	\$ 0.91
<b>Earnings (loss) per share diluted (note 7)</b>		
-from continuing operations	<b>\$ 0.21</b>	\$ 0.16

<b>-from discontinued operations</b>		<b>(0.01)</b>		0.74
	\$	<b>0.20</b>	\$	0.90
(See accompanying notes to consolidated financial statements)				

SUNOPTA INC. 5

October 1, 2011 10-Q

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**SunOpta Inc.**

Consolidated Statements of Comprehensive Earnings (Loss)

For the quarter ended October 1, 2011 and October 2, 2010

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	<b>Quarter ended October 1, 2011</b>	Quarter ended October 2, 2010
<b>Earnings from continuing operations</b>	<b>\$ 3,822</b>	\$ 459
<b>(Loss) earnings from discontinued operations, net of income taxes</b>	<b>(312)</b>	34,251
	<b>3,510</b>	34,710
Currency translation adjustment	<b>(4,069)</b>	3,313
Change in fair value of interest rate swap, net of income taxes	<b>79</b>	63
<b>Other comprehensive (loss) earnings, net of income taxes</b>	<b>(3,990)</b>	3,376
<b>Comprehensive (loss) earnings</b>	<b>(480)</b>	38,086
Comprehensive earnings attributable to non-controlling interests	<b>83</b>	871
<b>Comprehensive (loss) earnings attributable to SunOpta Inc.</b>	<b>\$ (563)</b>	\$ 37,215

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

6

October 1, 2011 10-Q

**SunOpta Inc.**

Consolidated Statements of Comprehensive Earnings (Loss)

For the three quarters ended October 1, 2011 and October 2, 2010

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	<b>Three quarters ended October 1, 2011</b>	Three quarters ended October 2, 2010
<b>Earnings from continuing operations</b>	<b>\$ 15,288</b>	\$ 11,777
<b>(Loss) earnings from discontinued operations, net of income taxes</b>	<b>(917)</b>	48,580
	<b>14,371</b>	60,357
Currency translation adjustment	(572)	(852)
Change in fair value of interest rate swap, net of taxes	292	203
<b>Other comprehensive loss, net of income taxes</b>	<b>(280)</b>	(649)
<b>Comprehensive earnings</b>	<b>14,091</b>	59,708
Comprehensive earnings attributable to non-controlling interests	1,699	768
<b>Comprehensive earnings attributable to SunOpta Inc.</b>	<b>\$ 12,392</b>	\$ 58,940
(See accompanying notes to consolidated financial statements)		

SUNOPTA INC.

7

October 1, 2011 10-Q

**SunOpta Inc.**

## Consolidated Balance Sheets

As at October 1, 2011 and January 1, 2011

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	<b>October 1, 2011</b>		January 1, 2011
<b>Assets</b>			(see notes 2 and 3)
<b>Current assets</b>			
Cash and cash equivalents (note 14)	\$ 7,526	\$	2,335
Accounts receivable	<b>112,863</b>		98,777
Inventories (note 5)	<b>204,760</b>		200,278
Prepaid expenses and other current assets	<b>24,720</b>		30,023
Current income taxes recoverable	<b>655</b>		-
Deferred income taxes	<b>489</b>		870
Current assets held for sale (note 3)	-		424
	<b>351,013</b>		332,707
<b>Investments</b> (note 3)	<b>33,845</b>		33,345
<b>Property, plant and equipment</b>	<b>119,964</b>		115,200
<b>Goodwill</b>	<b>48,751</b>		48,174
<b>Intangible assets</b>	<b>56,544</b>		60,200
<b>Deferred income taxes</b>	<b>12,233</b>		11,889
<b>Other assets</b>	<b>1,977</b>		2,930
<b>Non-current assets held for sale</b> (note 3)	-		4,855

	\$	624,327	\$	609,300
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank indebtedness (note 8)	\$	107,713	\$	75,910
Accounts payable and accrued liabilities		103,427		122,743
Customer and other deposits		2,065		2,858
Income taxes payable		329		973
Other current liabilities		2,610		7,674
Current portion of long-term debt (note 9)		18,790		22,247
Current portion of long-term liabilities		672		493
Current liabilities held for sale (note 3)		-		1,028
		<b>235,606</b>		<b>233,926</b>
<b>Long-term debt (note 9)</b>		<b>35,183</b>		<b>42,485</b>
<b>Long-term liabilities</b>		<b>6,187</b>		<b>6,596</b>
<b>Deferred income taxes</b>		<b>25,608</b>		<b>20,808</b>
<b>Non-current liabilities held for sale (note 3)</b>		<b>-</b>		<b>358</b>
		<b>302,584</b>		<b>304,173</b>
<b>Equity</b>				

SunOpta Inc.  
shareholders  
equity

<b>Capital Stock</b> (note 6)	<b>181,751</b>	180,661
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65,742,868  
common  
shares  
(January 1,  
2011 -  
65,500,091)

<b>Additional paid in capital</b> (note 6)	<b>13,771</b>
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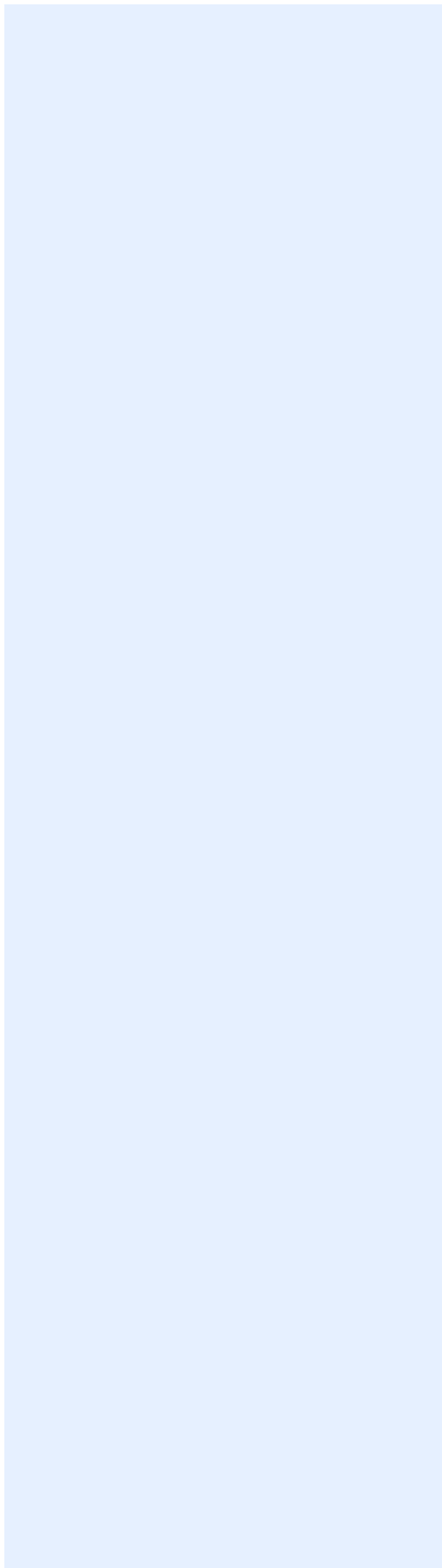
**Other Regulatory Matters**

In the United States, manufacturing, sales, promotion and other activities following the approval of a new drug are subject to regulation by regulatory authorities in addition to the FDA, including the Federal Trade Commission, the Department of Justice, the Centers for Medicare & Medicaid Services, other divisions of the Department of Health and Human Services and state and local governments. Among other laws and requirements, our sales, marketing and scientific/educational programs would need to comply with the anti-kickback provisions of the Social Security Act, the False Claims Act and similar state laws. Our pricing and rebate programs would need to comply with pricing and reimbursement rules. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of our activities are potentially subject to federal and state consumer protection and unfair competition laws. Finally, certain jurisdictions have other trade regulations from time to time to which our business is subject such as technology or environmental export controls and political trade embargoes. Depending on the circumstances, failure to meet these applicable regulatory requirements can result in criminal prosecution, fines or other penalties, injunctions, private qui tam actions brought by individual whistleblowers in the name of the government, or refusal to allow us to enter into supply contracts, including government contracts.

In addition to regulations enforced by the FDA, we also are subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future foreign, federal, state and local laws and regulations. Our research and development involves the controlled use of hazardous materials, including corrosive, explosive and flammable chemicals, various radioactive compounds and compounds known to cause birth defects. Although we believe that our safety procedures for storing, handling, using and disposing of such materials comply with the standards prescribed by applicable regulations, the risk of contamination or injury from these materials cannot be completely eliminated. In the event of an accident, we could be held liable for any damages that result, and any such liability could materially affect our ongoing business.

**Employees**

As of February 1, 2014, we had 180 full-time employees, 151 of whom were engaged in research and development and 29 of whom were engaged in general business management, administration and finance. Over 57 percent of our employees hold advanced degrees. Our success depends, in part, on our ability to recruit and retain talented and trained scientific and business personnel and senior leadership. We believe that we have been successful to date in obtaining and retaining these individuals, but we do not know whether we will be successful in doing so in the future. None of our employees are represented by a labor union or covered by a collective bargaining agreement, nor have we experienced work stoppages. We believe that relations with our employees are good.





**Table of Contents****Executive Officers**

The following table lists the positions, names and ages of our executive officers as of February 15, 2014:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Adelene Q. Perkins	54	President and Chief Executive Officer
Julian Adams, Ph.D.	59	President of Research & Development
Lawrence E. Bloch, M.D., J.D.	48	Executive Vice President, Chief Financial Officer and Chief Business Officer
Vito J. Palombella, Ph.D.	51	Chief Scientific Officer
David A. Roth, M.D.	51	Chief Medical Officer

*Adelene Q. Perkins* has served as our President and Chief Executive Officer since January 2010, President and Chief Business Officer from October 2008 through December 2009 and as our Executive Vice President and Chief Business Officer between September 2006 and October 2008. Ms. Perkins served as Executive Vice President of IPI from February 2006 until its merger with DPI in September 2006 and Chief Business Officer of IPI from June 2002 until the DPI merger. Prior to joining IPI, Ms. Perkins served as Vice President of Business and Corporate Development of TransForm Pharmaceuticals, Inc., a private pharmaceutical company, from 2000 to 2002. From 1992 to 1999, Ms. Perkins held various positions at Genetics Institute, most recently serving as Vice President of Emerging Business and General Manager of the DiscoverEase® business unit. From 1985 to 1992, Ms. Perkins held a variety of positions at Bain & Company, a strategy consulting firm. Ms. Perkins received a B.S. in Chemical Engineering from Villanova University and an M.B.A. from Harvard Business School.

*Julian Adams, Ph.D.*, has served as our President of Research & Development since October 2007, our Chief Scientific Officer between September 2006 and May 2010, as Chief Scientific Officer of IPI from October 2003 until the merger with DPI in September 2006, as our President between September 2006 and October 2007 and as President of IPI from February 2006 until September 2006. Prior to joining Infinity, Dr. Adams served as Senior Vice President, Drug Discovery and Development at Millennium Pharmaceuticals, Inc. from 1999 to 2001, where he led the development of Velcade®. Dr. Adams served as Senior Vice President, Research and Development at LeukoSite Inc., a private biopharmaceutical company, from July 1999 until its acquisition by Millennium in December 1999. Dr. Adams served as a director and Executive Vice President of Research and Development at ProScript, Inc., a private biopharmaceutical company, from 1994 until its acquisition by LeukoSite in 1999. Prior to joining ProScript, Dr. Adams held a variety of positions with Boehringer Ingelheim, a private pharmaceutical company, and Merck & Co., Inc., a publicly traded pharmaceutical company. Dr. Adams has served as a director of Aileron Therapeutics, Inc., a privately held biopharmaceutical company, since May 2011. Dr. Adams received a B.S. from McGill University and a Ph.D. from the Massachusetts Institute of Technology in the field of synthetic organic chemistry.

*Lawrence E. Bloch, M.D., J.D.*, has served as our Chief Financial Officer and Chief Business Officer since July 2012. Prior to joining Infinity, Dr. Bloch served as Chief Executive Officer of NeurAxon, Inc., a privately-held biopharmaceutical company, from 2007 to 2011. Previously, he served as Chief Financial Officer and Chief Business Officer of NitroMed, Inc., a publicly-held biopharmaceutical company, from 2004 to 2006. From 2000 to 2004, Dr. Bloch served as Chief Financial Officer, and from 1999 to 2002 as Vice President of Business Development, of Applied Molecular Evolution, Inc., a publicly-held biopharmaceutical company. Dr. Bloch began his career as an emergency medicine resident physician at Massachusetts General Hospital and Brigham & Women's Hospital. He holds a J.D. from Harvard Law School, an M.D. from Harvard Medical School and an M.B.A. from Harvard Business School.

*Vito J. Palombella, Ph.D.*, has served as our Chief Scientific Officer since May 2010. He is responsible for our drug discovery and preclinical development activities. Prior to his role as Chief Scientific Officer, Dr. Palombella was Vice President, Drug Discovery from September 2006 to May 2010 and Vice President, Biology of IPI from January 2004 to September 2006. Prior to joining Infinity, Dr. Palombella was Director of

**Table of Contents**

Molecular Biology and Protein Chemistry at Syntonix Pharmaceuticals where he was responsible for improving and expanding its core Fc receptor-mediated drug delivery technology. Before joining Syntonix, Dr. Palombella was Senior Director of Cell and Molecular Biology at Millennium Pharmaceuticals, which he joined through its acquisition of LeukoSite, at which he held the same title, in 1999. Prior to its acquisition by LeukoSite, Dr. Palombella held a number of positions at ProScript, Inc. between 1994 and 1999. While at ProScript, LeukoSite and Millennium, Dr. Palombella was involved in the discovery and development of Velcade® (bortezomib), a proteasome inhibitor for cancer therapy. He also managed a number of additional projects, including research into NF-kB regulation. Dr. Palombella received a B.S. in Microbiology from Rutgers University and an M.S. and Ph.D. in Viral Oncology and Immunology from the New York University Medical Center. He was also a post-doctoral fellow at Harvard University in the laboratory of Dr. Tom Maniatis.

*David A. Roth, M.D.*, has served as our Chief Medical Officer since January 2014. In this role, he provides strategic leadership for our clinical development activities, including responsibility for the company's medical affairs, pharmacovigilance and clinical operations functions. Prior to his role as Chief Medical Officer, Dr. Roth served as our Senior Vice President of Clinical Development and Medical Affairs from the time he joined Infinity in September 2013. Prior to joining Infinity, Dr. Roth was with Pfizer Inc. and Wyeth Pharmaceuticals, publicly traded pharmaceutical companies, from 2003 to 2013 where he contributed to the successful regulatory approval of several products, including Bosulif® (bosutinib), a dual Src/Abl tyrosine kinase inhibitor for the treatment of chronic myelogenous leukemia; Xyntha® and ReFacto AF® for the treatment of hemophilia A; and BeneFIX® for the treatment of hemophilia B. Dr. Roth also led the early development of palbociclib, a CDK 4/6 inhibitor, to Phase 3 evaluation in women with ER positive advanced breast cancer. Among other leadership positions, Dr. Roth served as Vice President and Head of the Early Development, Oncology Business Unit at Pfizer from 2009 to 2013. While at Wyeth, he held the role of Assistant Vice President, Clinical Research & Development and Global Therapeutic Area Director of Hematology from 2007 until Pfizer's acquisition of Wyeth in 2009. During his tenure at Pfizer and Wyeth, Dr. Roth also co-chaired Pfizer's oncology research and development board and served on several oncology and hematology R&D leadership teams and governance committees. Prior to joining the pharmaceutical industry, Dr. Roth's experience included over 10 years in research and clinical practice as an academic hematologist, and he served on the full time faculty at Harvard Medical School and Beth Israel Deaconess Medical Center in Boston. Dr. Roth received his B.S. from the Massachusetts Institute of Technology and his M.D. from Harvard Medical School in the Harvard-M.I.T. Division of Health Sciences and Technology, where he remains on the Affiliated Faculty.

**Available Information**

Our Internet website is <http://www.infi.com>. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. We make these reports available through our website as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the U.S. Securities and Exchange Commission. In addition, we regularly use our website to post information regarding our business, product development programs and governance, and we encourage investors to use our website, particularly the information in the section entitled Investors/Media, as a source of information about us.

Our Code of Conduct and Ethics and the charters of the Audit, Compensation, Nominating & Corporate Governance and Research & Development Committees of our board of directors are all available on our website at <http://www.infi.com> at the Investors/Media section under Corporate Governance. Stockholders may request a free copy of any of these documents by writing to Investor Relations, Infinity

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Pharmaceuticals, Inc., 780 Memorial Drive, Cambridge, Massachusetts 02139, U.S.A.

The foregoing references to our website are not intended to, nor shall they be deemed to, incorporate information on our website into this report by reference.

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**Table of Contents****Item 1A. Risk Factors****Risks Related to Our Stage of Development as a Company**

*Our results to date do not guarantee that any of our product candidates will be safe or effective, or receive regulatory approval.*

The risk of failure of our current product candidates is high. To date, the data supporting our clinical development strategy for our product candidates are derived solely from laboratory and preclinical studies and limited early-to-mid-stage clinical trials. Later clinical trials may not yield data consistent with earlier clinical trials, as was the case with our randomized Phase 2 clinical trial of retaspimycin hydrochloride in combination with docetaxel in patients with non-small cell lung cancer, which did not yield results consistent with results obtained from an earlier Phase 1b study. Similarly, clinical responses seen in patients enrolled at early stages of a clinical trial may not be replicated in patients enrolled in that trial at a later time. In addition, adverse events not observed in early clinical trials may be seen for the first time in later studies, or adverse events observed in a small number of patients in early trials may be seen in a greater number of patients in later studies and have greater statistical significance than previously anticipated. In the event that our clinical trials do not yield data consistent with earlier experience, it may be necessary for us to change our development strategy or abandon development of that product candidate, either of which could result in delays, additional costs and a decrease in our stock price. It is impossible to predict when or if any of our product candidates will prove safe or effective in humans or receive regulatory approval.

These product candidates may not demonstrate in patients the chemical and pharmacological properties ascribed to them in laboratory studies or early-stage clinical trials, and they may interact with human biological systems or other drugs in unforeseen, ineffective or harmful ways. If we are unable to discover or successfully develop drugs that are safe and effective in humans, we will not have a viable business.

*We have a history of operating losses, expect to incur significant and increasing operating losses in the future, may never become profitable, or if we become profitable we may not remain profitable.*

We have a limited operating history for you to evaluate our business. We have no approved products and have generated no product revenue from sales. We have primarily incurred operating losses. As of December 31, 2013, we had an accumulated deficit of \$449.8 million. We expect to continue to spend significant resources to fund the research and development of IPI-145 and our other product candidates. While we may have net income in future periods as the result of non-recurring collaboration revenue, we expect to incur substantial operating losses over the next several years as our clinical trial and drug manufacturing activities increase. As a result, we expect that our accumulated deficit will also increase significantly.

Our product candidates are in varying stages of preclinical and clinical development and may never be approved for sale or generate any revenue. We will not be able to generate product revenue unless and until one of our product candidates successfully completes clinical trials and receives regulatory approval. Since even our most advanced product candidate requires substantial additional clinical development, we do not expect to receive revenue from our product candidates for several years, if ever. Even if we eventually generate revenues, we may never be profitable, and if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

*We may be unable to raise the substantial additional capital that we will need to sustain our operations.*

We will need substantial additional funds to support our planned operations. In the absence of additional funding or business development activities and based on our current operating plans, we expect that our current cash and investments are sufficient to fund our current operating plans into 2015. In the absence of changes to our current operating plans, we will need to raise additional funds by that date. Our need to raise additional funds may be accelerated if our research and development expenses exceed our current expectation, if we acquire a

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**Table of Contents**

third party or if we acquire or license rights to additional product candidates or new technologies from one or more third parties. Our need to raise additional funds may also be accelerated for other reasons, including without limitation if:

our product candidates require more extensive clinical or preclinical testing than we currently expect;

we advance our product candidates into clinical trials for more indications than we currently expect;

we advance more of our product candidates than expected into costly later stage clinical trials;

we advance more preclinical product candidates than expected into early stage clinical trials;

we acquire additional business, technologies, products or product candidates;

the cost of acquiring raw materials for, and of manufacturing, our product candidates is higher than anticipated;

we are required, or consider it advisable, to acquire or license intellectual property rights from one or more third parties; or

we experience a loss in our investments due to general market conditions or other reasons.

Historically, we relied on our previous strategic alliance with Mundipharma International Corporation Limited, or Mundipharma, and Purdue Pharmaceutical Products L.P., or Purdue, for a significant portion of our research and development funding needs. Mundipharma and Purdue provided us with approximately \$260 million in research and development funding during the term of our strategic alliance. Following the termination of the strategic alliance agreements with Mundipharma and Purdue on July 17, 2012, we no longer receive such funding and must use other resources available to us to fund our research and development expenses. Our efforts to raise sufficient capital to replace the funding we previously received under the terminated strategic alliance agreements may not be successful.

We may seek to satisfy our need for additional funds by drawing down funds under the debt Facility Agreement we entered into with affiliates of Deerfield Management Company, L.P., or Deerfield, in February 2014. Under the Facility Agreement, Deerfield agreed to loan to us up to \$100 million subject to the terms and conditions of the Facility Agreement. Our ability to draw down under the Facility Agreement is subject to various customary conditions, however, there is no assurance that we will be able to satisfy these conditions and draw down any funds. If we draw down under the Facility Agreement, we will be required to grant to Deerfield a security interest in substantially all of our assets

including intellectual property, issue additional warrants to Deerfield, and repay any amounts borrowed together with interest accruing at a rate of 7.95% per annum no later than December 15, 2019. Any amounts drawn under the Facility Agreement may become immediately due and payable upon customary events of default or the consummation of certain major transactions, in which case Deerfield would have the right to require us to repay 100% of the principal amount of the loan, plus any accrued and unpaid interest thereon, plus any applicable additional amounts relating to a prepayment or termination. Principal and interest under the Facility may be paid in cash or freely tradable shares of common stock at our election, subject to specified conditions at any time of conversion. There is no assurance that the conditions to our ability to repay the loan in shares of our common stock would be satisfied at the time that any outstanding principal and interest under the loan is due, in which case we would be obligated to repay the loan in cash, or that events permitting acceleration of the loan will not occur, in which event we would be required to repay any outstanding principal and interest sooner than anticipated.

We may also seek additional funding through public or private financings of equity or debt securities, but such financing may not be available on acceptable terms, or at all. In addition, the terms of such financings may result in, among other things, dilution for stockholders or the incurrence of indebtedness that may impact our ability to make capital expenditures or incur additional debt as would be the case if we decided to draw down under the Facility Agreement with Deerfield. We may also seek additional funds through arrangements with collaborators or other third parties, or through project financing. These arrangements would generally require us



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**Table of Contents**

to relinquish or encumber rights to some of our technologies or product candidates, and we may not be able to enter into such arrangements on acceptable terms, if at all. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our product development programs or to scale back, suspend or terminate our business operations.

***If we are not able to attract and retain key personnel and advisors, we may not be able to operate our business successfully.***

We are highly dependent on our executive leadership team. All of these individuals are employees-at-will, which means that neither Infinity nor the employee is obligated to a fixed term of service and that the employment relationship may be terminated by either Infinity or the employee at any time, without notice and whether or not cause or good reason exists for such termination. The loss of the services of any of these individuals might impede the achievement of our research, development and commercialization objectives. We do not maintain key person insurance on any of our employees.

Recruiting and retaining qualified scientific and business personnel is also critical to our success. We may not be able to attract or retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. This competition is particularly intense near our headquarters in Cambridge, Massachusetts. We also experience competition for the hiring of scientific personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development strategy. Our consultants and advisors may be employed by other entities, have commitments under consulting or advisory contracts with third parties that limit their availability to us, or both.

***We may not be able to execute our business strategy if we are unable to enter into alliances with other companies that can provide capabilities or funding for the development and commercialization of our product candidates.***

As part of our business strategy, we have historically entered into, and expect to enter into in the future, alliances with major biotechnology or pharmaceutical companies to jointly develop specific product candidates and to jointly commercialize them if they are approved. In these alliances, we would expect our alliance partner to provide substantial funding, as well as significant capabilities in development, marketing and sales. We may not be successful in entering into any such alliances on favorable terms, if at all. Even if we do succeed in securing such alliances, we may not be able to maintain them if, for example, development or approval of a product candidate is delayed or sales of an approved drug are disappointing. Furthermore, any delay in entering into alliances could delay the development and commercialization of our product candidates and reduce their competitiveness, even if they reach the market. Any such delay related to our alliances could adversely affect our business.

***If an alliance partner terminates or fails to perform its obligations under agreements with us, the development and commercialization of our product candidates could be delayed or terminated.***

If any future alliance partner does not devote sufficient time and resources to its alliance arrangements with us, we may not realize the potential commercial benefits of the arrangement, and our results of operations may be adversely affected. In addition, if any alliance partner were to breach or terminate its arrangements with us, the development and commercialization of the affected product candidate could be delayed, curtailed or terminated because we may not have sufficient financial resources or capabilities to continue development and commercialization of the product candidate on our own, and we may find it difficult to attract a new alliance partner for such product candidate.

Much of the potential revenue from any alliance we may enter into in the future will likely consist of contingent payments, such as royalties payable on sales of any successfully developed drugs. Any such contingent revenue will depend upon our, and our alliance partner s, ability to successfully develop, launch,

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**Table of Contents**

market and sell new drugs. In some cases, we will not be involved in some or all of these processes, and we will depend entirely on our alliance partners. Any of our future alliance partners may fail to develop or effectively commercialize these drugs because it:

decides not to devote the necessary resources because of internal constraints, such as limited personnel with the requisite scientific expertise, limited cash resources or specialized equipment limitations, or the belief that other product candidates may have a higher likelihood of obtaining regulatory approval or may potentially generate a greater return on investment;

does not have sufficient resources necessary to carry the product candidate through clinical development, regulatory approval and commercialization; or

cannot obtain the necessary regulatory approvals.

If any future alliance partner fails to develop or effectively commercialize our product candidates, we may not be able to develop and commercialize that product candidate independently, and our financial condition and operations would be negatively impacted.

***Our competitors and potential competitors may develop products that make ours less attractive or obsolete.***

In building our product development pipeline, we have intentionally pursued targets with applicability across multiple therapeutic areas and indications. This approach gives us several product opportunities in oncology and inflammatory diseases, which are highly competitive and rapidly changing segments of the pharmaceutical industry. Many large pharmaceutical and biotechnology companies, academic institutions, governmental agencies and other public and private research organizations are pursuing the development of novel drugs that target various diseases in these segments. We currently face, and expect to continue to face, intense and increasing competition as new products enter the market and advanced technologies become available. Moreover, there are a number of large pharmaceutical companies currently marketing and selling products in these segments including Bristol-Myers Squibb Company, the Roche Group and its subsidiary Genentech, Novartis AG and Pfizer, Inc. In addition to currently approved drugs, there are a significant number of drugs that are currently under development and may become available in the future for the treatment of various forms of cancer and inflammatory diseases.

We are also aware of a number of companies seeking to develop product candidates directed to the same biological targets that our own product candidates are designed to inhibit. Specifically:

we believe that Gilead Sciences, Inc., Amgen Inc., Rhizen Pharmaceuticals S.A, TG Therapeutics, Inc., and GlaxoSmithKline, are conducting clinical trials of drugs that target the delta and/or gamma isoforms of phosphoinositide-3-kinase, or PI3K, which is the target of IPI-145; and

many companies are developing product candidates directed to disease targets such as Bruton's Tyrosine Kinase (or BTK), Janus Kinase (or JAK), Spleen Tyrosine

Kinase (or Syk) and B-cell lymphoma 2 (or Bcl-2) in the fields of hematology-oncology and inflammation, including in the specific diseases for which we are currently developing IPI-145, or for which we may develop IPI-145, IPI-443 or other PI3K inhibitors in the future, including Pharmacyclics, Inc., Incyte Corporation, Rigel Pharmaceuticals, Inc., and AbbVie, Inc.

Many of our competitors have:

significantly greater financial, technical and human resources than we have, and may be better equipped to discover, develop, manufacture and commercialize product candidates than we are;

more extensive experience in preclinical testing and clinical trials, obtaining regulatory approvals and manufacturing and marketing products than we do; and/or

**Table of Contents**

product candidates that have been approved, such as ibrutinib, a BTK inhibitor being developed and commercialized by Pharmacyclics, Inc. for the treatment of people with mantle cell lymphoma or chronic lymphocytic leukemia, or are in later-stage clinical development than our own product candidates.

Our competitors may commence and complete clinical testing of their product candidates, obtain regulatory approvals and begin commercialization of their products sooner than we and/or our strategic alliance partners may for our own product candidates. These competitive products may have superior safety or efficacy, have more attractive pharmacologic properties, or may be manufactured less expensively than our future products. If we are unable to compete effectively against these companies on the basis of safety, efficacy or cost, then we may not be able to commercialize our future products or achieve a competitive position in the market. This would adversely affect our ability to generate revenues.

***We may encounter difficulties in managing organizational change, which could adversely affect our operations.***

Our ability to effectively manage changes to our organization, including organizational growth, depends upon the continual improvement of our processes and procedures and the preservation of our corporate culture. We may not be able to implement improvements in an efficient or timely manner, or maintain our corporate culture during periods of organizational change. If we do not meet these challenges, we may be unable to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, which in turn may give rise to inefficiencies that would increase our losses or delay our programs.

***We may undertake strategic acquisitions in the future, and any difficulties from integrating acquired businesses, products, product candidates and technologies could adversely affect our business and our stock price.***

We may acquire additional businesses, products, product candidates, or technologies that complement or augment our existing business. We may not be able to integrate any acquired business, product, product candidate or technology successfully or operate any acquired business profitably. Integrating any newly acquired business, product, product candidate, or technology could be expensive and time-consuming. Integration efforts often place a significant strain on managerial, operational and financial resources and could prove to be more difficult or expensive than we expect. The diversion of the attention of our management to, and any delay or difficulties encountered in connection with, any future acquisitions we may consummate could result in the disruption of our ongoing business or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with customers, suppliers, collaborators, employees and others with whom we have business dealings. We may need to raise additional funds through public or private debt or equity financings to acquire any businesses, products, product candidates, or technologies which may result in, among other things, dilution for stockholders or the incurrence of indebtedness.

As part of our efforts to acquire businesses, products, product candidates and technologies or to enter into other significant transactions, we conduct business, legal and financial due diligence in an effort to identify and evaluate material risks involved in the transaction.

We will also need to make certain assumptions regarding acquired product candidates, including, among other things, development costs, the likelihood of receiving regulatory approval and the market for such product candidates. If we are unsuccessful in identifying or evaluating all such risks or our assumptions prove to be incorrect, we might not realize some or all of the intended benefits of the transaction. If we fail to realize intended benefits from acquisitions we may consummate in the future, our business and financial results could be adversely affected.

In addition, we will likely incur significant expenses in connection with our efforts, if any, to consummate acquisitions. These expenses may include fees and expenses for investment bankers, attorneys, accountants and other advisers in connection with our efforts, and could be incurred whether or not an acquisition is consummated. Even if we consummate a particular acquisition, we may incur as part of such acquisition

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**Table of Contents**

substantial closure costs associated with, among other things, elimination of duplicate operations and facilities. In such case, the incurrence of these costs could adversely affect our financial results for particular quarterly or annual periods.

***Our investments are subject to risks that may cause losses and affect the liquidity of these investments.***

As of December 31, 2013, we had approximately \$214 million in cash, cash equivalents and available-for-sale securities. We historically have invested these amounts in money market funds, corporate obligations, U.S. government-sponsored enterprise obligations, U.S. Treasury securities and mortgage-backed securities meeting the criteria of our investment policy, which prioritizes the preservation of our capital. Corporate obligations may include obligations issued by corporations in countries other than the United States, including some issues that have not been guaranteed by governments and government agencies. Our investments are subject to general credit, liquidity, market and interest rate risks and instability in the global financial markets. We may realize losses in the fair value of these investments or a complete loss of these investments. In addition, should our investments cease paying or reduce the amount of interest paid to us, our interest income would suffer. These market risks associated with our investment portfolio may have a material adverse effect on our financial results and the availability of cash to fund our operations.

***The estimates and judgments we make, or the assumptions on which we rely, in preparing our consolidated financial statements could prove inaccurate.***

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses. Such estimates and judgments include those related to revenue recognition, accrued expenses, assumptions in the valuation of stock-based compensation and income taxes. We base our estimates and judgments on historical experience, facts and circumstances known to us and on various assumptions that we believe to be reasonable under the circumstances. These estimates and judgments, or the assumptions underlying them, may change over time or prove inaccurate. If this is the case, we may be required to restate our financial statements as we did in 2011, which could in turn subject us to securities class action litigation. Defending against such potential litigation relating to a restatement of our financial statements would be expensive and would require significant attention and resources of our management. Moreover, our insurance to cover our obligations with respect to the ultimate resolution of any such litigation may be inadequate. As a result of these factors, any such potential litigation could have a material adverse effect on our financial results and cause our stock price to decline.

Under our strategic alliance termination agreements, Mundipharma and Purdue continue to have the right to audit research and development expenses incurred by us during the term of our former strategic alliance, in order to verify the research and development funding amounts previously paid by Mundipharma and Purdue and have, in the past, exercised such rights. If, as a result of any audit, it is determined that Mundipharma and Purdue have overpaid research and development expenses, we will be required to refund the amount of such overpayment, plus interest, and if such amount is material it could adversely impact our financial results and available cash and we may be required to restate prior period revenue.

***If we are not able to maintain effective internal controls under Section 404 of the Sarbanes-Oxley Act, our business and stock price could be adversely affected.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires us, on an annual basis, to review and evaluate our internal controls, and requires our independent auditors to attest to the effectiveness of our internal controls. Any failure by us to maintain the effectiveness of our internal controls in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act, as such requirements exist today or may be modified, supplemented or amended in the future, could have a material adverse effect on our business, operating results and stock price.



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**Table of Contents**

**Risks Related to the Development and Commercialization of Our Product Candidates**

*All of our product candidates remain subject to clinical testing and regulatory approval. This process is highly uncertain, and we may never be able to obtain marketing approval for any of our product candidates.*

To date, we have not obtained approval from the Food and Drug Administration, or FDA, or any foreign regulatory authority to market or sell any of our product candidates. Our product candidates are subject to extensive governmental regulations relating to development, clinical trials, manufacturing and commercialization. Rigorous preclinical testing and clinical trials and an extensive regulatory approval process are required in the United States and in many foreign jurisdictions prior to the commercial sale of medicinal products like our product candidates. For example, we are evaluating IPI-145, the lead compound in our PI3K inhibitor program, in all phases of clinical development and we anticipate initiating multiple additional trials of IPI-145 in 2014. If any of these trials or other trials of our product candidates are successful, we may need to conduct further clinical trials and will need to apply for regulatory approval before we may market or sell any of our future products. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. It is possible that none of the product candidates we are developing, or may in the future develop, either alone or in collaboration with strategic alliance partners, will obtain marketing approval. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the FDA and comparable foreign regulatory agencies. The time required to complete clinical trials and for regulatory review by the FDA and other countries' regulatory agencies is uncertain and typically takes many years. Some of our product candidates may be eligible for the FDA's programs that are designed to facilitate the development and expedite the review of certain drugs, but we cannot provide any assurance that any of our product candidates will qualify for one or more of these programs. Even if a product candidate qualifies for one or more of these programs, the FDA may later decide that the product candidate no longer meets the conditions for qualification.

Our analysis of data obtained from preclinical and clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval. We may also encounter unanticipated delays or increased costs due to changes in government regulation from future legislation or administrative action or changes in FDA and other regulatory policy during the period of product candidate development, clinical trials and FDA and other regulatory review.

Any delay in obtaining or failure to obtain required approvals could materially adversely affect our ability to generate revenues from the particular product candidate. Furthermore, the uses for which any regulatory authority may grant approval to market a product may be limited, thus placing constraints on the manner in which we may market the product and curtailing its market potential.

*Our product candidates must undergo rigorous clinical trials prior to receipt of regulatory approval. Any problems in these clinical trials could delay or prevent commercialization of our product candidates.*

We cannot predict whether we will encounter problems with any of our ongoing or planned clinical trials that will cause us or regulatory authorities to delay, suspend, or discontinue clinical trials or to delay the analysis of data from ongoing clinical trials. Any of the following could delay or disrupt the clinical development of our product candidates:

unfavorable results of discussions with the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;

delays in receiving, or the inability to obtain, required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in our clinical trials;

delays in enrolling patients into clinical trials;

a lower than anticipated retention rate of patients in clinical trials;

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**Table of Contents**

the need to repeat or discontinue clinical trials as a result of inconclusive or negative results or unforeseen complications in testing or because the results of later trials may not confirm positive results from earlier preclinical studies or clinical trials;

inadequate supply, delays in distribution or deficient quality of, or inability to purchase or manufacture drug product, comparator drugs or other materials necessary to conduct our clinical trials;

unfavorable FDA or other foreign regulatory inspection and review of a clinical trial site or records of any clinical or preclinical investigation;

serious and unexpected drug-related side effects experienced by participants in our clinical trials, which may occur even if they were not observed in earlier trials or only observed in a limited number of participants;

a finding that the trial participants are being exposed to unacceptable health risks;

the placement by the FDA or a foreign regulatory authority of a clinical hold on a trial; or

any restrictions on, or post-approval commitments with regard to, any regulatory approval we ultimately obtain that render the product candidate not commercially viable.

We may suspend, or the FDA or other applicable regulatory authorities may require us to suspend, clinical trials of a product candidate at any time if we or they believe the patients participating in such clinical trials, or in independent third party clinical trials for drugs based on similar technologies, are being exposed to unacceptable health risks or for other reasons.

The delay, suspension or discontinuation of any of our clinical trials, or a delay in the analysis of clinical data for our product candidates, for any of the foregoing reasons, could adversely affect our efforts to obtain regulatory approval for and to commercialize our product candidates, increase our operating expenses and have a material adverse effect on our financial results.

***Our inability to enroll sufficient numbers of patients in our clinical trials, or any delays in patient enrollment, can result in increased costs and longer development periods for our product candidates.***

Clinical trials require sufficient patient enrollment, which is a function of many factors, including:

the size of the patient population;

the nature of the trial protocol, including eligibility criteria for the trial;

the number of clinical trial sites and the proximity of patients to those sites;

the commitment of clinical investigators to identify eligible patients; and

competing studies or trials.

Additionally, the availability of safe and effective treatments for the relevant disease being studied may impact patient enrollment in our clinical trials. For example, Pharmacyclics, Inc. has received approval to manufacture and market, ibrutinib, a BTK inhibitor for the treatment of CLL, an indication in which we are currently evaluating IPI-145 in a Phase 3 clinical trial.

Our failure to enroll patients in a clinical trial could delay the initiation or completion of the clinical trial beyond current expectations. In addition, the FDA or other foreign regulatory authorities could require us to conduct clinical trials with a larger number of patients than has been projected for any of our product candidates. As a result of these factors, we may not be able to enroll a sufficient number of patients in a timely or cost-effective manner.

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**Table of Contents**

Furthermore, enrolled patients may drop out of a clinical trial, which could impair the validity or statistical significance of the clinical trial. A number of factors can influence the patient discontinuation rate, including, but not limited to:

the inclusion of a placebo arm in a trial;

possible inactivity or low activity of the product candidate being tested at one or more of the dose levels being tested;

the occurrence of adverse side effects, whether or not related to the product candidate; and

the availability of numerous alternative treatment options, including clinical trials evaluating competing product candidates, that may induce patients to discontinue their participation in the trial.

A delay in our clinical trial activities could adversely affect our efforts to obtain regulatory approval for and to commercialize our product candidates, increase our operating expenses, and have a material adverse effect on our financial results.

***If we are unable to successfully develop companion diagnostics for our product candidates, or experience significant delays in doing so, we may not realize the full commercial potential of our product candidates.***

There has been limited success to date industry-wide in developing companion diagnostics. To be successful in developing a companion diagnostic, we will need to address a number of scientific, technical and logistical challenges. Companion diagnostics are subject to regulation by the FDA and similar regulatory authorities outside the United States as medical devices and require separate regulatory approval prior to commercialization. We have limited experience in the development of diagnostics and may not be successful in developing appropriate diagnostics to pair with any of our product candidates that receive marketing approval. Given our limited experience in developing diagnostics, we expect to rely, in part, on third parties for their design and manufacture. If we, or any third parties that we engage to assist us, are unable to successfully develop companion diagnostics for our product candidates or experience delays in doing so, the development of our product candidates may be adversely affected, our product candidates may not receive marketing approval and we may not realize the full commercial potential of any product candidates that receive marketing approval.

***We rely on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily.***

We rely on third parties such as contract research organizations, medical institutions and external investigators to enroll qualified patients, conduct our clinical trials and provide services in connection with such clinical trials, and we intend to rely on these and other similar entities in the future. Our reliance on these third parties for clinical development activities reduces our control over these activities. Accordingly, these third party contractors may not complete activities on schedule, or may not conduct our clinical trials in accordance with regulatory requirements or the trial design. If these third parties do not successfully carry out their contractual obligations or meet expected deadlines, we may be required to replace them. Replacing a third party contractor may result in a delay of the affected trial and unplanned costs. If this were to occur, our efforts to obtain regulatory

approval for and to commercialize our product candidates may be delayed.

In addition, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocol for the trial. The FDA requires us to comply with certain standards, referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements. If any of our trial investigators or third party contractors does not comply with good clinical practices, we may not be able to use the data and reported results from the trial. If this were to occur, our efforts to obtain regulatory approval for and to commercialize our product candidates may be delayed.

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**Table of Contents*****Manufacturing difficulties could delay or preclude commercialization of our product candidates and substantially increase our expenses.***

Our product candidates require precise, high quality manufacturing. The third party manufacturers on which we rely may not be able to comply with the FDA's current good manufacturing practices, or cGMPs, and other applicable government regulations and corresponding foreign standards. These regulations govern manufacturing processes and procedures and the implementation and operation of systems to control and assure the quality of products. The FDA and foreign regulatory authorities may, at any time, audit or inspect a manufacturing facility to ensure compliance with cGMPs and other quality standards. Any failure by our contract manufacturers to achieve and maintain high manufacturing and quality control standards could result in the inability of our product candidates to be released for use in one or more countries. In addition, such a failure could result in, among other things, patient injury or death, product liability claims, penalties or other monetary sanctions, the failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and/or criminal prosecution, any of which could significantly and adversely affect supply of our product candidates and seriously hurt our business.

Contract manufacturers may also encounter difficulties involving production yields or delays in performing their services. We do not have control over third party manufacturers performance and compliance with applicable regulations and standards. If, for any reason, our manufacturers cannot perform as agreed, we may be unable to replace such third party manufacturers in a timely manner, and the production of our product candidates would be interrupted, resulting in delays in clinical trials and additional costs. Switching manufacturers may be difficult because the number of potential manufacturers is limited and, depending on the type of material manufactured at the contract facility, the change in contract manufacturer must be submitted to and/or approved by the FDA and comparable regulatory authorities outside of the United States. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our product candidates after receipt of regulatory approval. It may be difficult or impossible for us to find a replacement manufacturer on acceptable terms quickly, or at all.

To date, our product candidates have been manufactured for preclinical testing and clinical trials primarily by third party manufacturers. If the FDA or other regulatory agencies approve any of our product candidates for commercial sale, we expect that we would continue to rely, at least initially, on third party manufacturers to produce commercial quantities of our approved product candidates. These manufacturers may not be able to successfully increase the manufacturing capacity for any approved product candidates in a timely or economical manner, or at all. Significant scale-up of manufacturing might entail changes in the manufacturing process that have to be submitted to or approved by the FDA or other regulatory agencies. If contract manufacturers engaged by us are unable to successfully increase the manufacturing capacity for a product candidate, or we are unable to establish our own manufacturing capabilities, the commercial launch of any approved products may be delayed or there may be a shortage in supply.

***We have commercialization rights to all product candidates in our portfolio, but we currently have limited marketing, sales and distribution experience and capabilities.***

We have global commercialization rights for products arising out of our all of our development programs. In order to successfully commercialize our product candidates, we will need to, and we intend to, establish adequate marketing, sales and distribution capabilities for commercialization in the United States, and to seek a qualified partner with these capabilities for commercialization outside the United States. We may not

successfully establish these capabilities or have sufficient resources to do so. If we do not establish adequate marketing, sales and distribution capabilities or engage a qualified partner, our ability to successfully commercialize any product candidates that we successfully develop will be adversely affected, as will our financial results. Even if we do develop such capabilities, we will compete with other companies that have more experienced and well-funded marketing, sales and distribution operations.



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**Table of Contents**

*If physicians and patients do not accept our future drugs, we may not be able to generate significant revenues from product sales.*

Even if any of our product candidates obtains regulatory approval, that product may not gain market acceptance among physicians, patients and the medical community for a variety of reasons including:

timing of our receipt of any marketing approvals, the terms of any such approvals and the countries in which any such approvals are obtained;

timing of market introduction of competitive products;

lower demonstrated clinical safety or efficacy, or less convenient route of administration, compared to competitive products;

lack of cost-effectiveness;

lack of reimbursement from managed care plans and other third-party payors;

inconvenient or difficult administration;

prevalence and severity of side effects;

potential advantages of alternative treatment methods;

safety concerns with similar products marketed by others;

the reluctance of the target population to try new therapies and of physicians to prescribe those therapies;

the lack of success of our physician education programs; and

ineffective sales, marketing and distribution support.

If any of our approved drugs fails to achieve market acceptance, we would not be able to generate significant revenue from those drugs, which may adversely impact our ability to become profitable.

*Even if we receive regulatory approvals for marketing our product candidates, we could lose our regulatory approvals and our business would be adversely affected if we, our*

*strategic alliance partners, or our contract manufacturers fail to comply with continuing regulatory requirements.*

The FDA and other regulatory agencies continue to review products even after they receive initial approval. If we receive approval to commercialize any of our product candidates, the manufacturing, marketing and sale of these drugs will be subject to continuing regulation, including compliance with quality systems regulations, cGMPs, adverse event requirements and prohibitions on promoting a product for unapproved uses. Enforcement actions resulting from our failure to comply with government and regulatory requirements could result in fines, suspension of approvals, withdrawal of approvals, product recalls, product seizures, mandatory operating restrictions, criminal prosecution, civil penalties and other actions that could impair the manufacturing, marketing and sale of our product candidates and our ability to conduct our business.

*If our product candidates exhibit harmful side effects after approval, our regulatory approvals could be revoked or otherwise negatively impacted, and we could become subject to costly and damaging product liability claims.*

Even if we receive regulatory approval for any of our product candidates, we will have tested them in only a small number of patients and over a limited period of time during our clinical trials. If our applications for marketing are approved and more patients begin to use our products, or patients use our products for a longer period of time, new risks and side effects associated with our products may be discovered or previously observed risks and side effects may become more prevalent and/or clinically significant. In addition, supplemental clinical trials that may be conducted on a drug following its initial approval may produce findings that are inconsistent with the trial results previously

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**Table of Contents**

submitted to regulatory authorities. As a result, regulatory authorities may revoke their approvals, or we may be required to conduct additional clinical trials, make changes in labeling of our product, reformulate our product or make changes and obtain new approvals for our and our suppliers' manufacturing facilities. We also might have to withdraw or recall our products from the marketplace. Any safety concerns with respect to a product may also result in a significant drop in the potential sales of that product, damage to our reputation in the marketplace, or result in us becoming subject to lawsuits, including class actions. Any of these results could decrease or prevent any sales of our approved product or substantially increase the costs and expenses of commercializing and marketing our product.

***We are subject to uncertainty relating to reimbursement policies that could hinder or prevent the commercial success of our product candidates.***

Our ability to commercialize any future products successfully will depend in part on the coverage and reimbursement levels set by governmental authorities, private health insurers and other third-party payors. As a threshold for coverage and reimbursement, third-party payors in the U.S. generally require that product candidates have been approved for marketing by the FDA. Third-party payors also are increasingly challenging the effectiveness of and prices charged for medical products and services. We may not obtain adequate third-party coverage or reimbursement for our future products, or we may be required to sell our future products at prices that are below our expectations.

We expect that private insurers will consider the efficacy, cost effectiveness and safety of our future products in determining whether, and at what level, to approve reimbursement for our future products. Obtaining these approvals can be a time consuming and expensive process. Our business would be materially adversely affected if we do not receive approval for reimbursement of our future products from private insurers on a timely or satisfactory basis. Our business could also be adversely affected if private insurers, including managed care organizations, the Medicare and Medicaid programs or other reimbursing bodies or payors limit the indications for which our future products will be reimbursed to a smaller set than we believe our future products are effective in treating.

In some foreign countries, particularly Canada and European Union member states, the pricing of prescription pharmaceuticals is subject to strict governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory approval and product launch. To obtain favorable reimbursement for the indications sought or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our products to other available therapies. If reimbursement for our products is unavailable in any country in which reimbursement is sought or is limited in scope or amount, or if pricing is set at unsatisfactory levels, our business would be materially harmed.

We expect to experience pricing pressures in connection with the sale of our future products, if any, due to the potential healthcare reforms discussed below, as well as the trend toward programs aimed at reducing health care costs, the increasing influence of health maintenance organizations and additional legislative proposals.

***Healthcare reform measures could hinder or prevent our future products' commercial success.***

The U.S. government and other governments have shown significant interest in pursuing healthcare reform, as evidenced by the passing of the Patient Protection and Affordable Healthcare Act and the Health Care and Education Reconciliation Act. This healthcare reform law increases the number of individuals who receive health insurance coverage and closes a gap in drug coverage under Medicare Part D as established under the Medicare Prescription Drug Improvement Act of 2003. Each of these reforms could

potentially increase our future revenue from any of our product candidates that are approved for sale. The law, however, also implements cost containment measures that could adversely affect our future revenue. These measures include increased drug rebates under Medicaid for brand name prescription drugs and extension of these rebates to Medicaid managed care. The legislation also extends certain discounted pricing on outpatient drugs to children's hospitals, critical access hospitals and rural health centers. This expansion reduces the amount of reimbursement received for drugs purchased by these newly covered entities.

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**Table of Contents**

Additional provisions of the health care reform law may negatively affect our future revenue and prospects for profitability. Along with other pharmaceutical manufacturers and importers of brand name prescription drugs, we would be assessed a fee based on our proportionate share of sales of brand name prescription drugs to certain government programs, including Medicare and Medicaid. As part of the health care reform law's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program (commonly known as the "donut hole"), we will also be required to provide a 50 percent discount on brand name prescription drugs sold to beneficiaries who fall within the donut hole.

In the aftermath of the healthcare reform law, private health insurers and managed care plans are likely to continue challenging the prices charged for medical products and services. These cost-control initiatives could decrease the price we might establish for any of our future products, which would result in lower product revenue or royalties payable to us.

In addition, in some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our future products profitably. These proposed reforms could result in reduced reimbursement rates for any of our future products, which would adversely affect our business strategy, operations and financial results.

***Our business could be harmed if we are unable to comply with applicable fraud and abuse and other laws and regulations where our product candidates may ultimately be sold.***

As our pipeline of product candidates matures, we are becoming increasingly subject to extensive and complex laws and regulations, including but not limited to healthcare fraud and abuse and patient privacy laws and regulations by both the federal government and the states in which we conduct our business. These laws and regulations include:

the federal healthcare program anti-kickback law, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;

the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;

the Federal Food, Drug, and Cosmetic Act, which, among other things, strictly regulates drug marketing, prohibits manufacturers from marketing drugs for off-label use and regulates the distribution of drug samples; and

state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by federal laws, thus complicating compliance efforts.

If our operations are found to be in violation of any of the laws described above or any governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring

**Table of Contents**

of our operations could adversely affect our financial results. We are developing and implementing a corporate compliance program designed to ensure that we will market and sell any future products that we successfully develop from our product candidates in compliance with all applicable laws and regulations, but we cannot guarantee that this program will protect us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

**Risks Related to Our Field**

***We may have significant product liability exposure that may harm our business and our reputation.***

We face exposure to significant product liability or other claims if any of our product candidates is alleged to have caused harm. These risks are inherent in the testing, manufacturing and marketing of human medicinal products. Although we do not currently commercialize any products, claims could be made against us based on the use of our product candidates in clinical trials. We currently have clinical trial insurance and will seek to obtain product liability insurance prior to the commercial launch of any of our product candidates. Our insurance may not, however, provide adequate coverage against potential liabilities. Furthermore, clinical trial and product liability insurance is becoming increasingly expensive. As a result, we may be unable to maintain current amounts of insurance coverage or obtain additional or sufficient insurance at a reasonable cost. If we are sued for any injury caused by our product candidates or future products, our liability could exceed our insurance coverage and our total assets, and we would need to divert management attention to our defense. Claims against us, regardless of their merit or potential outcome, may also generate negative publicity or hurt our ability to recruit investigators and patients to our clinical trials, obtain physician acceptance of our future products, or expand our business.

***We work with hazardous materials that may expose us to liability.***

Our activities involve the controlled storage, use and disposal of hazardous materials, including infectious agents, corrosive, explosive and flammable chemicals and various radioactive compounds. We are subject to certain federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. We incur significant costs to comply with these laws and regulations. In addition, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, regulatory authorities may curtail our use of these materials, and we could be liable for any civil damages that result. These damages may exceed our financial resources or insurance coverage and may seriously harm our business. Additionally, an accident could damage, or force us to shut down, our operations.

***Security breaches may disrupt our operations and harm our operating results.***

Our network security and data recovery measures may not be adequate to protect against computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The misappropriation, theft, sabotage or any other type of security breach with respect to any of our proprietary and confidential information that is electronically stored, including research or clinical data, could have a material adverse impact on our business, operating results and financial condition. Additionally, any break-in or trespass of our facilities that results in the misappropriation, theft, sabotage or any other type of security breach with respect to our proprietary and confidential information, including research or clinical data, or that results in damage to our research

and development equipment and assets, could have a material adverse impact on our business, operating results and financial condition.



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**Table of Contents**

**Risks Related to Intellectual Property**

***Our success depends substantially upon our ability to obtain and maintain intellectual property protection for our product candidates.***

We own or hold exclusive licenses to a number of U.S. and foreign patents and patent applications directed to our product candidates. Our success depends on our ability to obtain patent protection both in the United States and in other countries for our product candidates, their methods of manufacture and their methods of use. Our ability to protect our product candidates from unauthorized or infringing use by third parties depends substantially on our ability to obtain and enforce our patents.

Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and molecular diagnostics and the claim scope of these patents, our ability to obtain and enforce patents that may issue from any pending or future patent applications is uncertain and involves complex legal, scientific and factual questions. The standards that the United States Patent and Trademark Office, or PTO, and its foreign counterparts use to grant patents are not always applied predictably or uniformly and are subject to change. To date, no consistent policy has emerged regarding the breadth of claims allowed in pharmaceutical or molecular diagnostics patents. Thus, we cannot guarantee that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents do issue, we cannot guarantee that the claims of these patents will be held valid or enforceable by a court of law, will provide us with any significant protection against competitive products or will afford us a commercial advantage over competitive products.

The U.S. Congress passed the Leahy-Smith America Invents Act, or the America Invents Act, which became effective in March 2013. The America Invents Act reforms United States patent law in part by changing the standard for patent approval for certain patents from a first to invent standard to a first to file standard and developing a post-grant review system. This new law changes United States patent law in a way that may severely weaken our ability to obtain patent protection in the United States. Additionally, recent judicial decisions establishing new case law and a reinterpretation of past case law, as well as regulatory initiatives, may make it more difficult for us to protect our intellectual property.

If we do not obtain adequate intellectual property protection for our products in the United States, competitors could duplicate them without repeating the extensive testing that we will have been required to undertake to obtain approval by the FDA. Regardless of any patent protection, under the current statutory framework the FDA is prohibited by law from approving any generic version of any of our products for up to five years after it has approved our product. Upon the expiration of that period, or if that time period is altered, the FDA could approve a generic version of our product unless we have patent protection sufficient for us to block that generic version. Without sufficient patent protection, the applicant for a generic version of our product would only be required to conduct a relatively inexpensive study to show that its product is bioequivalent to our product, and would not have to repeat the studies that we conducted to demonstrate that the product is safe and effective.

In the absence of adequate patent protection in other countries, competitors may similarly be able to obtain regulatory approval in those countries for products that duplicate our products. The laws of some foreign jurisdictions do not protect intellectual property rights to the same extent as in the United States. Many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. Some of our development efforts are performed in China, India and other countries outside of the United States through third party contractors. We may not be able to monitor and assess intellectual property developed by these contractors effectively; therefore, we may not be

able to appropriately protect this intellectual property and could thus lose valuable intellectual property rights. In addition, the legal protection afforded to inventors and owners of intellectual property in countries outside of the United States may not be as protective of intellectual property rights as in the United States, and we may, therefore, be unable to acquire and protect intellectual property developed by these contractors to the same extent as if these development activities were being conducted in the United States.

If we encounter difficulties in protecting our intellectual property rights in foreign jurisdictions, our business prospects could be substantially harmed.

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**Table of Contents**

In addition, we rely on intellectual property assignment agreements with our strategic alliance partners, vendors, employees, consultants, clinical investigators, scientific advisors and other collaborators to grant us ownership of new intellectual property that is developed by them. These agreements may not result in the effective assignment to us of that intellectual property. As a result, our ownership of key intellectual property could be compromised.

***Patent interference, opposition or similar proceedings relating to our intellectual property portfolio are costly, and an unfavorable outcome could prevent us from commercializing our product candidates.***

Patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the PTO for the entire time prior to issuance as a U.S. patent. Similarly, publication of discoveries in the scientific or patent literature often lags behind actual discoveries.

Consequently, we cannot be certain that we were the first to invent, or the first to file patent applications on, our product candidates or their therapeutic use. In the event that a third party has also filed a U.S. patent application relating to our product candidates or a similar invention, we may have to participate in interference proceedings declared by the PTO or the third party to determine priority of invention in the United States. An adverse decision in an interference proceeding may result in the loss of rights under a patent or patent application. In addition, the cost of interference proceedings could be substantial.

***Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

The PTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent process. There are situations in which non-compliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If we fail to comply with these requirements, competitors might be able to enter the market earlier than would otherwise have been the case, which could decrease our revenue from that product.

***Claims by third parties of intellectual property infringement are costly and distracting, and could deprive us of valuable rights we need to develop or commercialize our product candidates.***

Our commercial success will depend on whether there are third party patents or other intellectual property relevant to our potential products that may block or hinder our ability to develop and commercialize our product candidates. We may not have identified all U.S. and foreign patents or published applications that may adversely affect our business either by blocking our ability to manufacture or commercialize our drugs or by covering similar technologies that adversely affect the applicable market. In addition, we may undertake research and development with respect to product candidates, even when we are aware of third party patents that may be relevant to such product candidates, on the basis that we may challenge or license such patents. There are no assurances that such licenses will be available on commercially reasonable terms, or at all. If such licenses are not available, we may become subject to patent litigation and, while we cannot predict the outcome of any litigation, it may be expensive and time consuming. If we are unsuccessful in litigation concerning patents owned by third parties, we may be precluded from selling our products.

While we are not currently aware of any litigation or third party claims of intellectual property infringement related to our product candidates, the biopharmaceutical industry is

characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may obtain patents and claim that the use of our technologies infringes these patents or that we are employing their proprietary technology without authorization. We could incur substantial costs and diversion of management and technical personnel in defending against any claims that the manufacture and sale of our potential products or use of our technologies infringes any patents, or defending against any claim that we are employing any proprietary technology without

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**Table of Contents**

authorization. The outcome of patent litigation is subject to uncertainties that cannot be adequately quantified in advance, including the demeanor and credibility of witnesses and the identity of the adverse party, especially in pharmaceutical patent cases that may turn on the testimony of experts as to technical facts upon which experts may reasonably disagree. In the event of a successful claim of infringement against us, we may be required to:

pay substantial damages;

stop developing, manufacturing and/or commercializing the infringing product candidates or approved products;

develop non-infringing product candidates, technologies and methods; and

obtain one or more licenses from other parties, which could result in our paying substantial royalties or the granting of cross-licenses to our technologies.

If any of the foregoing were to occur, we may be unable to commercialize the affected products, or we may elect to cease certain of our business operations, either of which could severely harm our business.

***We may undertake infringement or other legal proceedings against third parties, causing us to spend substantial resources on litigation and exposing our own intellectual property portfolio to challenge.***

Competitors may infringe our patents. To prevent infringement or unauthorized use, we may need to file infringement suits, which are expensive and time-consuming. In an infringement proceeding, a court may decide that one or more of our patents is invalid, unenforceable, or both. Even if the validity of our patents is upheld, a court may refuse to stop the other party from using the technology at issue on the ground that the other party's activities are not covered by our patents. In this case, third parties may be able to use our patented technology without paying licensing fees or royalties. Policing unauthorized use of our intellectual property is difficult, and we may not be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States. In addition, third parties may affirmatively challenge our rights to, or the scope or validity of, our patent rights.

***Confidentiality agreements may not adequately prevent disclosure of trade secrets and other proprietary information.***

In order to protect our proprietary technology, we rely in part on confidentiality agreements with our vendors, strategic alliance partners, employees, consultants, scientific advisors, clinical investigators and other collaborators. We generally require each of these individuals and entities to execute a confidentiality agreement at the commencement of a relationship with us. These agreements may not effectively prevent disclosure of confidential information, and may not provide an adequate remedy in the event of unauthorized disclosure or misuse of confidential information or other breaches of the agreements.

In addition, we may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. Trade secrets are, however,

difficult to protect. Others may independently discover our trade secrets and proprietary information, and in such case we could not assert any trade secret rights against such party. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming, and the outcome is unpredictable. In addition, courts outside of the United States may be less willing to protect trade secrets. Costly and time-consuming litigation could be necessary to seek to enforce and determine the scope of our proprietary rights and could result in a diversion of management's attention, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

***If we fail to obtain necessary or useful licenses to intellectual property, we could encounter substantial delays in the research, development and commercialization of our product candidates.***

We may decide to license third party technology that we deem necessary or useful for our business. We may not be able to obtain these licenses at a reasonable cost, or at all. If we do not obtain necessary licenses, we could encounter substantial delays in developing and commercializing our product candidates while we attempt to

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**Table of Contents**

develop alternative technologies, methods and product candidates, which we may not be able to accomplish. Furthermore, if we fail to comply with our obligations under our third party license agreements, we could lose license rights that are important to our business.

For example, if we fail to use diligent efforts to develop and commercialize products

licensed under our amended and restated development and license agreement with Millennium, we could lose our license rights under that agreement, including rights to IPI-145.

**Risks Associated with Our Common Stock**

*Our common stock may have a volatile trading price and low trading volume.*

The market price of our common stock has been and could continue to be subject to significant fluctuations. Some of the factors that may cause the market price of our common stock to fluctuate include:

the results of our current and any future clinical trials of our product candidates;

the results of preclinical studies and planned clinical trials of our discovery-stage programs;

product portfolio decisions resulting in the delay or termination of our product development programs;

future sales of, and the trading volume in, our common stock;

our entry into key agreements, including those related to the acquisition or in-licensing of new programs, or the termination of key agreements, including our amended and restated development and license agreement with Millennium;

the results and timing of regulatory reviews relating to the approval of our product candidates;

the initiation of, material developments in, or conclusion of litigation, including but not limited to litigation to enforce or defend any of our intellectual property rights or to defend product liability claims;

the failure of any of our product candidates, if approved, to achieve commercial success;

the results of clinical trials conducted by others on drugs that would compete with our product candidates;

issues in manufacturing our product candidates or any approved products;

the loss of key employees;

changes in estimates or recommendations, or publication of inaccurate or unfavorable research about our business, by securities analysts who cover our common stock;

future financings through the issuance of equity or debt securities or otherwise;

changes in the structure of healthcare payment systems;

our cash position and period-to-period fluctuations in our financial results; and

general and industry-specific economic and/or capital market conditions.

Moreover, the stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may also adversely affect the trading price of our common stock.

In the past, when the market price of a stock has been volatile, as our stock price may be, holders of that stock have occasionally brought securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit of this type against us, even if the lawsuit is without merit, negative publicity could be generated and we could incur substantial costs defending the lawsuit. A stockholder lawsuit could also divert the time and attention of our management.



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**Table of Contents**

***We do not anticipate paying cash dividends, so you must rely on stock price appreciation for any return on your investment.***

We anticipate retaining any future earnings for reinvestment in our research and development programs. Therefore, we do not anticipate paying cash dividends in the future. As a result, only appreciation of the price of our common stock will provide a return to stockholders. Investors seeking cash dividends should not invest in our common stock.

***Anti-takeover provisions in our organizational documents and Delaware law may make an acquisition of us difficult.***

We are incorporated in Delaware. Anti-takeover provisions of Delaware law and our organizational documents may make a change in control more difficult. Also, under Delaware law, our board of directors may adopt additional anti-takeover measures. For example, our charter authorizes our board of directors to issue up to 1,000,000 shares of undesignated preferred stock and to determine the terms of those shares of stock without any further action by our stockholders. If our board of directors exercises this power, it could be more difficult for a third party to acquire a majority of our outstanding voting stock. Our charter and by-laws also contain provisions limiting the ability of stockholders to call special meetings of stockholders.

Our stock incentive plan generally permits our board of directors to provide for acceleration of vesting of options granted under that plan in the event of certain transactions that result in a change of control. If our board of directors uses its authority to accelerate vesting of options, this action could make an acquisition more costly, and it could prevent an acquisition from going forward.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law statute, which generally prohibits a person who owns in excess of 15 percent of our outstanding voting stock from engaging in a transaction with us for a period of three years after the date on which such person acquired in excess of 15 percent of our outstanding voting common stock, unless the transaction is approved by our board of directors and holders of at least two-thirds of our outstanding voting stock, excluding shares held by such person. The prohibition against such transactions does not apply if, among other things, prior to the time that such person became an interested stockholder, our board of directors approved the transaction in which such person acquired 15 percent or more of our outstanding voting stock. The existence of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

***Our executive officers, directors and major shareholders may be able to exert significant control over the company, which may make an acquisition of us difficult.***

To our knowledge, based on the number of shares of our common stock outstanding on December 31, 2013, our executive officers, directors, their respective affiliates, and stockholders holding 5 percent or more of our common stock, owned in the aggregate approximately 56 percent of our common stock. These stockholders have the ability to influence our company through this ownership position. For example, as a result of this concentration of ownership, these stockholders, if acting together, may have the ability to affect the outcome of matters submitted to our stockholders for approval, including the election and removal of directors, changes to our equity compensation plans and any merger or similar transaction. This concentration of ownership may, therefore, harm the market price of our common stock by:

delaying, deferring or preventing a change in control of Infinity;

impeding a merger, consolidation, takeover or other business combination involving Infinity; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of Infinity.

**Item 1B. Unresolved Staff Comments**

None.

37

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**Table of Contents**

**Item 2. Properties**

We currently lease, under two lease agreements, an aggregate of approximately 74,900 square feet of laboratory and office space among three buildings located at 780, 784 and 790 Memorial Drive in Cambridge, Massachusetts. One lease covering approximately 68,000 square feet of laboratory and office space expires in January 2016. We have the right to extend this lease for another five-year term on the same terms and conditions as the current lease by giving the landlord notice prior to the expiration of the current lease term. We currently sublease approximately 13,000 square feet of this space under a sublease agreement that expired in April 2013. The second lease covers approximately 6,900 square feet of office space and expires in October 2014. Should we require additional space, we believe that a suitable facility would be available to accommodate expansion of our operations on commercially reasonable terms

**Item 3. Legal Proceedings**

We are not a party to any material legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock is traded on the NASDAQ Global Select Market under the symbol INFI. Prior to January 3, 2011, our common stock was traded on the NASDAQ Global Market. The following table sets forth the range of high and low sales prices for our common stock for the quarterly periods indicated, as reported by NASDAQ. Such quotations represent inter-dealer prices without retail mark up, mark down or commission and may not necessarily represent actual transactions.

	2013		2012	
	High	Low	High	Low
First quarter	\$ 50.51	\$ 32.13	\$ 12.40	\$ 5.50
Second quarter	50.40	16.07	14.15	11.02
Third quarter	23.68	15.45	24.00	13.45
Fourth quarter	18.35	11.57	35.32	17.21

**Holders**

As of February 1, 2014, there were 56 holders of record of our common stock.

**Dividends**

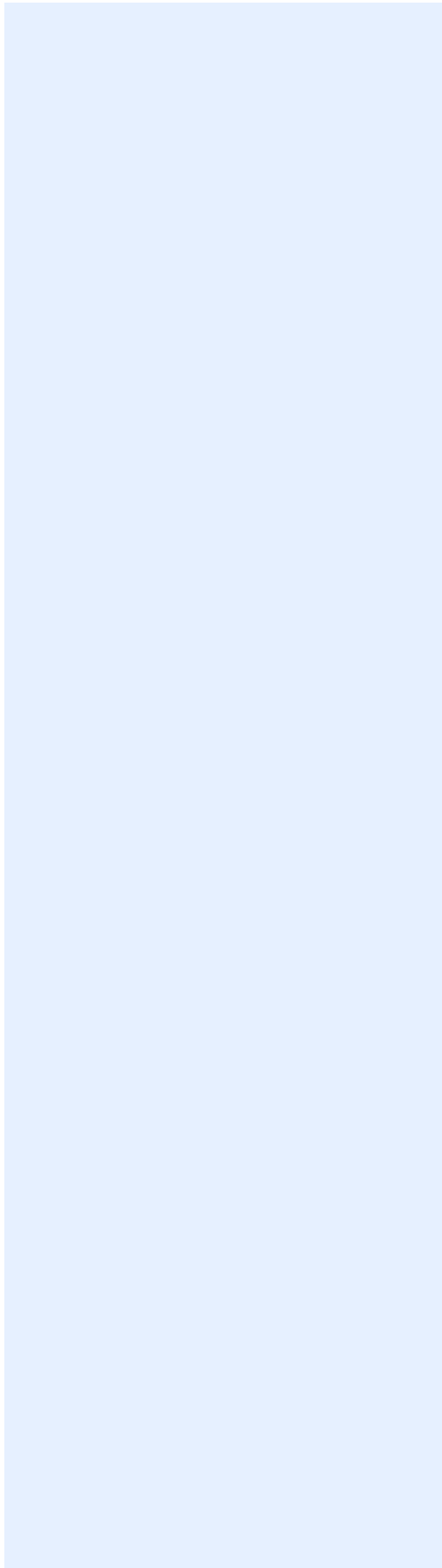
We have never paid cash dividends on our common stock, and we do not expect to pay any cash dividends in the foreseeable future.

**Comparative Stock Performance Graph**

The information included under the heading Comparative Stock Performance Graph included in this Item 5 of Part II of this Annual Report on Form 10-K shall not be deemed to be soliciting material or subject to Regulation 14A or 14C, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

The graph below shows a comparison of cumulative total stockholder returns from December 31, 2008 through December 31, 2013 for our common stock, the NASDAQ Stock Market (U.S.) Index and the NASDAQ Biotechnology Index. The graph assumes that \$100 was invested in our common stock and in each index on December 31, 2008, and that all dividends were reinvested. No cash dividends have been declared or paid on our common stock.

The stockholder returns shown on the graph below are not necessarily indicative of future performance, and we will not make or endorse any predictions as to future stockholder returns.



**Table of Contents**

**Comparison of 5-Year Cumulative Total Return  
among Infinity Pharmaceuticals, Inc.,  
the NASDAQ Stock Market (U.S.) Index,  
and the NASDAQ Biotechnology Index**

40

**Table of Contents****Item 6. Selected Financial Data**

The following financial data should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. Amounts below are in thousands, except for shares and per share amounts.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
<b>Statement of Operations Data:</b>					
Collaborative research and development revenue from Purdue entities	\$	\$ 47,114	\$ 92,773	\$ 71,331	\$ 50,765
Operating expenses:					
Research and development	99,760	118,595	108,582	99,232	77,857
General and administrative	27,916	27,882	22,719	21,070	19,456
Total operating expenses	127,676	146,477	131,301	120,302	97,313
Gain on termination of Purdue entities alliance		46,555			
Loss from operations	(127,676)	(52,808)	(38,528)	(48,971)	(46,548)
Interest income (expense), net	896	(1,349)	(1,514)	(1,447)	744
Income from NIH reimbursement					1,745
Income from residual funding after reacquisition of Hsp90 program					12,450
Income from Therapeutic Discovery Grants				734	
Income from Massachusetts tax incentive award		193			
Loss before income taxes	(126,780)	(53,964)	(40,042)	(49,684)	(31,609)
Income tax benefit				700	330
Net loss	\$ (126,780)	\$ (53,964)	\$ (40,042)	\$ (48,984)	\$ (31,279)
Loss per common share:					
Basic	\$ (2.64)	\$ (1.70)	\$ (1.50)	\$ (1.86)	\$ (1.20)

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Diluted	\$	(2.64)	\$	(1.70)	\$	(1.50)	\$	(1.86)	\$	(1.20)
Weighted average number of common shares outstanding:										
Basic		47,936,001		31,711,264		26,620,278		26,321,398		26,096,515
Diluted		47,936,001		31,711,264		26,620,278		26,321,398		26,096,515

41



**Table of Contents**

	As of December 31,				
	2013	2012	2011	2010	2009
<b>Selected Balance Sheet Data:</b>					
Cash, cash equivalents and available-for-sale securities, including long-term	\$ 214,468	\$ 326,635	\$ 115,937	\$ 100,959	\$ 130,737
Working capital	202,735	311,086	88,995	75,378	119,408
Total assets	230,710	335,660	124,490	124,566	157,318
Long-term debt due to Purdue entities, net of debt discount(1)			37,553		
Due to Millennium, less current portion(2)	6,456	6,252			
Accumulated deficit	(449,796)	(323,016)	(269,052)	(229,010)	(180,026)
Total stockholders equity	201,275	310,205	15,433	49,484	90,312

- (1) In November 2011, we borrowed \$50 million under a line of credit agreement with Purdue and its independent associated entity, Purdue Pharma L.P., or PPLP. We reduced the long-term debt on our balance sheet with a debt discount. On September 7, 2012, upon completion of the sale and issuance of common stock to PPLP under the 2012 securities purchase agreement, the line of credit agreement with PPLP terminated in its entirety. See note 11 of the financial statements.
- (2) During the year ended December 31, 2012, we recorded \$14.4 million in research and development expense related to the fair value of a release payment of \$15 million, payable in installments, pursuant to the amended and restated agreement with Millennium. We paid \$1.7 million of this \$15 million release payment during the year ended December 31, 2012 and recorded the remaining balance as a liability. As of December 31, 2013, we have a balance of \$6.7 million in Due to Millennium, current and \$6.5 million in Due to Millennium, noncurrent.

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## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Some of the information contained in this discussion and analysis and set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the section titled "Risk Factors" in Part I, Item 1A of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

#### **Business Overview**

##### **Overview**

We are an innovative biopharmaceutical company dedicated to discovering, developing and delivering best-in-class medicines to patients with difficult-to-treat diseases. We combine proven scientific expertise with a passion for developing novel small molecule drugs that target emerging disease pathways. We have worldwide development and commercialization rights to all of our development candidates and early discovery programs, subject to certain financial obligations to our current licensor and former development partners.

#### **Research and Development Programs**

##### ***PI3 Kinase Inhibitor Program***

Phosphoinositide-3-kinases, or the PI3Ks, are a family of enzymes involved in multiple cellular functions, including cell proliferation and survival, cell differentiation, cell migration and immunity. The PI3K-delta and PI3K-gamma isoforms are preferentially expressed in white blood cells, where they have distinct and mostly non-overlapping roles in immune cell development and function. Targeting PI3K-delta and PI3K-gamma may provide multiple opportunities to develop differentiated therapies for the treatment of hematologic malignancies and inflammatory diseases. IPI-145, our lead product candidate, is a potent, oral inhibitor of Class I PI3K-delta and PI3K-gamma, or a PI3K delta,gamma inhibitor, which we are investigating in both hematologic malignancies and inflammatory diseases. We believe that IPI-145 is the most advanced PI3K-delta,gamma inhibitor in clinical development.

We have launched DUETTS™, a worldwide investigation of IPI-145 in blood cancers. As part of the DUETTS™ program, we are conducting DYNAMO™, a Phase 2, open-label, single arm study evaluating the safety and efficacy of IPI-145 dosed at 25mg twice daily, or BID, in approximately 120 patients with indolent non-Hodgkin lymphoma, or iNHL, including FL, marginal zone lymphoma and SLL, whose disease is refractory to radioimmunotherapy or both rituximab and chemotherapy. Patients enrolled in the study must have progressed within six months of receiving their last therapy. The primary endpoint of the study is response rate according to the International Working Group Criteria. The U.S. Food and Drug Administration, or FDA, has granted orphan drug designation to IPI-145 for the potential treatment of follicular lymphoma, or FL, the most common subtype of iNHL. We intend to expand the DUETTS™ program in 2014 with the initiation of DYNAMO+R, a Phase 3 study of IPI-145 in combination with rituximab in patients with relapsed/refractory iNHL, as well as a Phase 2 study in treatment-naïve patients with iNHL and at least one additional clinical study in patients with hematologic malignancies.

Additionally, under the DUETTS™ program we are also enrolling patients in DUO™, a Phase 3 study of IPI-145 in patients with chronic lymphocytic lymphoma, or CLL. This randomized study is designed to evaluate the safety and efficacy of IPI-145 dosed at 25 mg BID compared to ofatumumab in approximately 300 patients with relapsed or refractory CLL. The primary endpoint of the study is progression-free survival. The FDA and the European Medicines Agency, or EMA, have granted orphan drug designation to IPI-145 for the potential treatment of CLL and SLL.

## **Table of Contents**

These trials are supported by data from our ongoing Phase 1, open-label, dose-escalation study designed to evaluate the safety, pharmacokinetics and clinical activity of IPI-145 in patients with advanced hematologic malignancies. The dose-escalation portion of the trial is complete, with the maximum tolerated dose defined at 75 mg BID. We are continuing to evaluate IPI-145 across two 25mg BID expansion cohorts in patients with relapsed/refractory CLL, iNHL and mantle cell lymphoma, or MCL, and treatment-naïve CLL in high-risk patients (those patients who are over age 65 or have either of two genetic abnormalities known as a 17p deletion or p53 mutation). Additionally, we are continuing to evaluate IPI-145 across five 75mg BID expansion cohorts in patients with relapsed/refractory CLL, iNHL and MCL; T-cell lymphomas; aggressive B-cell lymphomas; myeloid neoplasms; and T-cell or B-cell acute lymphoblastic leukemia/lymphoma. Data from this study, presented in December 2013 at the Annual Meeting of the American Society for Hematology, or ASH, and in January 2014 at the 6<sup>th</sup> Annual T-Cell Lymphoma Forum, showed that IPI-145 is clinically active in CLL, iNHL, T-Cell lymphoma, as well as other hematologic malignancies.

An investigator-sponsored Phase 1b, open-label study of IPI-145 in patients with B-cell NHL, CLL and T-cell lymphoma in combination with rituximab (a monoclonal antibody therapy), bendamustine (a chemotherapy) or both rituximab and bendamustine is also open for enrollment (NCT01871675).

### *Inflammatory and Autoimmune Diseases*

Within inflammatory diseases, IPI-145 is currently being evaluated in two Phase 2 trials. The first, which we refer to as the ASPIRA trial, is a Phase 2, randomized, double-blind, placebo-controlled study designed to evaluate the efficacy, safety and pharmacokinetics of IPI-145 in patients with rheumatoid arthritis (RA). The study is expected to enroll approximately 316 adults with moderate-to-severe RA and is designed to examine three dose levels of IPI-145 given twice daily for 12 weeks in combination with methotrexate compared to treatment with methotrexate alone. The primary efficacy endpoint of the study is the American College of Rheumatology 20, or ACR20, response rate, which is defined as the proportion of people who achieve at least a 20 percent improvement in ACR response criteria. The second trial is a Phase 2a randomized, double-blind, placebo-controlled trial of IPI-145 in patients with mild, allergic asthma. Endpoints of this multi-dose, two-way crossover study include safety, pharmacokinetics and FEV1, a measure of lung function. We expect to provide an update on this trial by the end of 2013.

### *PI3K Pipeline Expansion*

We are also developing our second PI3K product candidate, a potent, oral inhibitor of PI3K-delta and gamma which we refer to as IPI-443. The nonclinical studies of IPI-443 required for Phase 1 development have been completed, and the data from the two Phase 2 studies of IPI-145 in inflammatory and autoimmune diseases will guide the next steps for the development of IPI-443.

### *Other Programs*

In September 2013 we announced topline data from our Phase 2 study evaluating retaspimycin hydrochloride (HCl), a novel, potent and selective inhibitor of heat shock protein 90 (Hsp90), in combination with docetaxel, a chemotherapy, in 226 patients with second or third-line non-small cell lung cancer (NSCLC) who are naïve to docetaxel treatment and have a history of heavy smoking. In this randomized, double-blind, placebo-controlled study, retaspimycin HCl did not meet its pre-specified efficacy endpoints for demonstrating an improvement in overall survival in the total patient population or in patients with squamous cell carcinoma, despite observing partial responses in patients with squamous cell carcinoma during the Phase 1b testing. Additionally, the combination of retaspimycin HCl plus docetaxel did not show a

treatment benefit in patient populations defined by pre-specified biomarkers, including KRAS, p53 and plasma levels of Hsp90-alpha. We expect to present final data in a peer-reviewed setting after all analysis are complete.

We also announced in September that we will complete enrollment of the final cohort of patients in our separate, exploratory study of retaspimycin HCl in combination with everolimus (an mTOR inhibitor) in NSCLC patients with a KRAS mutation by the end of 2013. This enrollment will conclude our development of retaspimycin HCl, and we will not initiate any new trials with retaspimycin HCl.

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## **Table of Contents**

In addition to our clinical stage programs, we have multiple innovative projects in earlier stages of development. Through our internal discovery efforts, we discovered IPI-940, a novel, orally available inhibitor of fatty acid amide hydrolase, or FAAH. It is believed that inhibition of FAAH may enable the body to bolster its own analgesic and anti-inflammatory response, and may have applicability in a broad range of painful or inflammatory conditions. We are currently seeking potential partnering opportunities for our FAAH program.

### **Strategic Alliances**

#### ***Millennium***

In July 2010, we entered into a development and license agreement with Intellikine, Inc., or Intellikine, under which we obtained rights to discover, develop and commercialize pharmaceutical products targeting the delta and/or gamma isoforms of PI3K, including IPI-145 and we paid Intellikine a \$13.5 million up-front license fee. In January 2012, Intellikine was acquired by Takeda Pharmaceutical Company Limited, Takeda acting through its Millennium business unit. We refer to our PI3K program licensor as Millennium. In December 2012, we amended and restated our development and license agreement with Millennium.

Under the terms of the amended and restated agreement, we retained worldwide development and commercialization rights for products arising from the agreement for all therapeutic indications, and we are solely responsible for research conducted under the agreement. Additionally, under the amended and restated agreement, Millennium waived certain commercial rights and, in consideration of such waiver, we agreed to pay to Millennium \$15 million, payable in installments.

In addition to developing IPI-145, we are seeking to develop our second potent, oral PI3K-delta,gamma inhibitor product candidate, IPI-443, and we are seeking to identify additional novel inhibitors of PI3K-delta and/or PI3K-gamma for future development. We are obligated to pay to Millennium up to \$5 million in remaining success-based milestone payments for the development of two distinct product candidates and up to \$450 million in success-based milestones for the approval and commercialization of two distinct products. In February 2014, we paid Millennium a \$10 million milestone payment in connection with the initiation of our Phase 3 study of IPI-145 in patients with relapsed or refractory CLL. In addition, we are obligated to pay Millennium tiered royalties on worldwide net sales ranging from 7 percent to 11 percent upon successful commercialization of products described in the agreement. Such royalties are payable until the later to occur of the expiration of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, subject to reduction and limits on the number of products, in certain circumstances.

The amended and restated agreement expires on the later of the expiration of certain patents and the expiration of the royalty payment terms for the products, unless earlier terminated. Either party may terminate the agreement on 75 days prior written notice if the other party materially breaches the agreement and fails to cure such breach within the applicable notice period, provided that the notice period is reduced to 30 days where the alleged breach is non-payment. Millennium may also terminate the agreement if we are not diligent in developing or commercializing the licensed products and do not, within three months after notice from Millennium, demonstrate to Millennium's reasonable satisfaction that we have not failed to be diligent. The foregoing periods are subject to extension in certain circumstances. Additionally, Millennium may terminate the agreement upon 30 days prior written notice if we or a related party bring an action challenging the validity of any of the licensed patents, provided that we have not withdrawn such action before the end of the 30-day notice period. We may terminate the agreement at any time upon 180 days prior written notice. The agreement also provides

for customary reciprocal indemnification obligations of the parties.

45

**Table of Contents**

***Mundipharma and Purdue***

*Strategic Alliance Termination Agreements*

On July 17, 2012, we terminated our strategic alliance with Mundipharma International Corporation Limited, or Mundipharma, and Purdue Pharmaceutical Products L.P., or Purdue, and entered into termination and revised relationship agreements with each of those entities, which we refer to as the 2012 termination agreements. The alliance was previously governed by strategic alliance agreements that we entered into with each of Mundipharma and Purdue in November 2008. The strategic alliance agreement with Purdue was focused on the development and commercialization in the United States of products targeting FAAH. The strategic alliance agreement with Mundipharma was focused on the development and commercialization outside of the United States of all products and product candidates that inhibit or target the Hedgehog pathway, FAAH, PI3K and product candidates arising out of our early discovery projects in all disease fields. Our Hsp90 program was expressly excluded from the alliance.

Under the terms of the 2012 termination agreements:

All intellectual property rights that we had previously licensed to Mundipharma and Purdue to develop and commercialize products under the previous strategic alliance agreements terminated, with the result that we have worldwide rights to all product candidates that had previously been covered by the strategic alliance.

We have no further obligation to provide research and development services to Mundipharma and Purdue as of July 17, 2012.

Mundipharma and Purdue have no further obligation to provide research and development funding to us. Under the alliance, Mundipharma was obligated to reimburse us for research and development expenses we incurred, up to an annual aggregate cap for each alliance program other than FAAH. During the year ended December 31, 2012, we received \$55 million in research and development funding. We recognized revenue for reimbursed research and development services we performed for Mundipharma and Purdue. We recognized \$45 million in such revenue in the year ended December 31, 2012. We recognized \$88.5 million in such revenue, which included \$3.5 million in revenue related to reimbursed research and development services for the transition of the FAAH program, in the year ended December 31, 2011. We did not record a liability for amounts previously funded by Purdue and Mundipharma as this relationship was not considered a financing arrangement.

We are obligated to pay Mundipharma and Purdue a four percent royalty in the aggregate, subject to reduction as described below, on worldwide net sales of products that were covered by the alliance until such time as they have recovered approximately \$260 million, representing the research and development funding paid to us for research and development services performed by us through the termination of the strategic alliance. After this cost recovery, our royalty obligations to Mundipharma and Purdue will be reduced to a one percent royalty on net sales in the United States of products that were previously subject to the strategic alliance. All payments are contingent upon the successful commercialization of products subject to the alliance, which products are subject



to significant further development. As such, there is significant uncertainty about whether any such products will ever be approved or commercialized. If no products are commercialized, no payments will be due by us to Mundipharma and Purdue; therefore, no amounts have been accrued.

Royalties are payable under these agreements until the later to occur of the last-to-expire of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, provided that if royalties are payable solely on the basis of non-patent regulatory exclusivity, each of the royalty rates is reduced by 50 percent. In addition, royalties payable under these agreements after Mundipharma and Purdue have recovered all research and development expenses paid to us are subject to reduction on account of third party royalty payments or patent litigation damages or settlements which might be required to be paid by us if litigation were to arise, with

**Table of Contents**

any such reductions capped at 50 percent of the amounts otherwise payable during the applicable royalty payment period. The 2012 termination agreements resulted in a gain on termination of Purdue entities alliance and a positive net income impact of \$46.6 million, or a decrease of \$1.47 in basic and diluted loss per share for the year ended December 31, 2012.

*Line of Credit Agreement*

In connection with the previous strategic alliance with Mundipharma and Purdue, we also entered into a line of credit agreement with Purdue and its independent associated company, Purdue Pharma L.P., or PPLP, that provided for the borrowing by us of one or more unsecured loans up to an aggregate maximum principal amount of \$50 million. We recorded interest expense on the net amount borrowed using the effective interest method. We recorded \$1.9 million and \$0.2 million of related interest expense in the years ended December 31, 2012 and 2011, respectively, using an effective interest rate of 7.29 percent.

On September 7, 2012, upon completion of the sale and issuance of common stock to PPLP under the 2012 securities purchase agreement described below, the line of credit agreement with PPLP terminated in its entirety.

*2012 Securities Purchase Agreement; 2013 Offering*

On July 17, 2012, in connection with the termination of the strategic alliance with Mundipharma and Purdue, we executed a securities purchase agreement with PPLP, which we refer to as the 2012 securities purchase agreement, under which we agreed to sell and issue 5,416,565 shares of our common stock to PPLP and two entities associated with PPLP, which we collectively refer to as the BRP entities, at a price of \$14.50 per share for an aggregate consideration of approximately \$78.5 million. The consideration was composed of extinguishment of approximately \$51.0 million in principal and interest owed to PPLP under a line of credit agreement and \$27.5 million in cash. We completed the sale and issuance on September 7, 2012 at which time the line of credit agreement with PPLP terminated in its entirety.

The 2012 securities purchase agreement also terminated, as of July 17, 2012, all attendance rights to meetings of our board of directors held by the Purdue entities.

On April 16, 2013, the BRP entities, through two selling stockholders, sold 11,416,565 shares in an underwritten public offering at a price of \$40 per share, representing their entire holdings in our common stock. In connection with the public offering and sale of their common stock, we entered into an agreement with the BRP entities, pursuant to which the 2012 securities purchase agreement, as amended in connection with the offering, terminated in its entirety.

**Recent Development***Facility Agreement*

On February 24, 2014, or Effective Date, we entered into a Facility Agreement with affiliates of Deerfield Management Company, L.P., or Deerfield, pursuant to which Deerfield agreed to loan to us up to \$100,000,000, subject to the terms and conditions set forth in the Facility Agreement. Under the Facility Agreement, we may draw down on the facility in \$25,000,000 increments at any time during the 12 months following the Effective Date. Our ability to draw down under the Facility Agreement is subject to various customary conditions, including the entry into a Guaranty and Security Agreement, or Guaranty, with Deerfield and Infinity Discovery, Inc., or IDI, our a wholly-owned subsidiary, pursuant to which, as security for the repayment of our

obligations under the Facility Agreement, IDI will guaranty all of our obligations under the Facility Agreement and, to secure the obligations under the Facility Agreement and the Guaranty, both we and IDI will grant to Deerfield a security interest in substantially all of our assets including intellectual property.

**Table of Contents**

Any amounts drawn under the Facility Agreement accrue interest at a rate of 7.95% per annum, payable quarterly in arrears beginning on June 1, 2014, provided that, during the first five interest payment dates of any draw under the Facility Agreement, we may elect to pay all or a portion of such accrued interest by adding it to the principal amount outstanding. All such accrued interest will, regardless of which draw it applies to, be payable on the last business day of the sixth calendar quarter following the date of the first draw. We have the right to terminate the Facility Agreement and/or to prepay amounts owed under the Facility Agreement at any time, provided that, to the extent that any amount was drawn less than three years before such early termination or prepayment, we will be required to pay an additional amount equal to three years of interest less the amount of interest previously paid. We will be required to repay Deerfield one-third of the total principal amount drawn under the Facility Agreement on each of the third, fourth and fifth anniversaries of the first draw, however the final payment must be made by December 15, 2019. On February 27, 2015, or upon the earlier termination or acceleration of the facility, we are required to pay a fee equal to 3% of the then undrawn portion of the \$100,000,000 commitment.

Deerfield will have the right to accelerate payment of the facility in the event that we consummate a major transaction, which is generally defined as a change in control, a sale of all or substantially all of our assets, a tender or exchange offer for our common stock, a liquidation, bankruptcy, insolvency, dissolution or wind up, a delisting and/or the common stock ceases to be registered under the Securities Exchange Act of 1934, or the Exchange Act.

Any amounts drawn under the Facility Agreement may become immediately due and payable upon (i) customary events of default, as defined in the Facility Agreement, or (ii) the consummation of certain major transactions, in which case Deerfield would have the right to require us to repay 100% of the principal amount of the loan, plus any accrued and unpaid interest thereon, plus any applicable additional amounts relating to a prepayment or termination, as described above.

Principal and interest under the Facility may be paid in cash or freely tradable shares of common stock at our election, subject to specified conditions at any time of conversion.

The Facility Agreement contains various representations and warranties, and affirmative and negative covenants, customary for financings of this type, provided that the negative covenants are not applicable until the first draw under the Facility Agreement.

*Warrants*

In connection with the execution of the Facility Agreement, we issued to Deerfield warrants to purchase an aggregate of 1,000,000 shares of common stock at an exercise price of \$13.83 per share, or the Initial Warrants. As noted above, pursuant to the Facility Agreement, we have the right to request from Deerfield one or more cash disbursements in the minimum amount of \$25,000,000 per disbursement, which disbursements shall be accompanied by the issuance to Deerfield of warrants to purchase an aggregate number of shares of common stock equal to (A) a quotient derived by dividing (x) the aggregate amount of such disbursement by (y) the volume weighted average closing price per share of the common stock during the 20 trading days following Deerfield's receipt of the applicable draw notice, or the 20-Day VWAP, multiplied by (B) 50%, or the Draw Warrants. We refer to the Initial Warrants and the Draw Warrants individually as a Warrant or together as the Warrants. The exercise price of the Draw Warrants will be the applicable 20-Day VWAP for each disbursement. The number of shares of common stock into which a Warrant is exercisable and the exercise price of any Warrant will be adjusted to reflect any stock splits, recapitalizations or similar adjustments in the number of outstanding shares of common stock.

Each Warrant issued under the Facility Agreement expires on the seventh anniversary of its issuance. Subject to certain exceptions, the Warrants and the Facility Agreement contain certain limitations such that we may not issue shares of common stock to Deerfield pursuant to the Warrants or the Facility Agreement if such issuance would result in Deerfield beneficially owning in excess of 9.985% of the total number of shares of our common stock of then issued and outstanding.

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**Table of Contents**

The holder of a Warrant may exercise the Warrant either for cash or on a cashless basis. In connection with certain major transactions, the holder may have the option to receive, upon exercise of the Warrant in whole or in part, either cash or a number of shares of common stock equal to the Black-Scholes value of the Warrant, as defined in the Warrant.

*Registration Rights Agreement*

In connection with the entry into the Facility Agreement and issuance of the Initial Warrants, we entered into a Registration Rights Agreement with Deerfield dated February 24, 2014. Pursuant to the terms of the Registration Rights Agreement, we have agreed to file a registration statement on Form S-3 with the SEC on or prior to 30 days from the

Effective Date, to register for resale the shares of common stock issuable upon the exercise of the Initial Warrants. Additionally, pursuant to the terms of the Registration Rights Agreement, we have agreed to file one or more additional registration statements with the SEC to register for resale the shares of common stock issuable upon the exercise of the applicable Draw Warrants, on or prior to 30 days after issuance of each of the Draw Warrants.

**Financial Overview**

*Revenue*

All of our revenue to date has been derived from license fees, the reimbursement of research and development costs, contract service revenue and milestone payments received from our collaboration partners. License fees were recognized as revenue ratably over the expected research and development period under our arrangement with Mundipharma and Purdue. Because our agreements with Mundipharma and Purdue also provided for funding for our research and development efforts, we recognized this cost reimbursement as revenue in the period earned in proportion to our forecasted total expenses as compared to the total research funding budget for the year. In the future, we may generate revenue from a combination of product sales, research and development support services and milestone payments in connection with strategic relationships, as well as royalties resulting from the sales of products developed under licenses of our intellectual property. We expect that any potential future revenue we generate will fluctuate from year to year as a result of the timing and amount of license fees, research and development reimbursement, milestone and other payments earned under our collaborative or strategic relationships and the amount and timing of payments that we earn upon the sale of our products, to the extent any are successfully commercialized.

*Research and Development Expense*

We are a drug discovery and development company. Our research and development expense primarily consists of the following:

compensation of personnel associated with research and development activities;

clinical testing costs, including payments made to contract research organizations;

costs of purchasing laboratory supplies and materials;

costs of manufacturing product candidates for preclinical testing and clinical studies;

costs associated with the licensing of research and development programs;

preclinical testing costs, including costs of toxicology studies;

fees paid to external consultants;

fees paid to professional service providers for independent monitoring and analysis of our clinical trials;

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**Table of Contents**

costs for collaboration partners to perform research activities, including development milestones for which a payment is due when achieved;

depreciation of equipment; and

allocated costs of facilities.

***General and Administrative Expense***

General and administrative expense primarily consists of compensation of personnel in executive, finance, accounting, legal, information technology infrastructure, corporate communications, corporate development, human resources and commercial functions. Other costs include facilities costs not otherwise included in research and development expense and professional fees for legal and accounting services. General and administrative expense also consists of the costs of maintaining our intellectual property portfolio.

***Other Income and Expense***

Interest and investment income typically consists of interest earned on cash, cash equivalents and available-for-sale securities, net of interest expense and amortization of warrants. Interest expense included amortization of the loan commitment asset from Purdue entities, net, from April 2009 through November 2011 when we drew down the full \$50 million loan available under the line of credit agreement. Interest expense also included accrued interest on the long-term debt, including amortization of the debt discount, through September 7, 2012 when the debt was extinguished. Income from Massachusetts tax incentive award represents the pro-rata amount earned for an award we received for headcount growth.

**Critical Accounting Policies and Significant Judgments and Estimates**

The following discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, accrued expenses and assumptions in the valuation of stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Differences between actual and estimated results have not been material and are adjusted in the period they become known. We believe that the following accounting policies and estimates are most critical to understanding and evaluating our reported financial results. Please refer to note 2 to our consolidated financial statements included in this report for a description of our significant accounting policies.

***Revenue Recognition***

To date, all of our revenue has been generated under research collaboration agreements. The terms of these research collaboration agreements may include payment to us of non-refundable, up-front license fees, funding or reimbursement of research and development efforts, milestone payments if specified objectives are achieved and/or royalties on product sales. We recognize revenue based upon our best estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item.



Under our previous strategic alliance with Mundipharma and Purdue, we recognized revenues from non-refundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which was the research and development term. We regularly considered whether events warranted a change in the estimated period of performance under an agreement. Such a change would have caused us to modify the period of time over which we recognized revenue from the up-front license fee on a prospective basis and would have, in turn, resulted in changes in our quarterly and annual results. We recognized research and development

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**Table of Contents**

funding as earned over the period of effort as related research and development costs were incurred in proportion to our forecasted total expenses as compared to the total expected research and development funding for the year. We recognized the impact of any change in forecasted total expenses or expected research and development funding as a change in accounting estimate and recorded the impact of that change on a prospective basis. On

July 17, 2012, we mutually agreed with Mundipharma and Purdue to terminate our strategic alliance agreements. Further information regarding the terms and conditions of this termination is described in note 11 to our consolidated financial statements included in this report.

At the inception of each agreement that includes milestone payments, we evaluate whether each milestone is substantive on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether:

the consideration is commensurate with either (1) our performance to achieve the milestone, or (2) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from our performance to achieve the milestone;

the consideration relates solely to past performance; and

the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

We evaluate factors such as the clinical, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment. We recognize revenues related to substantive milestones in full in the period in which the substantive milestone is achieved. If a milestone payment is not considered substantive, we recognize the applicable milestone over the remaining period of performance. Our strategic alliance with Mundipharma and Purdue did not include potential milestone payments.

We will recognize royalty revenue, if any, based upon actual and estimated net sales by the licensee of licensed products in licensed territories in the period the sales occur. We have not recognized any royalty revenue to date.

***Accrued Expenses***

As part of the process of preparing financial statements, we are required to estimate accrued expenses. This process involves identifying services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for such service as of each balance sheet date. Examples of services for which we must estimate accrued expenses include contract service fees paid to contract manufacturers in conjunction with pharmaceutical development work and to contract research organizations in connection with clinical trials and preclinical studies. In connection with these service fees, our estimates are most affected by our understanding of the status and timing of services provided. The majority of our service providers invoice us in arrears for services performed. In the event that we do not identify certain costs that have been incurred by our service providers, or if we under- or over-estimate the level of services performed or the costs of such services in any given period, our reported expenses for such period would be too low or too high, respectively. We often rely on subjective judgments to determine the date on which certain services commence, the level of services performed on or before a given date and the cost of such services. We make these judgments based

upon the facts and circumstances known to us. Our estimates of expenses in future periods may be under- or over-accrued.

***Stock-Based Compensation***

We expense the fair value of employee stock options and other equity compensation. We use our judgment in determining the fair value of our equity instruments, including in selecting the inputs we use for the Black-Scholes valuation model. Equity instrument valuation models are by their nature highly subjective. Any

**Table of Contents**

significant changes in any of our judgments, including those used to select the inputs for the Black-Scholes valuation model, could have a significant impact on the fair value of the equity instruments granted and the associated compensation charge we record in our financial statements.

**Results of Operations**

The following table summarizes our results of operations for the years ended December 31, 2013, 2012 and 2011, in thousands, together with the change in each item as a percentage.

	2013	% Change	2012	% Change	2011
Revenue	\$	(100)%	\$ 47,114	(49)%	\$ 92,773
Research and development expense	(99,760)	(16)%	(118,595)	9%	(108,582)
General and administrative expense	(27,916)	0%	(27,882)	23%	(22,719)
Gain on termination of Purdue entities alliance		(100)%	46,555		
Interest expense		(100)%	(1,908)	4%	(1,841)
Interest and investment income	896	60%	559	71%	327
Income from Massachusetts incentive tax award		(100)%	193		

*Revenue*

We did not recognize revenue during the year ended December 31, 2013 as our strategic alliance with Mundipharma and Purdue terminated in 2012.

Our revenue during the year ended December 31, 2012 consisted of approximately:

\$45 million related to reimbursed research and development services we performed under our strategic alliance entered into with Mundipharma and Purdue in November 2008; and

\$2.1 million related to the amortization of the deferred revenue associated with the grant of rights and licenses under our strategic alliance with Mundipharma and Purdue.

Our revenue during the year ended December 31, 2011 consisted of approximately:

\$88.5 million related to reimbursed research and development services we performed under our strategic alliance with Mundipharma and Purdue, which includes \$3.5 million related to the transition of our FAAH program to Mundipharma and Purdue; and

\$4.3 million related to the amortization of the deferred revenue associated with the grant of rights and licenses under our strategic alliance with Mundipharma and Purdue.

In the absence of any potential business development activities that generate revenue, we do not expect to recognize any revenue in 2014.

*Research and Development Expense*

Research and development expenses represented approximately 78 percent of our total operating expenses for the year ended December 31, 2013, 81 percent of our total operating expenses for the year ended December 31, 2012, and 83 percent of our total operating expenses for the year ended December 31, 2011.

The decrease in research and development expense for the year ended December 31, 2013 compared to the year ended December 31, 2012 was primarily attributable to:

\$25.8 million lower clinical expenses, including clinical manufacturing expenses, primarily due to the discontinuation of company-sponsored development of saridegib, as well as conclusion of our development of retaspimycin HCl.

**Table of Contents**

\$14.4 million incurred in 2012 associated with the fair value of installment payments related to amended and restated agreement with Millennium; and

\$5 million associated with the achievement of a milestone for the initiation of a Phase 2a clinical trial of IPI-145 in patients with mild, allergic asthma and a \$1.0 million milestone for the initiation of the first IND-enabling cGLP toxicology study of IPI-443.

These decreases were partially offset by an increase of \$28.1 million in clinical expenses, including clinical manufacturing expenses, related to increased clinical development activities of IPI-145.

The increase in research and development expense for the year ended December 31, 2012 compared to the year ended December 31, 2011 was primarily attributable to:

\$14.4 million incurred in 2012 associated with the fair value of installment payments related to amended and restated agreement with Millennium; and

\$5 million associated with the achievement of a milestone for the initiation of a Phase 2a clinical trial of IPI-145 in patients with mild, allergic asthma and a \$1.0 million milestone for the initiation of the first IND-enabling cGLP toxicology study of IPI-443.

These increases were partially offset by a decrease of \$6.2 million in pharmaceutical development expense due primarily to the discontinuation of company-sponsored development of saridegib and \$4 million in milestone payments associated with the initiation of two Phase 1 clinical trials in our PI3K program.

We began to track and accumulate costs by major program starting on January 1, 2006.

The following table sets forth our estimates of research and development expenses, by program, over the last three years and cumulatively from January 1, 2006 to December 31,

2013. These expenses primarily relate to payroll and related expenses for personnel working on the programs, process development and manufacturing, preclinical toxicology studies, clinical trial costs and allocated costs of facilities. From August 2006 through

December 2008, our Hsp90 inhibitor program was conducted in collaboration with MedImmune, a division of AstraZeneca plc, or MedImmune; from August 2006 through

November 2007, our Hedgehog pathway inhibitor program was conducted in collaboration with MedImmune. Under this collaboration, we shared research and development expenses equally with MedImmune. Pursuant to our cost-sharing arrangement, reimbursable amounts from MedImmune were credited to research and development expense, and the expenses for the Hsp90 inhibitor and Hedgehog pathway inhibitor programs below include credits of approximately \$34.4 million in years prior to 2009.

Program	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended January 1, 2006 to December 31, 2013
(in millions)				
PI3K				
Inhibitor(1)	\$ 71.7	\$ 48.8	\$ 23.5	\$ 162.0
Hsp90 inhibitor	12.1	21.3	15.2	136.1
	1.2	34.0	48.4	164.0

Hedgehog  
pathway  
inhibitor

(1) Includes an upfront license fee of \$13.5 million in 2010, \$4 million in development milestones in 2011, as well as \$14.4 million recorded as fair value for the release payment for the amended and restated Millennium agreement and \$6 million in development milestones in 2012.

We expect expenses related to our PI3K programs to increase as we continue clinical development of IPI-145. We expect expenses related to our Hsp90 program to decrease significantly as we conclude development of retaspimycin HCl. We expect to incur minimal expenses related to our Hedgehog pathway inhibitor programs as a result of the discontinuation of company-sponsored development. We do not believe that the historical costs associated with our lead drug development programs are indicative of the future costs associated with these

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**Table of Contents**

programs, nor represent what any other future drug development programs we initiate may cost. Due to the variability in the length of time and scope of activities necessary to develop a product candidate and uncertainties related to our cost estimates and our ability to obtain marketing approval for our product candidates, accurate and meaningful estimates of the total costs required to bring our product candidates to market are not available.

Because of the risks inherent in drug discovery and development, we cannot reasonably estimate or know:

the nature, timing and estimated costs of the efforts necessary to complete the development of our programs;

the completion dates of these programs; or

the period in which material net cash inflows are expected to commence, if at all, from the programs described above and any potential future product candidates. There is significant uncertainty regarding our ability to successfully develop any product candidates. These risks include the uncertainty of:

the scope, rate of progress and cost of our clinical trials that we are currently running or may commence in the future;

the scope and rate of progress of our preclinical studies and other research and development activities;

clinical trial results;

the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights relating to our programs under development;

the terms and timing of any strategic alliance, licensing and other arrangements that we have or may establish in the future relating to our programs under development;

the cost and timing of regulatory approvals;

the cost of establishing clinical supplies of any product candidates; and

the effect of competing technological and market developments.



*General and Administrative Expense*

General and administrative expense is comparable for the years ended December 31, 2013 and 2012.

The increase in general and administrative expense for the year ended December 31, 2012 as compared to the year ended December 31, 2011 was primarily attributable to:

an increase of \$1.9 million in stock-based compensation expense;

an increase of \$1.7 million in consulting expenses, principally related to early commercial development; and

an increase of \$1.0 million in legal expenses primarily related to corporate development activities.

*Gain on Termination of Purdue Entities Alliance*

The gain on termination of the Purdue entities alliance is non-recurring and due to the 2012 termination agreements.

*Interest Expense*

There was no interest expense in the year ended December 31, 2013 as compared to the years ended December 31, 2012 and 2011 due to the extinguishment of the long-term debt due to the Purdue entities on September 7, 2012.



The principal use of cash in operating activities in all periods presented was related to our research and development programs. On July 17, 2012, we, Mundipharma and Purdue mutually agreed to terminate our strategic alliance agreements and, as a result, Mundipharma discontinued all research and development funding thereafter. During the years ended December 31, 2012 and 2011, we received research and development funding from Mundipharma and Purdue totaling \$55 million and \$85 million, respectively. Our research and development costs exceeded the funding from Mundipharma and Purdue for the year ended December 31, 2011 due primarily

**Table of Contents**

to investments we made in our Hedgehog and PI3K programs. Our cash flow used in operating activities in future periods may vary significantly due to various factors, including potential cash inflows from future collaboration agreements and potential cash outflows for licensing new programs from third parties. We cannot be certain whether and when we may enter into any such collaboration agreements or in-licenses.

Our cash flow used in operating activities for the year ended December 31, 2013 compared to the year ended December 31, 2012 increased primarily due to a decrease in research and development funding from Mundipharma and Purdue. Our cash used in operating activities for the year ended December 31, 2013 included a prepayment of approximately \$8 million related to purchases of comparator drugs to be used for our clinical trials. Our cash used in operating activities for the year ended December 31, 2012 included a decrease in deferred revenue from the termination of the strategic alliance agreements. During the year ended December 31, 2012, we recorded \$14.4 million in research and development expense related to the fair value of a release payment of \$15 million, payable in installments, relating to the amended and restated agreement with Millennium. We paid \$1.7 million of this \$15 million release payment during the year ended December 31, 2012 and recorded \$12.7 million in Due to Millennium. During the year ended December 31, 2012, we paid Millennium \$1.0 million associated with the achievement of a milestone under the original agreement with Millennium and \$5 million associated with the achievement of a milestone under our amended and restated agreement with Millennium, which we recorded as research and development expense.

During the year ended December 31, 2011, we paid Millennium \$4 million associated with the achievement of milestones under the original agreement, which we recorded as research and development expense.

Our investing activities for the years ended December 31, 2013, 2012 and 2011 included the purchase of and proceeds from maturities and sales of available-for-sale securities and purchases of property and equipment. Our investing activities for the year ended December 31, 2013 included \$249.8 million in purchases of available-for-sale securities, proceeds of \$251.1 million from maturities of available-for-sale securities and proceeds of \$1.0 million from sales of available-for-sale securities. Capital expenditures for the year ended December 31, 2013 of \$1.8 million primarily consisted of laboratory equipment and software.

Our financing activities for the year ended December 31, 2013 included \$5.3 million of proceeds from issuances of common stock from stock option exercises related to stock incentive plans and \$0.4 million of proceeds from issuances of common stock related to our employee stock purchase plan. Our financing activities for the year ended December 31, 2012 included \$244.8 million of net proceeds from two public stock offerings, \$27.5 million of proceeds from issuance of common stock to PPLP as a result of termination of strategic agreements with Mundipharma and Purdue and \$21.4 million of proceeds from issuances of common stock from stock option exercises related to stock incentive plans. Our financing activities for the year ended December 31, 2011 includes borrowings of \$50 million on the line of credit made available to us by PPLP. On September 7, 2012, upon completion of the sale and issuance of common stock to PPLP under the 2012 securities purchase agreement, the line of credit agreement with PPLP terminated in its entirety.

We will need substantial additional funds to support our planned operations. In the absence of additional funding or business development activities and based on our current operating plans, we expect that our current cash and investments are sufficient to fund our planned operations into 2015. In the absence of changes to our current operating plans, we will need to raise additional funds by that date. Our need to raise additional funds may be accelerated if our research and development expenses exceed our current expectations, if we acquire a third party or if we acquire or license rights to additional product candidates or new technologies from one or more third parties. Our need to raise additional funds may also be accelerated for other reasons, including, without limitation, if:

our product candidates require more extensive clinical or preclinical testing than we currently expect;

we advance our product candidates into clinical trials for more indications than we currently expect;

we advance more of our product candidates than expected into costly later stage clinical trials;

56

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**Table of Contents**

we advance more preclinical product candidates than expected into early stage clinical trials;

we acquire additional business, technologies, products or product candidates;

the cost of acquiring raw materials for, and of manufacturing, our product candidates is higher than anticipated;

we are required, or consider it advisable, to acquire or license intellectual property rights from one or more third parties; or

we experience a loss in our investments due to general market conditions or other reasons.

Historically, we have relied on our strategic alliance with Mundipharma and Purdue for a significant portion of our research and development funding needs. Mundipharma and Purdue provided us approximately \$260 million in research and development funding during the term of our strategic alliance. Following the termination of the strategic alliance agreements with Mundipharma and Purdue on July 17, 2012, we no longer receive funding from Mundipharma or Purdue and must use other resources available to us to fund our research and development expenses. Our efforts to raise sufficient capital to replace the funding we previously received under the terminated strategic alliance agreements may not be successful.

We have received \$244.8 million of net proceeds from our public stock offerings since the termination of the strategic alliance agreements with Mundipharma and Purdue. We may continue to seek additional funding through public or private financings of equity or debt securities, but such financing may not be available on acceptable terms, if at all. In addition, the terms of our financings may be dilutive to, or otherwise adversely affect, holders of our common stock, and such terms may impact our ability to make capital expenditures or incur additional debt. We may also seek additional funds through arrangements with collaborators or other third parties, or through project financing. These arrangements would generally require us to relinquish or encumber rights to some of our technologies or product candidates, and we may not be able to enter into such agreements on acceptable terms, if at all. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our development programs or to scale back, suspend or terminate our business operations.

*Organizational Restructuring*

In June 2012, we voluntarily stopped all company-sponsored clinical trials of saridegib, our Hedgehog pathway inhibitor, and in July 2012 we restructured our strategic alliance agreements with Mundipharma and Purdue such that we are no longer entitled to research and development funding. As a result, we implemented work force reductions totaling 20 percent of our employee headcount as of December 31, 2011. Our work force reductions resulted in restructuring charges totaling \$2.6 million related to severance, benefits and related costs for employees and was recorded in research and development expenses and general and administrative expenses in the year ended December 31, 2012. All payments have been made in 2013.

*Contractual Obligations*

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As of December 31, 2013, we had the following contractual obligations, excluding contingent milestone payments:

Contractual Obligations	Total	Payments Due by Period (in thousands)			
		2014	2015	2016	2017 and beyond
Due to Millennium	\$ 13,334	\$ 6,667	\$ 6,667	\$	\$
Operating lease obligations	9,793	4,715	4,677	401	
Software contract obligations	696	363	333		
Total contractual cash obligations	\$ 23,823	\$ 11,745	\$ 11,677	\$ 401	\$

57

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**Table of Contents**

The above table does not include contracts with contract research organizations as they are generally cancellable, with notice, at our option. In addition, we have obligations to make milestone payments under our license agreement with Millennium. For a description of these obligations, please see our description of our license agreement with Millennium under the heading "Strategic Alliances - Millennium" above. In February 2014, we paid to Millennium a \$10 million milestone payment in connection with the initiation of our Phase 3 study of IPI-145 in patients with relapsed or refractory CLL.

**Off-Balance Sheet Arrangements**

Since inception, we have not engaged in any off-balance sheet financing activities, including the use of structured finance, special purpose entities or variable interest entities.

**Inflation**

We do not believe that inflation has had a significant impact on our revenues or results of operations since inception.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since a significant portion of our investments are in money market funds, corporate obligations, and U.S. government-sponsored enterprise obligations. We do not enter into investments for trading or speculative purposes. Our cash is deposited in and invested through highly rated financial institutions in North America. Our marketable securities are subject to interest rate risk and will fall in value if market interest rates increase.

A hypothetical 100 basis point increase in interest rates would result in an approximate \$0.8 million decrease in the fair value of our investments as of December 31, 2013, as compared to an approximately \$1.0 million decrease as of December 31, 2012. We have the ability to hold our fixed income investments until maturity and, therefore, we do not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments.



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**Table of Contents**

**Item 8. Financial Statements and Supplementary Data**  
**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
  
Infinity Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Infinity Pharmaceuticals, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinity Pharmaceuticals, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Infinity Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 25, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts

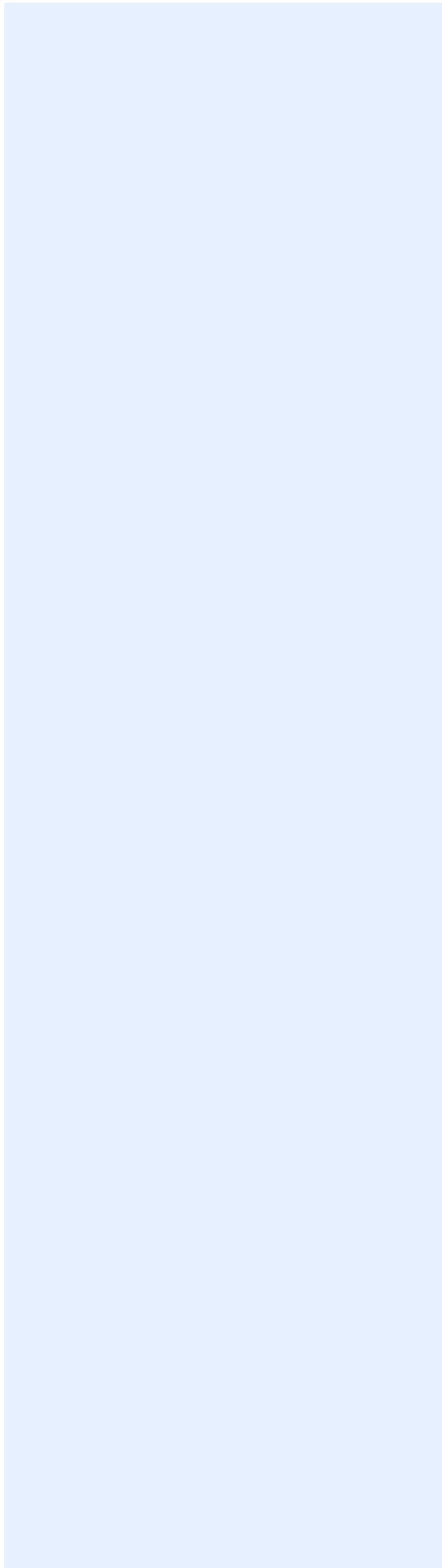
February 25, 2014

**Table of Contents****INFINITY PHARMACEUTICALS, INC.****Consolidated Balance Sheets**

(in thousands, except share and per share amounts)

	December 31,	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 68,114	\$ 175,742
Available-for-sale securities	145,772	150,276
Prepaid expenses and other current assets	11,055	3,731
Total current assets	224,941	329,749
Property and equipment, net	4,010	4,079
Long-term available-for-sale securities	582	617
Restricted cash	1,130	1,128
Other assets	47	87
Total assets	\$ 230,710	\$ 335,660
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 6,375	\$ 2,148
Accrued expenses	9,164	10,059
Due to Millennium, current	6,667	6,456
Total current liabilities	22,206	18,663
Due to Millennium, less current portion	6,456	6,252
Other liabilities	773	540
Total liabilities	29,435	25,455
Commitments and contingencies (note 10)		
<b>Stockholders' equity:</b>		
Preferred Stock, \$.001 par value; 1,000,000 shares authorized, no shares issued and outstanding at December 31, 2013 and 2012		
Common Stock, \$.001 par value; 100,000,000 shares authorized, and 48,227,838 and 47,499,257 shares issued and outstanding, at December 31, 2013 and December 31, 2012, respectively		
	48	48
Additional paid-in capital	650,867	633,039
Accumulated deficit	(449,796)	(323,016)
Accumulated other comprehensive income	156	134
Total stockholders' equity	201,275	310,205
Total liabilities and stockholders' equity	\$ 230,710	\$ 335,660

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



**Table of Contents****INFINITY PHARMACEUTICALS, INC.****Consolidated Statements of Operations and Comprehensive Loss**

(in thousands, except share and per share amounts)

	Years Ended December 31,		
	2013	2012	2011
Collaborative research and development revenue from Purdue entities	\$	\$ 47,114	\$ 92,773
Operating expenses:			
Research and development	99,760	118,595	108,582
General and administrative	27,916	27,882	22,719
Total operating expenses	127,676	146,477	131,301
Gain on termination of Purdue entities alliance		46,555	
Loss from operations	(127,676)	(52,808)	(38,528)
Other income (expense):			
Interest expense		(1,908)	(1,841)
Income from Massachusetts tax incentive award		193	
Investment and other income	896	559	327
Total other income (expense)	896	(1,156)	(1,514)
Loss before income taxes	(126,780)	(53,964)	(40,042)
Income tax benefit			
Net loss	\$ (126,780)	\$ (53,964)	\$ (40,042)
Basic and diluted loss per common share	\$ (2.64)	\$ (1.70)	\$ (1.50)
Basic and diluted weighted average number of common shares outstanding	47,936,001	31,711,264	26,620,278
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on available-for-sale securities arising during the period	\$ 22	\$ 112	\$ (32)
Comprehensive loss	\$ (126,758)	\$ (53,852)	\$ (40,074)

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

**Table of Contents****INFINITY PHARMACEUTICALS, INC.****Consolidated Statements of Cash Flows**

(in thousands)

	Years Ended December 31,		
	2013	2012	2011
<b>Operating activities</b>			
Net loss	\$ (126,780)	\$ (53,964)	\$ (40,042)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,823	1,643	2,099
Stock-based compensation including 401(k) match	12,155	7,811	5,441
Non-cash interest expense on long-term debt due to Purdue entities		1,908	102
Non-cash interest expense on Due to Millennium amount	415		
Amortization of loan commitment asset from Purdue entities			1,588
Net amortization of premium/discount on available-for-sale securities	2,201	1,653	915
Impairment of property and equipment		161	
Other, net	(2)	46	72
Changes in operating assets and liabilities:			
Unbilled accounts receivable		218	(218)
Prepaid expenses and other assets	(7,284)	(1,037)	356
Accounts payable, accrued expenses and other liabilities	3,565	(12,395)	1,359
Due to Millennium		12,708	
Deferred revenue from Purdue entities		(38,887)	(4,781)
Net cash used in operating activities	(113,907)	(80,135)	(33,109)
<b>Investing activities</b>			
Purchases of property and equipment	(1,754)	(1,301)	(1,542)
Purchases of available-for-sale securities	(249,764)	(180,498)	(150,588)
Proceeds from maturities of available-for-sale securities	251,093	113,520	137,153
Proceeds from sales of available-for-sale securities	1,031	6,281	1,289
Net cash provided by (used in) investing activities	606	(61,998)	(13,688)
<b>Financing activities</b>			
Borrowings of long-term debt from Purdue entities			50,000
Proceeds from issuance of common stock related to stock offering, net		244,792	
Proceeds from issuance of common stock to Purdue entities		27,500	
Proceeds from issuances of common stock related to stock incentive plans	5,299	21,386	582
Proceeds from issuances of common stock related to employee stock	374		

purchase plan			
Other financing activities			(5)
Net cash provided by financing activities	5,673	293,678	50,577
Net increase (decrease) in cash and cash equivalents	(107,628)	151,545	3,780
Cash and cash equivalents at beginning of period	175,742	24,197	20,417
Cash and cash equivalents at end of period	\$ 68,114	\$ 175,742	\$ 24,197
<b>Supplemental schedule of noncash investing and financing activities</b>			
Receivable for stock option exercises	\$ 152	\$ 200	\$
Issuance of common stock to extinguish debt from Purdue entities	\$	\$ 51,277	\$

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

**Table of Contents****INFINITY PHARMACEUTICALS, INC.****Consolidated Statements of Stockholders' Equity**

(in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2010	26,519,217	\$ 27	\$ 278,413	\$ (229,010)	\$ 54	\$ 49,484
Exercise of stock options	114,815		582			582
Stock-based compensation expense			4,847			4,847
401(k) plan match issued in common stock	87,707		594			594
Unrealized loss on marketable securities					(32)	(32)
Net loss				(40,042)		(40,042)
Balance at December 31, 2011	26,721,739	\$ 27	\$ 284,436	\$ (269,052)	\$ 22	\$ 15,433
Exercise of stock options	2,632,097	3	21,583			21,586
Exercise of warrants	29,958					
Issuance of common stock in connection with public offering	12,646,461	13	244,779			244,792
Issuance of common stock to Purdue entities	5,416,565	5	74,430			74,435
Stock-based compensation expense			7,117			7,117
401(k) plan match issued in common stock	52,437		694			694
Unrealized gain on marketable securities					112	112
Net loss				(53,964)		(53,964)

Balance at  
December 31,  
2012            47,499,257    \$ 48    \$ 633,039    \$ (323,016)    \$ 134    \$ 310,205

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



**Table of Contents****INFINITY PHARMACEUTICALS, INC.****Consolidated Statements of Stockholders Equity(Continued)**

(in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2012	47,499,257	\$ 48	\$ 633,039	\$ (323,016)	\$ 134	\$ 310,205
Exercise of stock options	634,420		5,299			5,299
Exercise of warrants	32,248					
Stock-based compensation expense			11,495			11,495
401(k) plan match issued in common stock	30,010		660			660
Issuance of common stock related to employee stock purchase plan	31,903		374			374
Unrealized gain on marketable securities					22	22
Net loss				(126,780)		(126,780)
Balance at December 31, 2013	48,227,838	\$ 48	\$ 650,867	\$ (449,796)	\$ 156	\$ 201,275

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

**Table of Contents**

**INFINITY PHARMACEUTICALS, INC.**

**Notes to Consolidated Financial Statements**

**1. Organization**

Infinity Pharmaceuticals, Inc. is an innovative biopharmaceutical company seeking to discover, develop and deliver to patients best-in-class medicines designed to address difficult-to-treat diseases. As used throughout these audited, consolidated financial statements, the terms Infinity, we, us, and our refer to the business of Infinity Pharmaceuticals, Inc. and its wholly owned subsidiaries.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

These consolidated financial statements include the accounts of Infinity and its wholly owned subsidiaries. We have eliminated all significant intercompany accounts and transactions in consolidation.

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires our management to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

**Cash Equivalents and Available-For-Sale Securities**

Cash equivalents and available-for-sale securities primarily consist of money market funds, U.S. government-sponsored enterprise obligations, corporate obligations and mortgage-backed securities. Corporate obligations include obligations issued by corporations in countries other than the United States, including some obligations that have not been guaranteed by governments and government agencies. We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents, which consist of money market funds and corporate obligations, are stated at fair value. They are also readily convertible to known amounts of cash and have such short-term maturities that each presents insignificant risk of change in value due to changes in interest rates. Our classification of cash equivalents is consistent with prior periods.

We determine the appropriate classification of marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified all of our marketable securities at December 31, 2013 and 2012 as available-for-sale. We carry available-for-sale securities at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income (loss), which is a separate component of stockholders' equity.

We adjust the cost of available-for-sale debt securities for amortization of premiums and accretion of discounts to maturity. We include such amortization and accretion in interest and investment income. The cost of securities sold is based on the specific identification method. We include in investment income interest and dividends on securities classified as available-for-sale.

We conduct periodic reviews to identify and evaluate each investment that is in an unrealized loss position in order to determine whether an other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses on available-for-sale debt securities that are determined to be temporary, and not related to credit loss, are recorded, net of tax, in accumulated other comprehensive income (loss).

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## **Table of Contents**

For available-for-sale debt securities in an unrealized loss position, we perform an analysis to assess whether we intend to sell or whether we would more likely than not be required to sell the security before the expected recovery of the amortized cost basis.

Where we intend to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary, and the full amount of the unrealized loss is recorded within earnings as an impairment loss.

Regardless of our intent to sell a security, we perform additional analysis on all securities in an unrealized loss position to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where we do not expect to receive cash flows sufficient to recover the amortized cost basis of a security and are recorded within earnings as an impairment loss.

### **Concentration of Risk**

We have no significant off-balance sheet risk.

Cash and cash equivalents are primarily maintained with two major financial institutions in the United States. Deposits at banks may exceed the insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. Financial instruments that potentially subject us to concentration of credit risk primarily consist of available-for-sale securities. Available-for-sale securities consist of U.S. government-sponsored enterprise obligations, investment grade corporate obligations and mortgage-backed securities. Our investment policy, which has been approved by our board of directors, limits the amount that we may invest in any one issuer of investments, thereby reducing credit risk concentrations.

### **Segment Information**

We operate in one business segment, which focuses on drug discovery and development.

We make operating decisions based upon performance of the enterprise as a whole and utilize our consolidated financial statements for decision making.

All of our revenues to date have been generated under research collaboration agreements.

Revenue associated with the amortization of the deferred revenue associated with the grant of rights and licenses to, and reimbursed research and development services provided to, Mundipharma International Corporation Limited, or Mundipharma, and Purdue Pharmaceutical Products L.P., or Purdue, accounted for all of our revenue during the years ended December 31, 2012 and 2011. We did not record any revenue in the year ended December 31, 2013 due to the termination of our strategic alliance with Mundipharma and Purdue on July 17, 2012, (see note 11).

We considered Mundipharma, Purdue and their respective associated entities to be related parties for financial reporting purposes prior to April 2013 because of their equity ownership in us (see note 11).

### **Property and Equipment**

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the applicable assets. Application development costs incurred for computer software developed or obtained for internal use are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective account, and the resulting gain or loss, if any, is included in current operations. Amortization of leasehold improvements and capital leases are included in depreciation expense. Repairs and maintenance charges that do not increase the useful life of the assets are charged to operations as incurred. Property and equipment

are depreciated over the following periods:

Laboratory equipment	5 years
Computer equipment and software	3 to 5 years
Leasehold improvements	Shorter of lease term or useful life of asset
Furniture and fixtures	7 years

66

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**Table of Contents**

**Impairment of Long-Lived Assets**

We evaluate our long-lived assets for potential impairment. Potential impairment is assessed when there is evidence that events or changes in circumstances have occurred that indicate that the carrying amount of a long-lived asset may not be recovered.

Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends and product development cycles. An

impairment in the carrying value of each asset is assessed when the undiscounted expected future cash flows, including its eventual residual value, derived from the asset are less than its carrying value. Impairments, if any, are recognized in earnings. An

impairment loss would be recognized in an amount equal to the excess of the carrying amount over the undiscounted expected future cash flows. See note 7 for discussion on impairment charges recognized during the periods presented.

**Fair Value Measurements**

We define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We determine fair value based on the assumptions market participants use when pricing the asset or liability. We also use the fair value hierarchy that prioritizes the information used to develop these assumptions.

We value our available-for-sale securities utilizing third party pricing services. The pricing services use many observable market inputs to determine value, including benchmark yields, reportable trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, new issue data, monthly payment information and collateral performance. We validate the prices provided by our third party pricing services by understanding the models used, obtaining market values from other pricing sources and confirming that those securities trade in active markets.

We value the balance of the release payment due to Millennium based on a discounted cash flow model (see note 11).

**Revenue Recognition**

To date, all of our revenue has been generated under research collaboration agreements.

The terms of these research collaboration agreements may include payment to us of non-refundable, up-front license fees, funding or reimbursement of research and development efforts, milestone payments if specified objectives are achieved and/or royalties on product sales. We recognize revenue based upon our best estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item.

We did not recognize any revenue for the year ended December 31, 2013 as our strategic alliance with Mundipharma and Purdue was mutually terminated on July 17, 2012 (see note 11). We did not enter into any new research collaboration agreements in 2013 that resulted in revenue to be recognized.

Under our previous strategic alliance with Mundipharma and Purdue, we recognized revenues from non-refundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which was the research and development term. We regularly considered whether events warranted a change in the estimated period of performance under these agreements. Such a change would have caused us to modify the period of time over which we recognized revenue from the up-front license fee on a prospective basis and would have, in turn, resulted in changes in our quarterly and annual results. We recognized research and development funding as earned over the period of effort as related research and development costs were incurred in proportion to our

forecasted total expenses as compared to the total expected research and development funding for the year. We recognized the impact of any change in forecasted total expenses or expected research and development funding as a change in accounting estimate and recorded the impact of that change on a prospective basis.

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## **Table of Contents**

At the inception of an agreement that includes milestone payments, we evaluate whether each milestone is substantive on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether:

the consideration is commensurate with either (1) our performance to achieve the milestone, or (2) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from our performance to achieve the milestone;

the consideration relates solely to past performance; and

the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

We evaluate factors such as the clinical, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment. We recognize revenues related to substantive milestones in full in the period in which the substantive milestone is achieved. If a milestone payment is not considered substantive, we recognize the applicable milestone over the remaining period of performance. Our strategic alliance with Mundipharma and Purdue did not include potential milestone payments.

We will recognize royalty revenue, if any, based upon actual and estimated net sales by the licensee of licensed products in licensed territories in the period the sales occur. We have not recognized any royalty revenue to date.

### **Income Taxes**

We use the liability method to account for income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, as well as net operating loss and tax credit carryforwards, and are measured using the enacted tax rates and laws that will be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. The effect of a change in tax rate on deferred taxes is recognized in income or loss in the period that includes the enactment date.

We use our judgment for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize any material interest and penalties related to unrecognized tax benefits in income tax expense.

Due to the uncertainty surrounding the realization of the net deferred tax assets in future periods, we have recorded a full valuation allowance against our otherwise recognizable net deferred tax assets as of December 31, 2013 and 2012.

### **Basic and Diluted Net Loss per Common Share**

Basic net loss per share is based upon the weighted average number of common shares outstanding during the period. Diluted net loss per share is based upon the weighted average number of common shares outstanding during the period plus the effect of additional weighted average common equivalent shares outstanding during the period when the effect of adding such shares is dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options (the proceeds of which are then



assumed to have been used to repurchase outstanding stock using the treasury stock method) and the exercise of outstanding warrants. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options. Common equivalent shares have not been included in the net loss per share

**Table of Contents**

calculations for the periods presented because the effect of including them would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following:

	At December 31,		
	2013	2012	2011
Stock options	6,083,318	5,574,527	6,985,460
Warrants		50,569	3,246,629
		<b>Comprehensive Loss</b>	

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) is comprised of unrealized holding gains and losses arising during the period on available-for-sale securities that are not other-than-temporarily impaired. During the year ended December 31, 2013, there were no reclassifications out of accumulated other comprehensive income (loss).

**Stock-Based Compensation Expense**

For awards granted to employees and directors, including our Employee Stock Purchase Plan, or ESPP, we measure stock-based compensation cost at the grant date based on the estimated fair value of the award and recognize it as expense over the requisite service period on a straight-line basis. We record the expense of services rendered by non-employees based on the estimated fair value of the stock option as of the respective vesting date. We use the Black-Scholes valuation model in determining the fair value of all equity awards. We have no awards with market or performance conditions.

**Research and Development Expense**

Research and development expense consists of expenses incurred in performing research and development activities, including salaries and benefits, overhead expenses including facilities expenses, materials and supplies, preclinical expenses, clinical trial and related clinical manufacturing expenses, stock-based compensation expense, depreciation of equipment, contract services and other outside expenses. We also include as research and development expense up-front license payments related to acquired technologies which have not yet reached technological feasibility and have no alternative use. Nonrefundable advance payments for comparator drugs that will be used for future research and development activities are deferred and capitalized and recognized as expense when the drugs are delivered. We expense research and development costs as they are incurred. We have been a party to collaboration agreements in which we are reimbursed for work performed on behalf of the collaborator, as well as one in which we reimbursed the collaborator for work it has performed. We record all appropriate expenses under our collaborations as research and development expense. If the arrangement provides for reimbursement of research and development expenses, as was the case with our alliance with Mundipharma and Purdue, we record the reimbursement as revenue. If the arrangement provides for us to reimburse the collaborator for research and development expenses or achieving a development milestone for which a payment is due, as was the case with our agreement with Intellikine, Inc., or Intellikine, we record the reimbursement or the achievement of the development milestone as research and development expense. In January 2012, Intellikine was acquired by Takeda Pharmaceutical Company Limited, or Takeda, acting through its Millennium business unit. We refer to our phosphoinositide-3-kinase, or PI3K, program licensor as Millennium.

**3. Stock-Based Compensation**

Under each of the stock incentive plans described below, stock option awards made to new employees upon commencement of employment typically provide for vesting of 25 percent of the shares underlying the award at the end of the first year of service with the remaining 75 percent of the shares underlying the award vesting ratably on a monthly basis over the following three-year period subject to continued service. Annual grants to existing employees typically provide for monthly vesting over four years. In addition, under each plan, all options granted expire no later than ten years after the date of grant.

**Table of Contents**

**2010 Stock Incentive Plan**

Our 2010 Stock Incentive Plan, or the 2010 Plan, was approved by our stockholders in May 2010. The 2010 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, or IRC, nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based and cash-based awards. Up to 6,000,000 shares of our common stock may be issued pursuant to awards granted under the 2010 Plan, plus an additional amount of our common stock underlying awards issued under the 2000 Stock Incentive Plan, or the 2000 Plan, that expire or are canceled without the holders receiving any shares under those awards. As of December 31, 2013, an aggregate of 3,494,836 shares of our common stock were reserved for issuance upon the exercise of outstanding awards and up to 2,436,134 shares of common stock may be issued pursuant to awards granted under the 2010 Plan.

**2000 Stock Incentive Plan**

The 2000 Plan provided for the grant of stock options intended to qualify as incentive stock options under the IRC, nonstatutory stock options and restricted stock. As of December 31, 2013, an aggregate of 2,519,372 shares of our common stock were reserved for issuance upon the exercise of outstanding awards granted under the 2000 Plan. The 2000 Plan was terminated upon approval of the 2010 Plan; therefore, no further grants may be made under the 2000 Plan.

**2001 Stock Incentive Plan**

In connection with the merger between Discovery Partners International, Inc., or DPI, and Infinity Pharmaceuticals, Inc., or IPI, in 2006, which we refer to as the DPI merger, we assumed awards that were granted under the Infinity Pharmaceuticals, Inc. Pre-Merger Stock Incentive Plan, or the 2001 Plan. The 2001 Plan provided for the grant of incentive stock options and nonstatutory stock options and restricted stock awards. Under the 2001 Plan, stock awards were granted to IPI's employees, officers, directors and consultants. Incentive stock options were granted at a price not less than fair value of the common stock on the date of grant. The board of directors of IPI determined the vesting of the awards. As of December 31, 2013, an aggregate of 69,110 shares of our common stock were reserved for issuance upon the exercise of outstanding assumed awards. The 2001 Plan was not assumed by us following the DPI merger; therefore, no further grants may be made under the 2001 Plan.

**2013 Employee Stock Purchase Plan**

Our 2013 ESPP permits eligible employees to purchase shares of our common stock at a discount and consists of consecutive, overlapping 24-month offering periods, each consisting of four six-month purchase periods. On the first day of each offering period, each employee who is enrolled in the ESPP will automatically receive an option to purchase up to a whole number of shares of our common stock. The purchase price of each of the shares purchased in a given purchase period will be 85 percent of the closing price of a share of our common stock on the first day of the offering period or the last day of the purchase period, whichever is lower. During 2013, 31,903 shares of common stock were purchased for total proceeds of \$0.4 million.

**Compensation Expense**

Total stock-based compensation expense, related to all equity awards, comprised the following:

	2013	Year Ended December 31, 2012	2011
Research and development	\$ 6,213	\$ 3,177	\$ 2,743
General and administrative	5,942	4,634	2,698

70

**Table of Contents**

As of December 31, 2013, we had approximately \$19.9 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested options and awards under our ESPP, which are expected to be recognized over a weighted-average period of 2.7 years.

**Valuation Assumptions**

We estimate the fair value of stock options at the date of grant using the Black-Scholes valuation model with the following weighted-average assumptions:

	Year Ended December 31,		
	2013	2012	2011
Risk-free interest rate	1.1%	1.1%	2.2%
Expected annual dividend yield			
Expected stock price volatility	64.6%	63.3%	58.2%
Expected term of options	5.4 years	6.1 years	5.9 years

The valuation assumptions were determined as follows:

*Risk-free interest rate:* The yield on zero-coupon U.S. Treasury securities for a period that was commensurate with the expected term of the awards.

*Expected annual dividend yield:* The estimate for annual dividends was zero, because we have not historically paid a dividend and do not intend to do so in the foreseeable future.

*Expected stock price volatility:* We determined the expected volatility by using a weighted average of selected peer companies as well as our available implied and historical price information.

*Expected term of options:* The expected term of the awards represented the period of time that the awards were expected to be outstanding. We used historical data and expectations for the future to estimate employee exercise and post-vest termination behavior.

We stratify employees into two groups to evaluate exercise and post-vesting termination behavior. We estimate forfeitures based upon historical data, adjusted for known trends, and will adjust the estimate of forfeitures if actual forfeitures differ or are expected to differ from such estimates. Subsequent changes in estimated forfeitures are recognized through a cumulative adjustment in the period of change and will also impact the amount of stock-based compensation expense in future periods. As of December 31, 2013, 2012 and 2011, the weighted-average forfeiture rate was estimated to be 13 percent, 12 percent and 10 percent, respectively.

All options granted to employees during the years ended December 31, 2013, 2012 and 2011 were granted with exercise prices equal to the fair market value of our common stock on the date of grant. We consider the closing price of our common stock as reported on the NASDAQ Global Select Market to be the fair market value.

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A summary of our stock option activity for the year ended December 31, 2013 is as follows:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2013	5,574,527	\$ 9.00		
Granted	1,412,894	32.57		
Exercised	(634,420)	8.36		
Forfeited	(269,683)	20.27		
Outstanding at December 31, 2013	6,083,318	\$ 14.04	6.6	\$ 23.8
Vested or expected to vest at December 31, 2013	5,809,122	\$ 13.60	6.5	\$ 23.3
Exercisable at December 31, 2013	4,112,636	\$ 10.79	5.7	\$ 18.9

**Table of Contents**

The weighted-average fair value per share of options granted during the years ended December 31, 2013, 2012 and 2011 was \$18.07, \$6.00 and \$3.54, respectively.

The aggregate intrinsic value of options outstanding at December 31, 2013 was calculated based on the positive difference between the closing fair market value of our common stock on December 31, 2013 and the exercise price of the underlying options. The aggregate intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was \$16.0 million, \$34.1 million and \$0.4 million, respectively. The total cash received from employees and non-employees as a result of stock option exercises during the year ended December 31, 2013 was \$5.3 million.

No related income tax benefits were recorded during the years ended December 31, 2013, 2012 or 2011.

We settle employee stock option exercises with newly issued shares of our common stock.

During the year ended December 31, 2012, two members of our board of directors retired, and we extended these directors' rights to exercise their vested stock options from 90 days following their retirement to two years following their retirement. In connection with these extensions, we recognized an additional \$0.3 million of stock-based compensation expense during the year ended December 31, 2012 with respect to the modification of these awards. In addition, during the year ended December 31, 2012, the chair of our board of directors resigned and entered into a three-year substantive consulting agreement to act as a strategic advisor. As a result of this transition, we recognized \$1.2 million of non-employee stock-based compensation expense in general and administrative expenses during the year ended December 31, 2012 with respect to the options that continue to vest. The fair value of the unvested options will be remeasured at each reporting date until the options have fully vested. We recognized \$0.7 million of non-employee stock-based compensation expense in general and administrative expenses during the year ended December 31, 2013 with respect to the remeasurement and continued vesting of these options.

**4. Cash, Cash Equivalents and Available-for-Sale Securities**

The following is a summary of cash, cash equivalents and available-for-sale securities:

	Cost	December 31, 2013 Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	\$ 68,114	\$	\$	\$ 68,114
Available-for-sale securities:				
Corporate obligations due in one year or less	103,889	18	(16)	103,891
Corporate obligations due in one to five years	13,513	32		13,545
Mortgage-backed securities due after ten years	478	104		582
U.S. government-sponsored enterprise obligations due in one year or less	24,144	13		24,157
	4,174	5		4,179



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U.S. government-sponsored enterprise obligations due in one to five years				
Total available-for-sale securities	146,198	172	(16)	146,354
Total cash, cash equivalents and available-for-sale securities	\$ 214,312	\$ 172	\$ (16)	\$ 214,468

72

**Table of Contents**

	Cost	December 31, 2012		Estimated
		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Cash and cash equivalents due in 90 days or less	\$ 175,742	\$	\$	\$ 175,742
Available-for-sale securities:				
Corporate obligations due in one year or less	88,644	53	(13)	88,684
Corporate obligations due in one to five years	16,291	8	(9)	16,290
Mortgage-backed securities due after ten years	547	70		617
U.S. government-sponsored enterprise obligations due in one year or less	38,779	22		38,801
U.S. government-sponsored enterprise obligations due in one to five years	6,498	3		6,501
Total available-for-sale securities	150,759	156	(22)	150,893
Total cash, cash equivalents and available-for-sale securities	\$ 326,501	\$ 156	\$ (22)	\$ 326,635

We held 15 debt securities at December 31, 2013 that had been in an unrealized loss position for less than 12 months. The fair value on these securities was \$50.7 million. We evaluated our securities for other-than-temporary impairments based on quantitative and qualitative factors. We considered the decline in market value for these 15 securities to be primarily attributable to current economic and market conditions. It is not more likely than not that we will be required to sell these securities, and we do not intend to sell these securities before the recovery of their amortized cost bases. Based on our analysis, we do not consider these investments to be other-than-temporarily impaired as of December 31, 2013.

As of December 31, 2013, we held securities of 15 financial institutions and other corporate debt securities located in the Netherlands, the United Kingdom, Australia, Switzerland, Canada, Japan and France with a fair value of \$64.5 million. These securities are short term in nature, with \$59.3 million scheduled to mature within 12 months. Eight of these securities had gross unrealized losses of approximately \$10 thousand and fair value of \$20.2 million. Based on our analysis, we do not consider these investments to be other-than-temporarily impaired as of December 31, 2013.

We had no material realized gains or losses on our available-for-sale securities for the years ended December 31, 2013, 2012 and 2011. There were no other-than-temporary impairments recognized for the years ended December 31, 2013, 2012 and 2011.

**5. Fair Value**

We use a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs, which we consider the highest level inputs, are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial

instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. For our fixed income securities, we reference pricing data supplied by our custodial agent and nationally known pricing vendors, using a variety of daily data sources, largely readily-available market data and broker quotes. We validate the prices provided by our third party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing our validation procedures, we did not adjust or override any fair value measurements provided by our pricing services as of December 31, 2013 and 2012.

**Table of Contents**

The following table provides the assets carried at fair value measured on a recurring basis as of December 31, 2013:

	Level 1 (in thousands)	Level 2
<i>Assets:</i>		
Cash and cash equivalents	\$ 68,114	\$
Corporate obligations (including commercial paper)		117,436
Mortgage-backed securities		582
U.S. government-sponsored enterprise obligations		28,336
<b>Total</b>	<b>\$ 68,114</b>	<b>\$ 146,354</b>

The fair value of the available-for-sale securities and cash and cash equivalents (including asset types listed below with maturities of three months or less at the time of purchase) is based on the following inputs:

*Corporate Obligations:*

Commercial paper: calculations by custodian based on the three month Treasury bill published on last business day of the month.

Other: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

*Mortgage-backed securities:* benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, new issue data, monthly payment information and collateral performance.

*U.S. government-sponsored enterprise obligations:* benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

The amount due to Millennium is recorded at its carrying value at December 31, 2013.

The fair value of the amount due to Millennium, a Level 2 measurement, was approximately \$13.3 million as of December 31, 2013 and was determined using a discounted cash flow model and based on an interest rate we would be charged for a similar loan as of December 31, 2013 (see note 11).

The carrying amounts reflected in the consolidated balance sheets for unbilled accounts receivable, prepaid expenses and other current assets, other assets, accounts payable and accrued expenses approximate fair value due to their short term maturities.

There have been no changes to the valuation methods during the year ended December 31, 2013. We evaluate transfers between levels at the end of each reporting period. There were no transfers of assets or liabilities between Level 1 and Level 2 during the year ended December 31, 2013. We had no available-for-sale securities that were classified as

Level 3 at any point during the years ended December 31, 2013 or 2012.

**6. Prepaid expenses and other current assets**

Prepaid expenses and other current assets consist of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
Comparator drug prepaid	\$ 8,008	\$
Prepaid expenses	2,044	2,701
Other current assets	1,003	1,030
 Total prepaid expenses and other current assets	 \$ 11,055	 \$ 3,731

**Table of Contents****7. Property and Equipment**

Property and equipment consist of the following:

	December 31,	
	2013	2012
	(in thousands)	
Laboratory equipment	\$ 14,958	\$ 15,067
Computer hardware and software	6,488	7,033
Office equipment and furniture and fixtures	872	775
Leasehold improvements	4,982	4,574
	27,300	27,449
Less accumulated depreciation	(23,290)	(23,370)
	\$ 4,010	\$ 4,079

During the year ended December 31, 2013, we capitalized approximately \$0.4 million of costs associated with internally developed software. Depreciation expense associated with this software was \$49 thousand during 2013.

**8. Restricted Cash**

We held \$1.1 million in restricted cash as of December 31, 2013 and December 31, 2012. The balances are held on deposit with a bank to collateralize a standby letter of credit in the name of our facility lessor in accordance with our facility lease agreement.

**9. Accrued Expenses**

Accrued expenses consisted of the following:

	December 31,	
	2013	2012
	(in thousands)	
Accrued compensation and benefits	\$ 1,839	\$ 5,555
Accrued drug manufacturing costs	991	1,288
Accrued clinical studies	4,009	1,234
Accrued preclinical studies	303	403
Other	2,022	1,579
Total accrued expenses	\$ 9,164	\$ 10,059

**10. Commitments and Contingencies**

We lease our office and laboratory space under two lease agreements. The term of our primary office and laboratory lease expires in January 2016, and may be terminated by us earlier under certain circumstances. We have the right to extend this lease for another five-year term on the same terms and conditions as the current lease by giving the landlord notice before the term of the lease expires. Under this lease, we have a tenant improvement allowance of up to \$0.7 million for the design and construction of fixed and permanent improvements until December 31, 2013. We have used all of the allowance as

of December 31, 2013. Our secondary office lease expires in October 2014.

75

**Table of Contents**

Future minimum payments, excluding operating costs and taxes, under these facility leases, are as follows:

	<b>Facility Leases (in thousands)</b>
<b>Years Ending December 31:</b>	
2014	\$ 4,706
2015	4,677
2016	401
<b>Total minimum lease payments</b>	<b>\$ 9,784</b>

Rent expense of \$4.7 million, \$4.8 million and \$4.7 million, before considering sublease income, was incurred during the years ended December 31, 2013, 2012 and 2011, respectively. Deferred rent is being amortized to rent expense over the life of the lease. During the years ended December 31, 2013, 2012 and 2011, we subleased a portion of our facility space for total sublease income of \$0.2 million, \$0.7 million and \$0.7 million, respectively, each year. We record sublease payments as an offset to rental expense in our statement of operations. The sublease expired April 2013.

**11. Collaborations****Millennium**

In July 2010, we entered into a development and license agreement with Intellikine under which we obtained rights to discover, develop and commercialize pharmaceutical products targeting the delta and/or gamma isoforms of PI3K, including IPI-145, and we paid Intellikine a \$13.5 million up-front license fee. In January 2012, Intellikine was acquired by Takeda acting through its Millennium business unit. We refer to our PI3K program licensor as Millennium. In December 2012, we amended and restated our development and license agreement with Millennium.

Under the terms of the amended and restated agreement, we retained worldwide development and commercialization rights for products arising from the agreement for all therapeutic indications, and we are solely responsible for research conducted under the agreement. Additionally, under the amended and restated agreement, Millennium waived certain commercial rights and, in consideration of such waiver, we agreed to pay to Millennium \$15 million, payable in installments. During the year ended December 31, 2012, we paid \$1.7 million of the \$15 million, and we recorded the \$15 million release payment at its fair value of \$14.4 million in research and development expenses. The remaining amount is payable in two equal payments due in January 2014 and January 2015, which we recorded as short-term and long-term liabilities Due to Millennium on our balance sheet.

In addition to developing IPI-145, we are seeking to develop our second potent, oral PI3K-delta,gamma inhibitor product candidate, IPI-443, and we are seeking to identify additional novel inhibitors of PI3K-delta and/or PI3K-gamma for future development. We are obligated to pay to Millennium up to \$5 million in remaining success-based milestone payments for the development of two distinct product candidates, and up to \$450 million in success-based milestones for the approval and commercialization of two distinct products. In February 2014, we paid Millennium a \$10 million milestone payment in connection with the initiation of our Phase 3 study of IPI-145 in patients with relapsed or refractory CLL. In addition, we are obligated to pay Millennium tiered royalties on worldwide net sales ranging from 7 percent to 11 percent, which are the same royalty



levels as those specified under the original agreement, upon successful commercialization of products described in the agreement. Such royalties are payable until the later to occur of the expiration of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, subject to reduction, and limits on the number of products, in certain circumstances.

**Table of Contents**

The amended and restated agreement expires on the later of the expiration of certain patents and the expiration of the royalty payment terms for the products, unless earlier terminated. Either party may terminate the agreement on 75 days prior written notice if the other party materially breaches the agreement and fails to cure such breach within the applicable notice period, provided that the notice period is reduced to 30 days where the alleged breach is non-payment. Millennium may also terminate the agreement if we are not diligent in developing or commercializing the licensed products and do not, within three months after notice from Millennium, demonstrate to Millennium's reasonable satisfaction that we have not failed to be diligent. The foregoing periods are subject to extension in certain circumstances. Additionally, Millennium may terminate the agreement upon 30 days prior written notice if we or a related party bring an action challenging the validity of any of the licensed patents, provided that we have not withdrawn such action before the end of the 30-day notice period. We may terminate the agreement at any time upon 180 days prior written notice. The agreement also provides for customary reciprocal indemnification obligations of the parties.

**Mundipharma and Purdue***Strategic Alliance Termination Agreements*

On July 17, 2012, we terminated our strategic alliance with Mundipharma and Purdue and entered into termination and revised relationship agreements with each of those entities, which we refer to as the 2012 termination agreements. The alliance was previously governed by strategic alliance agreements that we entered into with each of Mundipharma and Purdue in November 2008. The strategic alliance agreement with Purdue was focused on the development and commercialization in the United States of products targeting fatty acid amide hydrolase, or FAAH. The strategic alliance agreement with Mundipharma was focused on the development and commercialization outside of the United States of all products and product candidates that inhibit or target the Hedgehog pathway, FAAH, phosphoinositide-3-kinase, or PI3K, and product candidates arising out of our early discovery projects in all disease fields. Our heat shock protein 90, or Hsp90, program was expressly excluded from the alliance.

Under the terms of the 2012 termination agreements:

All intellectual property rights that we had previously licensed to Mundipharma and Purdue to develop and commercialize products under the previous strategic alliance agreements terminated, with the result that we have worldwide rights to all product candidates that had previously been covered by the strategic alliance.

We have no further obligation to provide research and development services to Mundipharma and Purdue as of July 17, 2012.

Mundipharma and Purdue have no further obligation to provide research and development funding to us. Under the alliance, Mundipharma was obligated to reimburse us for research and development expenses we incurred, up to an annual aggregate cap for each alliance program other than FAAH. During the year ended December 31, 2012, we received \$55 million in research and development funding. We recognized revenue for reimbursed research and development services we performed for Mundipharma and Purdue. We recognized \$45 million in such revenue in the year ended December 31, 2012. We recognized \$88.5 million in such revenue, which included \$3.5 million in revenue related to

reimbursed research and development services for the transition of the FAAH program, in the year ended December 31, 2011. We did not record a liability for amounts previously funded by Purdue and Mundipharma as this relationship was not considered a financing arrangement.

We are obligated to pay Mundipharma and Purdue a four percent royalty in the aggregate, subject to reduction as described below, on worldwide net sales of products that were covered by the alliance until such time as they have recovered approximately \$260 million, representing the research and development funding paid to us for research and development services performed by us through the termination of the strategic alliance. After this cost recovery, our royalty obligations to Mundipharma and Purdue will be reduced to a one percent royalty on net sales in the United States of products that

**Table of Contents**

were previously subject to the strategic alliance. All payments are contingent upon the successful commercialization of products subject to the alliance, which products are subject to significant further development. As such, there is significant uncertainty about whether any such products will ever be approved or commercialized. If no products are commercialized, no payments will be due by us to Mundipharma and Purdue; therefore, no amounts have been accrued.

Royalties are payable under these agreements until the later to occur of the last-to-expire of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, provided that if royalties are payable solely on the basis of non-patent regulatory exclusivity, each of the royalty rates is reduced by 50 percent. In addition, royalties payable under these agreements after Mundipharma and Purdue have recovered all research and development expenses paid to us are subject to reduction on account of third party royalty payments or patent litigation damages or settlements which might be required to be paid by us if litigation were to arise, with any such reductions capped at 50 percent of the amounts otherwise payable during the applicable royalty payment period.

The 2012 termination agreements resulted in a gain on termination of Purdue entities alliance and a positive net income impact of \$46.6 million, or a decrease of \$1.47 in basic and diluted loss per share for the year ended December 31, 2012.

*Line of Credit Agreement*

In connection with the previous strategic alliance with Mundipharma and Purdue, we also entered into a line of credit agreement with Purdue and its independent associated company, Purdue Pharma L.P., or PPLP, that provided for the borrowing by us of one or more unsecured loans up to an aggregate maximum principal amount of \$50 million. In March 2009, Purdue assigned its interest under the line of credit agreement to PPLP. The extension of the line of credit at an interest rate below our incremental borrowing rate represented the transfer of additional value to us in the arrangement. As such, we recorded the fair value of the line of credit of \$17.3 million as a loan commitment asset on our balance sheet in 2008. The fair value of the loan commitment asset was determined using a discounted cash flow model of the differential between the terms and rates of the line of credit and market rates. We amortized the loan commitment asset to interest expense until we drew down the line of credit in November 2011. We recorded approximately \$1.6 million of related amortization expense in the year ended December 31, 2011.

In November 2011, we borrowed \$50 million under this line of credit, which we recorded as long-term debt. The loan would have matured and was payable in full, including principal and any accrued interest, on April 1, 2019, which we referred to as the maturity date, and would have been subordinate to any senior indebtedness that we may have incurred. The loan bore interest at a fluctuating rate set at the prime rate on the business day prior to the funding of the loan and reset on the last business day of each month ending thereafter. At the time of the borrowing, the prime rate was 3.25 percent. Interest was compounded on each successive three-month anniversary following the date of borrowing. Upon drawing down the \$50 million under the line of credit agreement, we reclassified the loan commitment asset as a debt discount which reduced the debt on our balance sheet. The unamortized balance of the loan commitment asset was \$12.7 million as of the date of borrowing. We recorded interest expense on the net amount borrowed using the effective interest method. We recorded \$1.9 million and \$0.2 million of related interest expense in the years ended December 31, 2012 and 2011, respectively, using an effective interest rate of 7.29 percent. On September 7, 2012, upon completion of the sale and issuance of common stock to PPLP under the 2012 securities purchase agreement described below, the line of credit agreement with PPLP terminated in its entirety.

*2008 Securities Purchase Agreement*

In connection with the previous strategic alliance with Mundipharma and Purdue, we also entered into a securities purchase agreement with Purdue and PPLP. Under the securities purchase agreement, we issued and

**Table of Contents**

sold in two separate closings an aggregate of 6,000,000 shares of our common stock and warrants to purchase up to an aggregate of 6,000,000 shares of our common stock, for an aggregate purchase price of \$75 million. An equal number of securities were sold to each purchaser. As of December 31, 2012, all warrants that were issued in connection with the strategic alliance expired without having been exercised.

We recorded an aggregate of \$59.3 million in deferred revenue associated with the grant of rights and licenses to Mundipharma and Purdue, which consisted of the excess of the amount paid for the purchased shares over the closing market price on the day before the equity closings and the value of the loan commitment asset. We determined that the rights and licenses did not have stand-alone value, and we considered all of the obligations under the arrangement to be a single unit of accounting. There was no obligation for us to repay the \$59.3 million, and we had been recognizing the deferred revenue ratably over 14 years, which was our estimated period of performance under the arrangement through July 17, 2012. We recognized \$0, \$2.1 million and \$4.3 million in deferred revenue associated with grant of rights and licenses in the years ended December 31, 2013, 2012 and 2011, respectively.

*2012 Securities Purchase Agreement*

On July 17, 2012, in connection with the termination of the strategic alliance with Mundipharma and Purdue, we executed a securities purchase agreement with PPLP, which we refer to as the 2012 securities purchase agreement, under which we agreed to sell and issue 5,416,565 shares of our common stock to PPLP and two entities associated with PPLP, which we collectively refer to as the BRP entities, at a price of \$14.50 per share for an aggregate consideration of approximately \$78.5 million. The consideration was composed of extinguishment of approximately \$51.0 million in principal and interest owed to PPLP under a line of credit agreement and \$27.5 million in cash. We completed the sale and issuance on September 7, 2012 at which time the line of credit agreement with PPLP terminated in its entirety. The 2012 securities purchase agreement also terminated, as of July 17, 2012, all attendance rights to meetings of our board of directors held by the Purdue entities.

On April 16, 2013, the BRP entities, through two selling stockholders, sold 11,416,565 shares in an underwritten public offering at a price of \$40 per share, representing their entire holdings in our common stock. In connection with the public offering and sale of their common stock, we entered into an agreement with the BRP entities, pursuant to which the 2012 securities purchase agreement, as amended in connection with the offering, terminated in its entirety. Following the closing of the offering, the BRP entities no longer owned any shares of our common stock at such time, and, as such, are no longer related parties.

*Accounting Impact of Alliance Termination, Debt Extinguishment and Sale and Issuance of Common Stock*

We recorded the following during the year ended December 31, 2012:

gain on termination of Purdue entities strategic alliance of \$46.6 million;

additional equity on our balance sheet of \$74.4 million;

extinguishment of \$39.5 million of debt on balance sheet;

elimination of \$54.0 million of deferred revenue on balance sheet; and

additional cash of \$27.5 million.

We considered the fact that certain elements of the arrangement discussed above close before others, despite the fact that all of the elements were negotiated and signed concurrently in contemplation of one another. In particular, the strategic alliance with Mundipharma and Purdue was terminated on July 17, 2012, and therefore, there are no further deliverables required under those agreements. However, the equity offering and debt extinguishment did not close at that time because certain regulatory events outside of our control had to occur prior to the closing. As a result, we evaluated the termination of the strategic alliance separately from the

**Table of Contents**

financing transaction, including the extinguishment of debt and sale and issuance of stock. We recorded the gain on termination of the Mundipharma and Purdue strategic alliance for \$46.6 million, which represented our past performance under the 2008 collaboration because we have no further obligation to provide research and development, and the financial risk associated with the research and development has been transferred to the Purdue entities. In particular, any payment of royalties to Mundipharma and Purdue are conditional on the future commercialization of our product candidates.

To establish the financial impact of the stock issuance and debt extinguishment, we determined both the fair value of the common stock we sold and issued and the debt and accrued interest extinguished. We consider Mundipharma and Purdue to be related parties for financial reporting purposes because of their equity ownership. Therefore, we recorded the difference between extinguishing the fair value of the debt and accrued interest, the sale and issuance of our common stock and receiving \$27.5 million in cash in additional paid-in capital.

**12. Income Taxes**

We had no income tax expense or benefit for the years ended December 31, 2013, 2012 and 2011.

Our income tax benefit for the years ended December 31, 2013, 2012 and 2011 differed from the expected U.S. federal statutory income tax benefit as set forth below:

	2013	2012	2011
	(in thousands)		
Expected federal tax benefit	\$ (43,105)	\$ (18,348)	\$ (13,609)
Permanent differences	2,681	(4,685)	1,295
State taxes, net of the deferred federal benefit	(6,694)	(2,849)	(2,180)
Tax credits	(11,534)	(589)	(1,931)
Effect of change in state tax rate on deferred tax assets and deferred tax liabilities			61
Expired state net operating loss			1,424
Adjustments to deferred tax assets and deferred tax liabilities	129	3,371	745
Change in valuation allowance	58,461	23,066	14,160
Other	62	34	35
Income tax benefit	\$	\$	\$

The significant components of our deferred tax assets are as follows:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 136,879	\$ 89,998
Tax credits	27,768	16,233
Intangible assets	13,413	14,270
Accrued expenses	194	1,442
Stock-based compensation	9,842	7,015
Other	715	752



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Valuation allowance	(188,811)	(129,710)
Net deferred tax assets	\$	\$

We have recorded a valuation allowance against our deferred tax assets in each of the years ended December 31, 2013, 2012 and 2011 because management believes that it is more likely than not that these assets

80

**Table of Contents**

will not be realized. The valuation allowance increased by approximately \$59.1 million during the year ended December 31, 2013 primarily as a result of increases in unbenefited deferred tax assets such as tax losses and credits. The valuation allowance increased by approximately \$24.2 million during the year ended December 31, 2012 primarily as a result of increases in unbenefited deferred tax assets such as tax losses and credits and intangible assets. The valuation allowance increased by approximately \$14.2 million during the year ended December 31, 2011 primarily as a result of increases in unbenefited deferred tax assets such as tax losses, credits and intangible assets.

Subject to the limitations described below, at December 31, 2013, we had cumulative net operating loss carryforwards of approximately \$359.3 million and \$278.9 million available to reduce federal and state taxable income, which expire through 2033, and have begun to expire and expire through 2033, respectively. In addition, we have cumulative federal and state tax credit carryforwards of \$22.6 million and \$7.7 million, respectively, available to reduce federal and state income taxes which expire through 2033 and 2028, respectively. The net operating loss carryforwards include approximately \$34.2 million of deductions related to the exercise of stock options. This amount represents an excess tax benefit and has not been included in the gross deferred tax asset reflected for net operating losses nor the cumulative net operating loss carryforward disclosures above. Additionally, our net operating loss carryforwards and tax credits are limited as a result of certain ownership changes, as defined under Sections 382 and 383 of the Internal Revenue Code. This limits the annual amount of these tax attributes that can be utilized to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on our value immediately prior to an ownership change. Subsequent ownership changes may affect the limitation in future years. The net operating losses and tax credits that have and will expire unused in the future as a result of Section 382 and 383 limitations have been excluded from the amounts disclosed above.

At December 31, 2013 and 2012, we had no unrecognized tax benefits. As of December 31, 2013, 2012 and 2011, we had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in our consolidated statements of operations. We will recognize interest and penalties related to uncertain tax positions in income tax expense.

We file income tax returns in the U.S. federal, Massachusetts, and other state jurisdictions. The statute of limitations for assessment by the Internal Revenue Service, or IRS, and state tax authorities is closed for tax years prior to 2010, although carryforward attributes that were generated prior to tax year 2010 may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period.

**13. Stockholders' Equity****Common Stock Offerings**

In August 2012, we completed an underwritten public offering of 6,095,000 shares of common stock, which were sold at a price of \$14.50 per share. This offering resulted in \$82.8 million of net proceeds. In December 2012, we completed an underwritten public offering of 6,551,461 shares of common stock, which were sold at a price of \$26.33 per share. This offering resulted in \$162.0 million of net proceeds. Related legal and accounting fees for both offerings were recorded as an offset to additional paid-in capital.

**Warrants**

In connection with various loan and financing agreements during the period from December 2001 through December 2006, IPI issued warrants to purchase shares of convertible preferred stock, which subsequently became warrants to purchase shares of

our common stock in the DPI merger. The fair value of the warrants was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility ranging from 64 percent to 95 percent, a contractual life of ten years and a risk-free interest rate ranging from 3.1 percent to 5.5 percent. The warrants were recorded as a reduction of the associated debt and were amortized to interest expense over the life of the loans. These warrants are fully amortized.

**Table of Contents**

In July 2002, IPI issued warrants to purchase shares of convertible preferred stock, which subsequently in the DPI merger became warrants to purchase shares of common stock in the DPI merger, in conjunction with the entry into our facility lease. The fair value of the warrants was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility of 75 percent, an estimated contractual life of ten years, and a risk-free interest rate of 5 percent. The warrants were recorded in other non-current assets and have been fully amortized over the lease period as rent expense.

Warrants described above to purchase 246,629 shares of our common stock were outstanding at December 31, 2011. At December 31, 2012, warrants to purchase 50,569 shares of our common stock were outstanding. All of these outstanding warrants were exercised in January 2013 at \$13.35 per share.

**14. Income from Massachusetts Tax Incentive Award**

During the year ended December 31, 2012, we recognized \$0.2 million as other income, which related to a tax grant we were awarded in 2009 from the Commonwealth of Massachusetts. The total award was approximately \$0.5 million and was earned over a five year period based on our achieving certain headcount growth levels each year. We achieved the required headcount growth levels for the first two years and therefore recognized a pro rata portion of the grant in the year ended December 31, 2012. However, we did not meet the required headcount level in the third year and were required to repay the remaining \$0.3 million to the Commonwealth of Massachusetts in 2013. As the award is not related to our ordinary course of operations, we have recorded the amount as other income.

**15. Restructuring Activities**

In June 2012, we voluntarily stopped all company-sponsored clinical trials of saridegib, our Hedgehog pathway inhibitor. In July 2012, we restructured our strategic alliance agreement with Mundipharma and Purdue such that we are no longer entitled to research and development funding (see note 11), and therefore we undertook a subsequent workforce reduction.

The associated restructuring expenses were recorded as research and development and general and administrative expenses. We recorded a restructuring expense of \$2.6 million during the year ended December 31, 2012. The remaining balance payable as of December 31, 2012 was \$0.4 million related to employee severance, benefits and related costs. All amounts have been paid as of December 31, 2013.

**16. Defined Contribution Benefit Plan**

We sponsor a 401(k) retirement plan in which substantially all of our full-time employees are eligible to participate. Participants may contribute a percentage of their annual compensation to this plan, subject to statutory limitations. During the years ended December 31, 2013, 2012 and 2011, we matched 50 percent of the first six percent of participant contributions with shares of our common stock. Our matching contributions during the years ended December 31, 2013, 2012 and 2011 were \$0.7 million, \$0.7 million and \$0.6 million, respectively.

**Table of Contents****17. Quarterly Financial Information (unaudited)**

	Quarter Ended March 31, 2013	Quarter Ended June 30, 2013	Quarter Ended September 30, 2013	Quarter Ended December 31, 2013
(In Thousands, Except Shares and Per Share Amounts)				
Operating expenses:				
Research and development	\$ 20,231	\$ 26,080	\$ 26,857	\$ 26,592
General and administrative	7,430	6,675	7,319	6,492
Total operating expenses	27,661	32,755	34,176	33,084
Loss from operations	(27,661)	(32,755)	(34,176)	(33,084)
Other income:				
Interest and investment income	335	164	238	159
Total other income	335	164	238	159
Net loss	\$ (27,326)	\$ (32,591)	\$ (33,938)	\$ (32,925)
Basic and diluted net loss per common share	\$ (0.57)	\$ (0.68)	\$ (0.71)	\$ (0.68)
Basic and diluted weighted average number of common shares outstanding	47,620,147	47,915,726	48,052,939	48,114,922
(In Thousands, Except Shares and Per Share Amounts)				
Collaborative research and development revenue from Purdue entities	\$ 25,202	\$ 21,912	\$	\$
Operating expenses:				
Research and development	28,551	28,533	21,495	40,016
General and administrative	6,812	7,666	6,294	7,110
Total operating expenses	35,363	36,199	27,789	47,126
			46,555	

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Gain on termination of Purdue entities alliance				
(Loss) income from operations	(10,161)	(14,287)	18,766	(47,126)
Other (expense) income:				
Interest expense	(681)	(694)	(533)	
Income from Massachusetts tax incentive award		193		
Interest and investment income	120	127	170	142
Total other expense	(561)	(374)	(363)	142
Net (loss) income	\$ (10,722)	\$ (14,661)	\$ 18,403	\$ (46,984)
(Loss) per common share:				
Basic	\$ (0.40)	\$ (0.54)	\$ 0.57	\$ (1.15)
Diluted	\$ (0.40)	\$ (0.54)	\$ 0.52	\$ (1.15)
Weighted average number of common shares outstanding:				
Basic	26,776,856	27,061,435	32,039,866	40,855,124
Diluted	26,776,856	27,061,435	35,173,223	40,855,124

**Table of Contents**

**18. Subsequent Events**

On February 24, 2014, we entered into a Facility Agreement (the Facility Agreement ) with affiliates of Deerfield Management Company, L.P. ( Deerfield ), pursuant to which Deerfield agreed to loan us up to \$100,000,000, subject to the terms and conditions set forth in the Facility Agreement. In connection with the execution of the Facility Agreement, we issued to Deerfield warrants to purchase an aggregate of 1,000,000 shares of common stock at an exercise price of \$13.83 per share. Under the Facility Agreement, we may draw down on the facility in \$25,000,000 increments at any time prior to February 27, 2015 and any such disbursements shall be accompanied by the issuance to Deerfield of warrants to purchase an aggregate number of shares of common stock pursuant to the terms in the Facility Agreement. Each Warrant issued under the Facility Agreement expires on the seventh anniversary of its issuance.

Any amounts drawn under the Facility Agreement accrue interest at a rate of 7.95% per annum, payable quarterly in arrears. We have the right to prepay amounts owed under the Facility Agreement at any time, provided that, to the extent that any amount was drawn less than three years before prepayment, we would be required to pay an additional amount equal to three years of interest less the amount of interest previously paid. We will be required to repay Deerfield one-third of the total principal amount drawn under the Facility Agreement on each of the third, fourth and fifth anniversaries of the first draw, however the final payment must be made by December 15, 2019. On February 27, 2015, or upon the earlier termination or acceleration of the facility, we are required to pay a fee equal to 3% of the then undrawn portion of the \$100,000,000 commitment.

We are currently evaluating the accounting for this transaction, which will be reflected in our 2014 first quarter results.

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**Table of Contents**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There have been no disagreements with our independent accountants on accounting and financial disclosure matters.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2013. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2013, our disclosure controls and procedures were

(1) designed to ensure that material information relating to us is made known to our management including our principal executive officer and principal financial officer by others, particularly during the period in which this report was prepared and (2) effective, in that they provide reasonable assurance 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 SEC's rules and forms.

Management's report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) appears below.

No change in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Internal Control Over Financial Reporting**

***(a) Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted



accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance

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**Table of Contents**

with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in *Internal Control Integrated Framework (1992)*. Based on its assessment, management believes that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report of our internal control over financial reporting. This report appears below.

***(b) Attestation Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting***

The Board of Directors and Shareholders of  
  
Infinity Pharmaceuticals, Inc.

We have audited Infinity Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Infinity Pharmaceuticals, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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**Table of Contents**

In our opinion, Infinity Pharmaceuticals, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Infinity Pharmaceuticals, Inc. and our report dated February 25, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts

February 25, 2014

***(c) Changes in Internal Control Over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

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**Table of Contents**

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The sections titled Proposal 1 Election of Directors, Board and Committee Meetings, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Guidelines; Code of Conduct and Ethics appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on June 17, 2014 are incorporated herein by reference. The information required by this item relating to executive officers may be found in Part I, Item 1 of this report under the heading Business Executive Officers.

**Item 11. Executive Compensation**

The section titled Compensation of Executive Officers appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on June 17, 2014 is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The sections titled Stock Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on June 17, 2014 are incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The sections titled Transactions with Related Persons, Policies and Procedures for Related Persons Transactions, and Determination of Independence appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on June 17, 2014 are incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The section titled Audit Fees appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on June 17, 2014 is incorporated herein by reference.

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules****(a)(1) Financial Statements**

The financial statements listed below are filed as a part of this Annual Report on Form 10-K.

	<b>Page number</b>
<u>Report of Independent Registered Public Accounting Firm on Financial Statements</u>	59
<u>Consolidated Balance Sheets at December 31, 2013 and 2012</u>	60
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	61
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	62
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	63
<u>Notes to Consolidated Financial Statements</u>	65

**(a)(2) Financial Statement Schedules**

Financial statement schedules have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements or notes thereto.

**(a)(3) Exhibits**

The Exhibits listed in the Exhibit Index are filed as a part of this Annual Report on Form 10-K.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**INFINITY PHARMACEUTICALS,  
INC.**

Date: February 25, 2014

By: /s/ ADELENE Q. PERKINS  
**Adelene Q. Perkins***President & Chief Executive Officer**(Principal Executive Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ ADELENE Q. PERKINS  <b>Adelene Q. Perkins</b>	President, Chief Executive Officer; Chair of the Board of Directors  <i>(Principal Executive Officer)</i>	February 25, 2014
/s/ LAWRENCE E. BLOCH, M.D., J.D.  <b>Lawrence E. Bloch, M.D., J.D.</b>	Executive Vice President, Chief Financial Officer and  Chief Business Officer; Secretary and Treasurer <i>(Principal Financial Officer, Principal Accounting Officer)</i>	February 25, 2014
/s/ MARTIN BABLER  <b>Martin Babler</b>	Director	February 25, 2014
/s/ ANTHONY B. EVNIN, PH.D.  <b>Anthony B. Evnin, Ph.D.</b>	Director	February 25, 2014
/s/ GWEN A. FYFE, M.D.  <b>Gwen A. Fyfe, M.D.</b>	Director	February 17, 2014
/s/ ERIC S. LANDER, PH.D.  <b>Eric S. Lander, Ph.D.</b>	Director	February 18, 2014
/s/ THOMAS J. LYNCH, JR., M.D. <b>Thomas J. Lynch, Jr., M.D.</b>	Director	February 25, 2014

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/s/	NORMAN C. SELBY <b>Norman C. Selby</b>	Director	February 25, 2014
/s/	IAN F. SMITH <b>Ian F. Smith</b>	Director	February 18, 2014
/s/	MICHAEL C. VENUTI, PH.D. <b>Michael C. Venuti, Ph.D.</b>	Director	February 25, 2014

90



**Table of Contents****EXHIBIT INDEX**

Exhibit No.	Description	Incorporated by Reference		
		Form	SEC Filing date	Exhibit Number
3.1	Restated Certificate of Incorporation of the Registrant.	10-Q	8/9/07	3.1
3.2	Amended and Restated Bylaws of the Registrant.	8-K	03/17/09	3.1
4.1	Form of Common Stock Certificate.	10-K	3/14/08	4.1
10.1	Termination and Revised Relationship Agreement, dated as of July 17, 2012, between the Registrant and Mundipharma International Corporation Limited.	8-K	07/19/12	10.2
10.2	Termination and Revised Relationship Agreement, dated as of July 17, 2012, between the Registrant and Purdue Pharmaceutical Products L.P.	8-K	7/19/12	10.3
10.3	Amended and Restated Development and License Agreement, dated as of December 24, 2012, by and between the Registrant and Intellikine, LLC.	10-K	3/5/13	10.4
10.4	Lease Agreement dated July 2, 2002 between IDI and ARE-770/784/790 Memorial Drive LLC (the Lease ), as amended by First Amendment to Lease dated March 25, 2003, Second Amendment to Lease dated April 30, 2003, Third Amendment to Lease dated October 30, 2003 and Fourth Amendment to Lease dated December 15, 2003.	8-K	9/18/06	10.36
10.5	Fifth Amendment to Lease dated July 8, 2011 between the Registrant and ARE-770/784/790 Memorial Drive LLC.	10-Q	8/9/11	10.1
10.6	Sixth Amendment to Lease dated July 8, 2012 between the Registrant and ARE-770/784/790 Memorial Drive LLC.	10-Q	8/7/12	10.2
10.7	Sublease dated August 24, 2004 between IDI and Hydra Biosciences, Inc ( Hydra ), together with Consent to Sublease dated September 16, 2004 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra Biosciences, Inc., as amended by First Amendment to Sublease dated October 17, 2005,	8-K	9/18/06	10.37

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together with Consent to Amendment to Sublease dated as of October 31, 2005 by ARE-770/784/790 Memorial Drive LLC and Second Amendment to Sublease dated as of January 9, 2006, together with Consent to Amendment to Sublease dated as of January 26, 2006 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra.

10.8	Third Amendment to Sublease dated April 17, 2009 between IDI and Hydra, together with Consent to Third Amendment to Sublease dated May 5, 2009 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra.	10-Q	5/6/09	10.1
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**Table of Contents**

Exhibit No.	Description	Incorporated by Reference		
		Form	SEC Filing date	Filed with this 10-K
10.9	Fourth Amendment to Sublease dated December 19, 2012 between IDI and Hydra, together with Consent to Fourth Amendment to Sublease dated December 28, 2012 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra.	10-K	3/15/13	10.9
10.10*	Offer Letter between the Registrant and Lawrence E. Bloch, M.D., J.D. dated May 15, 2012.	8-K	7/25/12	10.1
10.11*	Offer Letter between IDI and Julian Adams dated as of August 19, 2003.	8-K	9/18/06	10.10
10.12*	Amendment to Offer Letter between IDI and Julian Adams dated as of October 25, 2007.	8-K	10/30/07	99.4
10.13*	Offer Letter between IDI and Adelene Perkins dated as of February 6, 2002.	8-K	9/18/06	10.11
10.14*	Amendment to Offer Letter between IDI and Adelene Perkins dated as of October 25, 2007.	8-K	10/30/07	99.5
10.15	Pre-Merger Stock Incentive Plan.	8-K	9/18/06	10.18
10.16*	Form of Incentive Stock Agreement entered into with each of the officers identified on the schedule thereto.	8-K	9/18/06	10.25
10.17*	Form of Nonstatutory Stock Option Agreement entered into with each of the officers identified on the schedule thereto.	8-K	9/18/06	10.27
10.18	2000 Stock Incentive Plan.	S-1	5/9/2000	10.59
10.19	Amendment No. 1 to 2000 Stock Incentive Plan; Amendment No. 2 to 2000 Stock Incentive Plan; Amendment No. 3 to 2000 Stock Incentive Plan.	8-K	9/18/06	10.32
10.20	Amendment No. 4 to 2000 Stock Incentive Plan.	10-Q	8/9/07	10.1
10.21	Amendment No. 5 to 2000 Stock Incentive Plan.	S-8	5/23/08	99.4
10.22	Form of Incentive Stock Option Agreement under 2000 Stock Incentive Plan.	8-K	9/18/06	10.33
10.23	Form of Nonstatutory Stock Option Agreement under 2000 Stock Incentive Plan.	8-K	9/18/06	10.34
10.24	2010 Stock Incentive Plan.	8-K	5/28/10	10.1

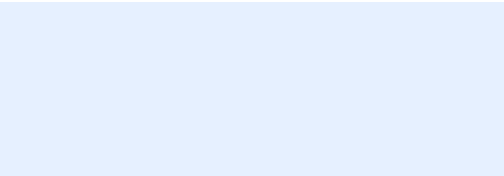
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10.25	Form of Incentive Stock Option Agreement under 2010 Stock Incentive Plan.	8-K	5/28/10	10.2
10.26	Form of Nonstatutory Stock Option Agreement under 2010 Stock Incentive Plan.	8-K	5/28/10	10.3
10.27	Amendment No. 1 to 2010 Stock Incentive Plan.	8-K	12/14/10	99.2
10.28	Amendment No. 2 to 2010 Stock Incentive Plan.	8-K	5/18/12	99.1

92

**Table of Contents**

Exhibit No.	Description	Incorporated by Reference			Filed with this 10-K
		Form	SEC Filing date	Exhibit Number	
10.29	Amendment No. 3 to 2010 Stock Incentive Plan.	8-K	6/13/13	10.1	
10.30	Amendment No. 4 to 2010 Stock Incentive Plan.	8-K	6/13/13	10.1	
10.31	Infinity Pharmaceuticals, Inc. Executive Severance Benefits Plan effective February 6, 2013.	8-K	2/12/13	10.1	
10.32	2013 Employee Stock Purchase Plan, as amended.	8-K	6/13/13	99.1	
21.1	Subsidiaries of the Registrant. Filed herewith.				X
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. Filed herewith.				X
31.1	Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. Filed herewith.				X
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. Filed herewith.				X
32.1	Statement of principal executive officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.				X
32.2	Statement of principal financial officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.				X
101	The following materials from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholders Equity, and (v) Notes to Consolidated Financial Statements.				X



\* Indicates management contract or compensatory plan  
Confidential treatment has been requested and/or granted as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.