

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 000-51173

Catalyst Biosciences, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

260 Littlefield Ave.
South San Francisco, California
(Address of Principal Executive Offices)

56-2020050
(I.R.S. Employer
Identification No.)

94080
(Zip Code)

(650) 266-8674

(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, 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 (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2017, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 4,310,561.

CATALYST BIOSCIENCES, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Catalyst Biosciences, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,973	\$ 10,264
Short-term investments	16,477	6,800
Restricted cash	5,727	19,468
Accounts receivable	52	31
Prepaid and other current assets	849	958
Total current assets	34,078	37,521
Restricted cash, noncurrent	—	125
Property and equipment, net	315	444
Total assets	\$ 34,393	\$ 38,090
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,460	\$ 837
Accrued compensation	920	596
Other accrued liabilities	1,095	805
Deferred revenue, current portion	530	283
Deferred rent, current portion	18	41
Redeemable convertible notes	5,488	19,403
Total current liabilities	9,511	21,965
Deferred revenue, noncurrent portion	—	47
Deferred rent, noncurrent portion	—	7
Total liabilities	9,511	22,019
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 5,500 and 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized; 4,310,561 and 801,756 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	4	1
Additional paid-in capital	192,615	164,053
Accumulated other comprehensive income (loss)	4	(1)
Accumulated deficit	(167,741)	(147,982)
Total stockholders' equity	24,882	16,071
Total liabilities and stockholders' equity	\$ 34,393	\$ 38,090

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

Catalyst Biosciences, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Contract revenue	\$ 318	\$ 109	\$ 700	\$ 328
Operating expenses:				
Research and development	3,805	3,396	9,286	8,443
General and administrative	2,391	2,425	7,407	7,083
Total operating expenses	<u>6,196</u>	<u>5,821</u>	<u>16,693</u>	<u>15,526</u>
Loss from operations	(5,878)	(5,712)	(15,993)	(15,198)
Interest and other income, net	85	941	185	2,003
Net loss	<u>(5,793)</u>	<u>(4,771)</u>	<u>(15,808)</u>	<u>(13,195)</u>
Deemed dividend for convertible preferred stock beneficial conversion feature	-	—	(3,951)	—
Net loss attributable to common stockholders	<u>\$ (5,793)</u>	<u>\$ (4,771)</u>	<u>\$ (19,759)</u>	<u>\$ (13,195)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.34)</u>	<u>\$ (6.04)</u>	<u>\$ (6.49)</u>	<u>\$ (17.10)</u>
Shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>4,310,561</u>	<u>789,796</u>	<u>3,043,919</u>	<u>771,713</u>

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

Catalyst Biosciences, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2017	2016	2017	2016
Net loss	\$ (5,793)	\$ (4,771)	\$ (15,808)	\$ (13,195)
Other comprehensive income (loss):				
Unrealized gain on available-for-sale securities	4	3	5	3
Total comprehensive loss	<u>\$ (5,789)</u>	<u>\$ (4,768)</u>	<u>\$ (15,803)</u>	<u>\$ (13,192)</u>

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

Catalyst Biosciences, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(In thousands, except share amounts)
(Unaudited)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance at December 31, 2016	—	\$ —	801,756	\$ 1	\$ 164,053	\$ (1)	\$ (147,982)	\$ 16,071
Stock-based compensation expense	—	—	—	—	556	—	—	556
Issuance of common stock, net of issuance costs	—	—	439,880	1	5,335	—	—	5,336
Issuance of convertible preferred stock, common stock and warrants for follow-on offering, net of issuance costs	13,350	—	1,470,000	2	18,561	—	—	18,563
Issuance of common stock upon exercise of warrants	—	—	28,925	—	159	—	—	159
Conversion of preferred stock to common stock	(7,850)	—	1,570,000	—	—	—	—	—
Deemed dividend for preferred stock beneficial conversion feature	—	—	—	—	3,951	—	(3,951)	—
Unrealized gain on available-for-sale securities	—	—	—	—	—	5	—	5
Net loss	—	—	—	—	—	—	(15,808)	(15,808)
Balance at September 30, 2017	<u>5,500</u>	<u>\$ —</u>	<u>4,310,561</u>	<u>\$ 4</u>	<u>\$ 192,615</u>	<u>\$ 4</u>	<u>\$ (167,741)</u>	<u>\$ 24,882</u>

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

Catalyst Biosciences, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net loss	\$ (15,808)	\$ (13,195)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	556	505
Depreciation and amortization	132	328
Gain on extinguishment of redeemable convertible notes	—	(92)
Change in fair value of derivative liability	—	(1,036)
Changes in operating assets and liabilities:		
Accounts receivable	(20)	391
Prepaid and other current assets	109	484
Accounts payable	623	(410)
Accrued compensation and other accrued liabilities	614	(127)
Deferred rent	(29)	(14)
Deferred revenue	200	(329)
Net cash flows used in operating activities	<u>(13,623)</u>	<u>(13,495)</u>
Investing Activities		
Proceeds from maturities of short-term investments	6,800	6,601
Purchase of investments	(16,474)	(13,404)
Change in restricted cash	(49)	—
Purchases of property and equipment	(3)	(346)
Net cash flows used in investing activities	<u>(9,726)</u>	<u>(7,149)</u>
Financing Activities		
Release of restricted cash due to conversion and redemption of redeemable convertible notes	13,915	4,075
Payments for the redemption of redeemable convertible notes	(13,915)	(4,075)
Proceeds from issuance of common stock, net of issuance costs	5,336	865
Proceeds from issuance of preferred stock, common stock and warrants for follow-on offering, net of issuance costs	18,563	—
Proceeds from exercise of warrants	159	—
Net cash flows provided by financing activities	<u>24,058</u>	<u>865</u>
Net increase (decrease) in cash and cash equivalents	709	(19,779)
Cash and cash equivalents at beginning of period	10,264	29,096
Cash and equivalents at end of period	<u>\$ 10,973</u>	<u>\$ 9,317</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Deemed dividend for convertible preferred stock beneficial conversion feature	3,951	—
Conversion of convertible notes to common stock	—	1

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

Catalyst Biosciences, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nature of Operations

Catalyst Biosciences, Inc. (the “Company” or “Catalyst”) is a clinical-stage biotechnology company focused on developing novel medicines to address hematology indications, including the treatment of hemophilia. Its facilities are in South San Francisco, California and it operates in one segment. Prior to August 20, 2015, the name of the Company was Targacept, Inc. (“Targacept”). On August 20, 2015, Targacept completed its business combination with Catalyst (the “Merger”).

On February 10, 2017, the Company effected a reverse stock split of its common stock at a ratio of 1-for-15 (“2017 Reverse Stock Split”). The 2017 Reverse Stock Split was approved by the Company’s stockholders at a special meeting of stockholders held on February 2, 2017. As a result of the 2017 Reverse Stock Split, each 15 pre-split shares of common stock outstanding were automatically combined into one new share of common stock, and the number of outstanding shares of common stock on the date of the split was reduced from approximately 13.0 million shares to approximately 868,000 shares. Unless otherwise specified, all share and per share amounts in these notes and the accompanying condensed consolidated financial statements are reported on a post-stock split basis for all periods presented.

Based on the current status of its research and development plans, the Company believes that its existing cash, cash equivalents and investments as of September 30, 2017 will be sufficient to fund its cash requirements for at least the next 12 months from the date of the filing of this quarterly report. If, at any time, the Company’s prospects for financing its research and development programs decline, the Company may decide to reduce research and development expenses by delaying, discontinuing or reducing its funding of one or more of its research or development programs. Alternatively, the Company might raise funds through strategic collaborations, public or private financings or other arrangements. Such funding, if needed, may not be available on favorable terms, or at all.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and following the requirements of the Securities and Exchange Commission (the “SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the Company’s financial information. These interim results and cash flows for any interim period are not necessarily indicative of the results to be expected for the full year.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the consolidated financial statements filed with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (“Annual Report”).

The Company’s significant accounting policies are included in “Part II - Item 8 - Financial Statements and Supplementary Data - Note 2 – Summary of Significant Accounting Policies” in the Company’s Annual Report. There have been no significant changes to these accounting policies during the first nine months of 2017.

3. Fair Value Measurements

For a description of the fair value hierarchy and the Company’s fair value methodology, see “Part II - Item 8 - Financial Statements and Supplementary Data - Note 2 – Summary of Significant Accounting Policies” in the Company’s Annual Report. There were no significant changes in these methodologies during the nine months ended September 30, 2017. As of September 30, 2017 and December 31, 2016, the Company’s highly liquid money market funds included within cash equivalents, restricted cash and U.S. government agency securities are valued using Level 1 inputs. The Company classifies its federal agency securities as Level 2. There were no transfers in or out of Level 1 and Level 2 during the periods presented.

Liabilities that are measured at fair value consist of the derivative liability associated with the redeemable convertible notes (see Note 5) and are valued using Level 3 inputs. There were no transfers in or out of Level 3 during the periods presented.

As of September 30, 2017 and December 31, 2016 the fair value of the derivative liability was immaterial. The estimated reporting date fair value-based measurement of the derivative liability was calculated using the Black-Scholes valuation model.

Catalyst Biosciences, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 (*in thousands*):

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Money market funds ⁽¹⁾	\$ 10,973	\$ —	\$ —	\$ 10,973
U.S. government agency securities ⁽³⁾	14,981	\$ —	\$ —	14,981
Restricted cash (money market funds) ⁽²⁾	5,727	—	—	5,727
Agency securities ⁽³⁾	—	1,496	—	1,496
Total financial assets	\$ 31,681	\$ 1,496	\$ —	\$ 33,177

- (1) Included in cash and cash equivalents on accompanying condensed consolidated balance sheets.
(2) \$5.5 million of restricted cash in the Indenture serves as full collateral for the redeemable convertible notes and \$0.1 million of restricted cash serves as collateral for the Company's corporate credit card and deposit for its facility lease.
(3) Included in short-term investments on accompanying condensed consolidated balance sheets and are classified as available-for-sale securities.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Money market funds ⁽¹⁾	\$ 10,156	\$ —	\$ —	\$ 10,156
Restricted cash (money market funds) ⁽²⁾	19,593	—	—	19,593
U.S. government agency securities ⁽³⁾	6,800	—	—	6,800
Total financial assets	\$ 36,549	\$ —	\$ —	\$ 36,549

- (1) Included in cash and cash equivalents on accompanying condensed consolidated balance sheets.
(2) \$19.4 million of restricted cash in the Indenture serves as full collateral for the redeemable convertible notes and \$0.1 million of restricted cash serves as collateral for the Company's corporate credit card and deposit for its facility lease.
(3) Included in short-term investments on accompanying condensed consolidated balance sheets and are classified as available-for-sale securities.

4. Financial Instruments

Cash equivalents, restricted cash and short-term investments which are classified as available-for-sale securities, consisted of the following (*in thousands*):

September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 10,973	\$ —	\$ —	\$ 10,973
U.S. government agency securities	14,980	2	(1)	14,981
Restricted cash (money market funds)	5,727	—	—	5,727
Agency securities	1,495	1	—	1,496
Total financial assets	\$ 33,175	\$ 3	\$ (1)	\$ 33,177
Classified as:				
Cash and cash equivalents				\$ 10,973
Short-term investments				16,477
Restricted cash (money market funds)				5,727
				\$ 33,177

Catalyst Biosciences, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 10,156	\$ —	\$ —	\$ 10,156
Restricted cash (money market funds)	19,593	—	—	19,593
U.S. government agency securities	6,802	—	(2)	6,800
Total financial assets	<u>\$ 36,551</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ 36,549</u>
Classified as:				
Cash and cash equivalents				\$ 10,156
Restricted cash (money market funds)				19,593
Short-term investments				6,800
				<u>\$ 36,549</u>

There have been no significant realized gains or losses on available-for-sale securities for the periods presented. The carrying amounts of cash, accounts receivable, other receivables, accounts payable, other payables and redeemable convertible notes approximate their fair values due to the short-term maturity of these instruments.

5. Redeemable Convertible Notes

On August 19, 2015, immediately prior to the Merger, the Company issued to Targacept stockholders non-interest bearing redeemable convertible notes (the “Notes”) in the aggregate principal amount of \$37.0 million. The Notes do not bear interest. The principal amount of the Notes is convertible, at the option of each noteholder, into cash or into shares of the Company’s common stock at a conversion rate of \$137.85 per share, and are payable in cash, if not previously redeemed or converted, at maturity on February 19, 2018, the 30-month anniversary of the closing of the issuance of the Notes.

In connection with the issuance of the Notes, on August 19, 2015, Targacept entered into an indenture (the “Indenture”) with American Stock Transfer & Trust Company, LLC, as trustee, and an escrow agreement with American Stock Transfer & Trust Company, LLC and Delaware Trust Company, LLC, as escrow agent, under which \$37.0 million, which represented the initial principal amount of the Notes, was deposited in a segregated escrow account for the benefit of the holders of the Notes in order to facilitate the payment of the notes upon redemption or at maturity (the amount of such deposit together with interest accrued and capitalized thereon, the “Escrow Funds”). The Notes are the Company’s secured obligation, and the Indenture does not limit its other indebtedness, secured or unsecured.

Holders of the Notes may submit conversion notices, which are irrevocable, instructing the trustee to convert such Notes into shares of common stock at a conversion price of \$137.85 per share. Following each conversion date, the Company will issue the number of whole shares of common stock issuable upon conversion as promptly as practicable (and in any event within 10 business days). The trustee will in turn release to the Company the respective amount of restricted cash to cover the stock issuance.

The conversion to common stock feature of the Notes was determined to be a derivative liability requiring bifurcation and separate accounting. The fair value of such conversion feature at issuance was determined to be \$1.5 million. The bifurcation of the derivative liability from the estimated fair value of the Notes of \$37.1 million at issuance resulted in a debt discount of \$1.4 million. The Company elected to accrete the entire debt discount as interest expense immediately after the Merger. In addition, changes in the fair value of the derivative liability are being recorded within interest and other income in the consolidated statements of operations. The Company remeasures the derivative liability to fair value until the earlier of the conversion, redemption or maturity of the redeemable convertible notes.

As of September 30, 2017 and December 31, 2016, the fair value of the derivative liability was immaterial. The estimated reporting date fair value-based measurement of the derivative liability was calculated using the Black-Scholes valuation model.

The Company recognized no interest expense for both the three and nine months ended September 30, 2017 and 2016, related to the amortization of the debt discount on the Company’s consolidated statement of operations as the redeemable convertible notes are immediately fully redeemable at the option of the holders and the entire debt discount was accreted immediately after the Merger.

As of September 30, 2017, the Notes had a balance of \$5.5 million, \$31.2 million of the Notes were redeemed and \$0.3 million of the Notes were converted into common stock. \$13.9 million of the Notes were redeemed during the nine months ended September 30, 2017. There was no gain on the extinguishment of Notes upon the redemption of the Notes during the three and nine months ended September 30, 2017.

6. Stock Based Compensation

The following table summarizes stock option activity under the Company's equity incentive plans and related information:

	Number of Shares Underlying Outstanding Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding — December 31, 2016	140,990	\$ 127.56	3.93
Options granted	692,000	\$ 4.54	
Options canceled	(141)	\$ 41.91	
Options forfeited	(60,854)	\$ 165.77	
Outstanding — September 30, 2017	<u>771,995</u>	\$ 14.30	9.37
Exercisable — September 30, 2017	<u>106,953</u>	\$ 64.96	7.10
Vested and expected to vest — September 30, 2017	<u>771,995</u>	\$ 14.30	9.37

Valuation Assumptions

The Company estimated the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. Due to its limited history as a public company and limited number of sales of its common stock, the Company estimated its volatility considering a number of factors including the use of the volatility of comparable public companies. The expected term of options granted under the Plan, all of which qualify as "plain vanilla" per SEC Staff Accounting Bulletin 107, is determined based on the simplified method due to the Company's limited operating history, and is 5.99 years based on the average between the vesting period and the contractual life of the option. The risk-free rate is based on the yield of a U.S. Treasury security with a term consistent with the option. This fair value is being amortized ratably over the requisite service periods of the awards, which is generally the vesting period. The fair value of employee stock options was estimated using the following weighted-average assumptions for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30,	
	2017	2016
Employee Stock Options:		
Risk-free interest rate	2.02%	1.41%
Expected term (in years)	5.99	5.92
Dividend yield	—	—
Volatility	110.42%	75.04%
Weighted-average fair value of stock options granted	\$ 3.79	\$ 16.05

Total stock-based compensation recognized was as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Research and development	\$ 62	\$ 68	\$ 97	\$ 172
General and administrative	263	120	459	333
Total stock-based compensation	<u>\$ 325</u>	<u>\$ 188</u>	<u>\$ 556</u>	<u>\$ 505</u>

As of September 30, 2017, 404,632 shares of common stock were available for future grant and 771,995 options to purchase shares of common stock were outstanding, additionally as of September 30, 2017 the Company had unrecognized employee stock-based compensation expense of \$3.1 million, related to unvested stock awards, which is expected to be recognized over an estimated weighted-average period of 3.10 years.

7. **Collaborations**

Pfizer

Pursuant to an agreement entered on December 8, 2016, in connection with the termination of a prior license and development agreement, Pfizer granted the Company an exclusive license to Pfizer's proprietary rights for manufacturing materials and processes that apply to Factor VIIa variants, CB 813a and marzeptacog alfa (activated). Pfizer also transferred to the Company the IND application and documentation related to the development, manufacturing and testing of the Factor VIIa products as well as the orphan drug designation. The Company agreed to make contingent cash payments to Pfizer in an aggregate amount equal to up to \$17.5 million, payable upon the achievement of clinical, regulatory and commercial milestones. Following commercialization of any covered product, Pfizer would also receive a single-digit royalty on net product sales on a country-by-country basis for a predefined royalty term. No amounts have been paid to date under this new agreement.

ISU Abxis

On June 16, 2013, the Company signed a license and collaboration agreement with ISU Abxis, whereby the Company licensed its proprietary human Factor IX products to ISU Abxis for initial development in South Korea. Under the terms of the agreement, ISU Abxis is responsible for manufacturing, preclinical development activities and clinical development through completion of a proof-of-concept Phase 1/2 study in individuals with hemophilia B. The Company has the sole rights and responsibility for worldwide development, manufacture, and commercialization of Factor IX products after Phase 1/2 development. ISU Abxis may exercise its right of first refusal to acquire commercialization rights in South Korea, in which case they would be entitled to profit sharing on worldwide sales. ISU's rights will also terminate if the Company enters into a license agreement with another party to develop, manufacture and commercialize Factor IX products in at least two major market territories.

ISU Abxis paid the Company an up-front signing fee of \$1.75 million and is obligated to pay to the Company contingent milestone-based payments on the occurrence of certain defined development events, and reimbursement for a portion of the Company's costs relating to intellectual property filings and maintenance thereof on products. The Company is obligated to pay ISU Abxis a percentage of all net profits it receives from collaboration products.

Contract revenue of \$0.3 million and \$0.1 million for the three months ended September 30, 2017 and 2016 and \$0.7 million and \$0.3 million for the nine months ended September 30, 2017 and 2016, respectively, reflected (i) for all periods presented the amortization of the up-front fee over the estimated period of the Company's performance obligations under the agreement, which began in September 2013 when the agreement was executed and is estimated to conclude in February 2018 and (ii) \$0.2 million and \$0.5 for the three and nine months ended September 30, 2017, respectively, recorded for milestone payments, which are recognized over the estimated remaining period of the Company's performance obligation under the agreement. During the nine months ended September 30, 2017, the Company received milestone payments from ISU Abxis of \$0.9 million. The deferred revenue balance related to the ISU Abxis collaboration was \$0.5 million and \$0.3 million as of September 30, 2017 and December 31, 2016, respectively.

8. **Net Loss per Share Attributable to Common Stockholders**

The following table sets forth the computation of the basic and diluted net loss per share attributable to common stockholders during the three and nine months ended September 30, 2017 and 2016 (*in thousands, except share and per share data*):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net loss attributable to common stockholders	\$ (5,793)	\$ (4,771)	\$ (19,759)	\$ (13,195)
Weighted-average number of shares used in computing net loss per share, basic and diluted	4,310,561	789,796	3,043,919	771,713
Net loss available for common stockholders per share, basic and diluted	\$ (1.34)	\$ (6.04)	\$ (6.49)	\$ (17.10)

Since the Company was in a loss position for all periods presented, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities on an as-if converted basis that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	September 30, 2017	December 31, 2016
Options to purchase common stock	771,995	140,990
Convertible preferred stock(1)	1,100,000	—
Common stock warrants	2,053,114	12,063
Redeemable convertible notes	39,814	140,743
Total	3,964,923	293,796

(1) As of September 30, 2017, represents 5,500 shares of Series A Preferred Stock on an as converted basis to 1.1 million shares of common stock.

9. Stockholders' Equity

At the Market Issuance Sales Agreement — On March 16, 2016, the Company signed a Capital on Demand™ Sales Agreement with JonesTrading Institutional Services LLC (“JonesTrading”). In accordance with the terms of the sales agreement, the Company was able to offer and sell shares of its common stock having a gross aggregate offering price up to \$6.5 million, subject to certain limitations, from time to time in one or more public offerings of the Company’s common stock, with JonesTrading acting as agent, in transactions pursuant to a shelf registration statement that was declared effective by the SEC on April 28, 2016.

The Company sold an aggregate of 479,681 shares of common stock in the open market at a weighted-average selling price of \$13.55 per share, for net proceeds (net of commissions) of \$6.3 million through September 30, 2017, of which \$5.5 million were sold in the nine months ended September 30, 2017, in the Capital on Demand™ program. The Company charged approximately \$0.2 million for JonesTrading commission against additional paid-in capital through September 30, 2017. As of September 30, 2017, the Company has no more common stock available for sale under the program.

April 2017 Underwritten Public Offering — On April 12, 2017, the Company issued and sold in a registered, underwritten public offering an aggregate of (i) 1,470,000 shares of common stock (including 540,000 shares of common stock sold pursuant to the exercise of the Underwriter’s overallotment option), (ii) 13,350 shares of Series A Preferred Stock, each convertible into 200 shares of common stock and (iii) warrants to purchase 2,070,000 shares of common stock at an exercise price of \$5.50 per share (including 270,000 sold pursuant to the exercise of the Underwriter’s overallotment option). The net proceeds to the Company, after deducting the underwriting discounts and commissions and offering expenses payable by the Company were approximately \$18.6 million.

Series A Convertible Preferred Stock — In connection with the closing on April 12, 2017 of the public offering, the Company filed the Certificate of Designation of Preferences, Rights and Limitations of the Series A Preferred Stock (the “Certificate of Designation”) with the Secretary of State of the State of Delaware. The Certificate of Designation describes the rights, preferences and privileges of the shares of Series A Preferred Stock. With certain exceptions, the shares of Series A Preferred Stock rank on par with the shares of the Common Stock, in each case, as to dividend rights and distributions of assets upon liquidation, dissolution or winding up of the Company.

Upon its issuance, the Series A Preferred Stock was not considered a liability or temporary equity and as such the Series A Preferred Stock was recorded in permanent equity on the Company’s balance sheet.

The Company determined that the contingent liquidated damages feature embedded in the Series A Preferred Stock meets the criteria of a derivative that requires bifurcation from the Series A Preferred Stock. This derivative had an immaterial value as of September 30, 2017.

During the nine months ended September 30, 2017, 7,850 shares of the Company’s Series A Preferred Stock were converted into 1,570,000 shares of common stock of the Company. As of September 30, 2017, there were 5,500 shares of Series A Preferred Stock issued and outstanding.

Beneficial Conversion Feature Series A Preferred Stock (deemed dividend) — Each share of Series A Preferred Stock is convertible into 200 shares of common stock, at any time, at the option of the holder. The net proceeds to the Company of \$18.6 million were allocated to the common stock, Preferred A Stock and warrants (see below) based on a relative fair value basis. This resulted in \$10.1 million being allocated to the Preferred A Stock and reflected on an effective conversion price of \$3.80

Catalyst Biosciences, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited) - (Continued)

per share. On April 12, 2017, the date of issuance of the Series A Preferred Stock, the publicly traded common stock price was \$5.28 per share.

Based on the guidance in ASC 470-20-20, the Company determined that a beneficial conversion feature exists, as the effective conversion price for the shares of Series A Preferred Stock at issuance was less than the fair value of the common stock into which the shares of Series A Preferred Stock are convertible. The beneficial conversion feature calculated based on the intrinsic value as of the date of issuance was approximately \$4.0 million. This amount was then accreted as a deemed dividend, which is a non-cash transaction. As the conversion rights were 100% effective at the time of issuance, the deemed dividend was immediately charged to accumulated deficit.

Warrants — In connection with the closing on April 12, 2017 of the public offering and the overallotment option, the Company issued warrants to purchase 2,070,000 shares of common stock at an exercise price of \$5.50 per share. Upon their issuance, the common stock warrants were determined to be equity instruments under ASC 480 and ASC 815-40.

The following is a summary of warrant activity for the nine months ended September 30, 2017:

	Number of Shares Underlying Warrants	Exercise Price	Expiration
Outstanding — December 31, 2016	12,039	\$ 145.11	
Issued	2,070,000	\$ 5.50	April 12, 2022
Exercised	(28,925)	\$ 5.50	
Outstanding — September 30, 2017	<u>2,053,114</u>		

10. Commitments and Contingencies

Operating Leases

The Company leases office space for its corporate headquarters in South San Francisco, California. The lease will expire in February 2018.

Future minimum lease payments under all non-cancelable operating leases as of September 30, 2017, were as follows (*in thousands*):

	Minimum Lease Payments
2017	187
2018	125
Total future minimum lease payments	<u>312</u>

Manufacturing Agreements

On May 20, 2016, the Company entered into a development and manufacturing services agreement with CMC ICOS Biologics, Inc. (“CMC”), pursuant to which CMC will conduct manufacturing development and, upon successful development of the manufacturing process, manufacture the Company’s next-generation Factor VIIa variant marzeptacog alfa (activated) that the Company intends to use in its clinical trials. The Company has agreed to a total of \$3.8 million in payments to CMC pursuant to the initial statement of work under the Agreement, subject to completion of applicable work stages. As of September 30, 2017, the Company’s remaining obligations to CMC were \$0.7 million under the agreement.

11. Interest and Other Income

The following table shows the detail of other income/(expense), net for the three and nine month periods ended September 30, 2017 and 2016 (*in thousands*):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gain on sale of assets	\$ —	\$ 804	\$ —	\$ 804
Change in derivative liability	—	99	—	1,036
Other Income, net	85	38	185	163
Total Other Income/(expense), net	<u>\$ 85</u>	<u>\$ 941</u>	<u>\$ 185</u>	<u>\$ 2,003</u>

As of September 30, 2017 and December 31, 2016, the fair value of the derivative liability associated with the Notes (see Note 5) was immaterial.

12. Subsequent Events

In October 2017 the Company announced a strategic research collaboration with Mosaic Biosciences, Inc. (“Mosaic”) to develop intravitreal anti-complement factor 3 (C3) products for the treatment of Dry AMD and other retinal diseases. According to the agreement the Company and Mosaic will co fund the research. Dr. Usman, our Chief Executive Officer and a member of our board of directors, and Mr. Lawlor, a member of our board of directors, are members of the board of directors of Mosaic. The transaction was reviewed by disinterested members of our board of directors and approved by our audit committee.

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

Unless otherwise indicated, in this Quarterly Report on Form 10-Q, (i) references to “Catalyst,” “we,” “us,” “our” or the “Company” mean Catalyst Biosciences, Inc. and our subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes that appear in this Quarterly Report on Form 10-Q (“Report”).

In addition to historical information, this Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (“The Exchange Act”). Forward-looking statements are identified by words such as “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” or the negative of these terms or similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other “forward-looking” information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. For example, forward-looking statements include any statements regarding the strategies, prospects, plans, expectations or objectives of management for future operations, the progress, scope or duration of the development of product candidates or programs, clinical trial plans, timelines and potential results, the benefits that may be derived from product candidates or the commercial or market opportunity in any target indication, our ability to protect intellectual property rights, our anticipated operations, financial position, revenues, costs or expenses, statements regarding future economic conditions or performance, statements of belief and any statement of assumptions underlying any of the foregoing. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this report in Part II, Item 1A — “Risk Factors,” elsewhere in this Report and in Part I - Item 1A – “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (“Annual Report”). Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

We are a clinical-stage biopharmaceutical company focused on developing novel medicines to address serious medical conditions for individuals who need new or better treatment options. We used a scientific approach to engineer several protease-based therapeutic candidates. We are focusing our product development efforts in the field of hemostasis (the process that regulates bleeding) and have a mission to develop valuable therapies for individuals with hemophilia.

We are applying our substantial expertise in protease engineering and our proprietary product discovery platform to create, engineer and characterize protease drug candidates. Proteases regulate several complex biological cascades, or sequenced biochemical reactions, including the coagulation cascade (a mechanism of blood clotting) in hemophilia and non-hemophilia settings and the complement cascade that causes inflammation and tissue damage in certain diseases. Our protease expertise allowed us to improve the biochemical and pharmacological properties of currently marketed hemophilia protease drugs, specifically Factors VIIa, IX and Xa and to create completely novel proteases that cleave disease-causing proteins, specifically complement Factor 3 (C3), for the potential treatment of dry age-related macular degeneration (Dry AMD) and renal delayed graft function (DGF).

Our most advanced program is a highly potent next-generation coagulation Factor VIIa variant, marzeptacog alfa (activated) (formerly CB 813d), that has successfully completed an intravenous Phase 1 clinical trial evaluating the pharmacokinetics, pharmacodynamics and coagulation activity in individuals with severe hemophilia A and B with and without an inhibitor. We expect to advance marzeptacog alfa (activated) into the Phase 2 portion of a Phase 2/3 subcutaneous prophylaxis efficacy trial in 2017.

Our next most advanced hemophilia program, a highly potent next-generation coagulation Factor IX variant, CB 2679d/ISU304, is currently enrolling individuals in a Phase 1/2 subcutaneous dosing trial, evaluating safety and efficacy of CB 2679d/ISU304 in individuals with hemophilia B, sponsored by our collaborators, ISU Abxis. The objective of this study is to achieve normal Factor IX activity trough levels. CB 2679d/ISU304 is IND-approved in South Korea and has been granted orphan drug designation by the U.S. Food and Drug Administration (“FDA”) and orphan medicinal product designation by the Committee for Orphan Medicinal Products (“COMP”) of the European Commission (“EC”). ISU Abxis initiated this trial in June 2017 and expect to enroll up to 17 study subjects in South Korea. Dosing of the first two of up to five cohorts, has been completed, with completion anticipated in the first quarter of 2018.

The substantially enhanced potency of marzeptacog alfa (activated) and CB 2679d/ISU304 compared with existing treatment options may allow for effective subcutaneous prophylactic treatment of individuals with hemophilia A or B with an inhibitor or individuals

with hemophilia B, respectively. Catalyst's engineered hemostasis proteases are designed to overcome current treatment limitations by allowing delivery via subcutaneous injection which we believe will facilitate effective prophylactic treatment, especially in children, and ultimately deliver substantially better outcomes for individuals with hemophilia.

We believe that subcutaneous dosing of our next-generation factors will result in progressive increases in activity levels until they reach a stable therapeutic target range in the blood (ideally mild hemophilia to normal levels). Conversely, dosing by intravenous infusions results in high initial Factor levels in the blood followed by a rapid fall off in activity to a trough level in a range that is measured as moderate or severe hemophilia and resulting in higher bleeding risk. Stable and higher factor levels could potentially yield a significant improvement in outcomes and have the added benefit of convenience over competing intravenous therapeutics, particularly when administered to children, and where venous access is challenging.

We also have several Factor Xa variants that have demonstrated efficacy in several preclinical models and have the potential to be used as a universal procoagulant. We have delayed initiating further work on our Factor Xa therapeutic program at this time to focus our efforts on the Factor VIIa and Factor IX clinical programs.

We estimate the total market for our next-generation coagulation factor product candidates is \$3.4 billion. Based on industry reports, annual worldwide sales in 2016 for Factor VIIa recombinant products for individuals with hemophilia A or B with an inhibitor were approximately \$1.4 billion, and prothrombin complex concentrate products used to treat individuals with hemophilia A or B with an inhibitor were \$0.8 billion. Worldwide sales in 2016 for Factor IX products for individuals with hemophilia B were approximately \$1.2 billion.

On June 29, 2009, we entered into a Research and License agreement with Wyeth Pharmaceuticals, Inc., subsequently acquired by Pfizer, whereby we and Pfizer collaborated on the development of novel human Factor VIIa products and we granted Pfizer the exclusive rights to develop and commercialize the licensed products on a worldwide basis. On April 2, 2015, Pfizer notified us that it was exercising its right to terminate the research and license agreement effective June 1, 2015. Accordingly, we revised the expected period of performance to end on June 1, 2015, and the deferred revenue balance was fully amortized as of that date. On December 8, 2016, we signed a definitive agreement related to the termination of the Pfizer Agreement. Pursuant to this termination agreement, Pfizer granted us an exclusive license to Pfizer's proprietary rights for manufacturing materials and processes that apply to Factor VIIa variants, CB 813a and marzeptacog alfa (activated). Pfizer also transferred to us the IND application and documentation related to the development, manufacturing and testing of the Factor VIIa products as well as the orphan drug designation.

Pursuant to this agreement, we agreed to make contingent cash payments to Pfizer in an aggregate amount equal to up to \$17.5 million, payable upon the achievement of clinical, regulatory and commercial milestones. Following commercialization of any covered product, Pfizer would also receive a single-digit royalty on net product sales on a country-by-country basis for a predefined royalty term.

In September 2013, we signed a license and collaboration agreement with ISU Abxis pursuant to which we licensed our proprietary human Factor IX products to ISU Abxis for initial development in South Korea. Under the agreement, ISU Abxis is responsible for manufacturing, preclinical development activities and clinical development through a proof-of-concept Phase 1/2 study in individuals with hemophilia B. We have the sole rights and responsibility for worldwide development, manufacture, and commercialization of Factor IX products after Phase 1/2 development. ISU Abxis may exercise its right of first refusal to acquire commercialization rights in South Korea, in which case they would be entitled to profit sharing on worldwide sales. ISU Abxis paid us an up-front fee of \$1.75 million and is obligated to pay to us contingent milestone-based payments on the occurrence of certain defined development events, of which two have been achieved as of September 30, 2017. Collaboration and license revenue related to the ISU Abxis agreement was \$0.3 million and \$0.1 million during the three months ended September 30, 2017 and 2016 and \$0.7 million and \$0.3 million during the nine months ended September 30, 2017 and 2016, respectively, that reflect the amortization of the up-front fee over the estimated period of our performance obligations, which are estimated to conclude in February 2018 and \$0.2 million and \$0.5 for the three and nine months ended September 30, 2017, respectively, recorded for milestones payments, which are recognized over the estimated remaining period of the Company's performance obligation under the agreement. During the nine months ended September 30, 2017, the Company received milestone payments from ISU Abxis of \$0.9 million. We had a deferred revenue balance of \$0.5 million as of September 30, 2017 related to the ISU Abxis collaboration.

We continue to explore licensing opportunities for our anti-complement programs in DGF and Dry AMD, however our focus remains on advancing marzeptacog alfa (activated) and CB 2679d/ISU304 through Phase 2/3 and Phase 1/2 clinical trials for hemophilia indications, respectively. In October 2017, we announced a strategic research collaboration with Mosaic Biosciences, Inc. to develop intravitreal anti-complement factor 3 (C3) products for the treatment of Dry AMD and other retinal diseases.

We have never been profitable and have incurred significant operating losses in each year since inception. Our net losses were \$5.8 million and \$4.8 million for the three months ended September 30, 2017 and 2016, respectively and \$15.8 million and \$13.2 million during the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, we had an accumulated deficit of \$167.7 million. Substantially all our operating losses resulted from expenses incurred in our research and development programs and from general and administrative costs associated with our operations.

We expect to incur significant expenses and increasing operating losses for at least the next several years as we continue the preclinical, manufacturing and clinical development, and seek regulatory approval for our drug candidates and our expenses associated with operating as a public company. In addition, our operating losses may fluctuate significantly from quarter to quarter and year to year due to timing of preclinical, clinical development programs and regulatory approval.

Financial Operations Overview

Contract Revenue

Our contract revenue was generated by recognizing revenue from the amortization of up-front and milestone licensee fees for research and development services under our collaboration agreements with ISU Abxis. Payments made to us under this agreement are recognized over the remaining period of performance for the arrangement. We may also be entitled to receive additional milestone payments and other contingent payments upon the occurrence of specific events. We have not generated any revenue from commercial product sales to date. ISU Abxis represents 100% of our total contract revenue for the three and nine months ending September 30, 2017 and 2016.

Due to the nature of the milestone payments under the remaining collaboration agreement and the nonlinearity of the earnings process associated with certain payments and milestones, we expect that our revenue will fluctuate in future periods, as a result of the uncertainty of timing related to achievement of milestones.

Research and Development Expenses

Research and development expenses represent costs incurred to conduct research, such as the discovery and development of our product candidates. We recognize all research and development costs as they are incurred.

Research and development expenses consist primarily of the following:

- employee-related expenses, which include salaries, benefits and stock-based compensation;
- laboratory and vendor expenses, including payments to consultants, related to the execution of preclinical, non-clinical, and clinical studies;
- the cost of acquiring and manufacturing preclinical and clinical materials and developing manufacturing processes;
- clinical trial expenses, including costs of third-party clinical research organizations;
- performing toxicity studies; and
- facilities and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation and amortization expense and other supplies.

The following table summarizes our research and development expenses during the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Personnel costs	\$ 563	\$ 1,510	\$ 1,318	\$ 3,538
Preclinical research	651	649	1,487	2,006
Clinical manufacturing	2,401	935	5,948	1,837
Facility and overhead	190	302	533	1,062
Total research and development expenses	\$ 3,805	\$ 3,396	\$ 9,286	\$ 8,443

The largest component of our total operating expenses has historically been our investment in research and development activities, including the clinical development of our product candidates. We are currently focusing substantially all our resources and development efforts on our clinical pipeline. Our internal resources, employees and infrastructure are not directly tied to individual

product candidates or development programs. As such, we do not maintain information regarding these costs incurred for these research and development programs on a project-specific basis.

On September 3, 2016, our Board of Directors approved reducing our workforce by 10 employees, or approximately 50% of our workforce consistent with a revised strategic plan to reallocate our resources to our hemostasis programs, including our highly potent next-generation Factor VIIa variant marzeptacog alfa (activated), and our highly potent next-generation Factor IX CB 2679d/ISU304. This reduction in force was completed by the fourth quarter 2016 and we recorded restructuring charges of \$1.0 million, for the year ended December 31, 2016. In connection with the restructuring, we received proceeds of \$0.9 million for property and equipment from the sale of excess equipment and other assets, which are recorded in other income for the year ended December 31, 2016. There was no further expense recorded during the three and nine months ended September 30, 2017.

Notwithstanding the reduction in force, we expect our aggregate research and development expenses will increase during the next few quarters as we continue the preclinical, manufacturing and clinical development of our product candidates in the United States, particularly the manufacturing and clinical development costs of marzeptacog alfa (activated) and CB 2679d/ISU304. Due to the termination of the research and license agreement with Pfizer, we will incur all costs for the marzeptacog alfa (activated) program. However, the incurrence of such costs is dependent on whether we will pursue the program on our own or sign a new collaboration and license arrangement with another pharmaceutical or biotech company.

On May 20, 2016, we signed a development and manufacturing services agreement with CMC ICOS Biologics, Inc. (“CMC”), pursuant to which CMC will conduct manufacturing development and, upon successful development of the manufacturing process, manufacture marzeptacog alfa (activated) that we intend to use in its clinical trials. We will own all intellectual property developed in such manufacturing development activities that are specifically related to marzeptacog alfa (activated) and will have a royalty-free and perpetual license to use CMC’s intellectual property to the extent reasonably necessary to make marzeptacog alfa (activated), including commercial manufacturing.

We have agreed to a total of \$3.8 million in payments to CMC pursuant to the initial statement of work under the Agreement, subject to completion of applicable work stages. In the event that clinical manufacturing batches need to be cancelled or rescheduled, we would be obligated to pay for a portion of CMC’s manufacturing fees less certain fees that CMC is able to mitigate. The initial term of the agreement is ten years or, if later, until all stages under outstanding statements of work have been completed. Either party may terminate the agreement in its entirety upon written notice of a material uncured breach or upon the other party’s bankruptcy, and we may terminate the agreement upon prior notice for any reason. In addition, each party may terminate the agreement in the event that the manufacturing development activities cannot be completed for technical or scientific reasons. As of September 30, 2017, we have \$0.7 million in payment obligations to CMC remaining under the agreement.

The process of conducting clinical trials necessary to obtain regulatory approval is costly and time consuming. We may never succeed in achieving marketing approval for our product candidates. The probability of success of each product candidate may be affected by numerous factors, including clinical data, competition, manufacturing capability and commercial viability. As a result, we are unable to determine the duration of and costs to complete our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

Successful development of current and future product candidates is highly uncertain. Completion dates and costs for our research programs can vary significantly for each current and future product candidate and are difficult to predict. Thus, we cannot estimate with any degree of certainty the costs we will incur in the development of our product candidates. We anticipate we will make determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, our ability to enter into collaborative agreements with respect to programs or potential product candidates, as well as ongoing assessments as to each current or future product candidate’s commercial potential.

General and Administrative Expenses

General and administrative expenses consist of personnel costs, allocated expenses and other expenses for outside professional services, including legal, human resources, audit and accounting services. Personnel costs consist of salaries, bonus, benefits and stock-based compensation. We incur expenses associated with operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and NASDAQ Stock Market LLC (“NASDAQ”), insurance expenses, audit expenses, investor relations activities, Sarbanes-Oxley compliance expenses and other administrative expenses and professional services. We expect such expenses to continue.

Interest and Other Income, Net

Interest and other income consists primarily of interest income on our investment portfolio and in 2016 the sale of assets acquired from Targacept in the Merger and changes in fair value of the derivative liability. The accounting for the redeemable convertible notes, which are convertible into shares of our common stock, requires us to bifurcate the derivative liability and account for it as a derivative liability at its estimated fair value upon issuance. The derivative liability is remeasured to estimated fair value as of each balance sheet date. As of September 30, 2017 and December 31, 2016, the fair value of the derivative liability was immaterial.

Results of Operations

The following tables set forth our results of operations data for the periods presented (*in thousands*):

	Three Months Ended September 30,		Change (\$)	Change (%)
	2017	2016		
Contract revenue	\$ 318	\$ 109	\$ 209	192%
Operating expenses:				
Research and development	3,805	3,396	409	12%
General and administrative	2,391	2,425	(34)	(1)%
Total operating expenses	6,196	5,821	375	6%
Loss from operations	(5,878)	(5,712)	(166)	3%
Interest and other income	85	941	(856)	(91)%
Net loss	\$ (5,793)	\$ (4,771)	\$ (1,022)	21%

	Nine Months Ended September 30,		Change (\$)	Change (%)
	2017	2016		
Contract revenue	\$ 700	\$ 328	\$ 372	113%
Operating expenses:				
Research and development	9,286	8,443	843	10%
General and administrative	7,407	7,083	324	5%
Total operating expenses	16,693	15,526	1,167	8%
Loss from operations	(15,993)	(15,198)	(795)	5%
Interest and other income	185	2,003	(1,818)	(91)%
Net loss	\$ (15,808)	\$ (13,195)	\$ (2,613)	20%

Contract Revenue

Contract revenue was \$0.3 million and \$0.1 million during the three months ended September 30, 2017 and 2016, an increase of \$0.2 million, or 192%. The increase was due to the amortization of milestone payments received in 2017 from ISU Abxis under our collaboration agreement.

Contract revenue was \$0.7 million and \$0.3 million during the nine months ended September 30, 2017 and 2016, an increase of \$0.4 million, or 113%. The increase was due to the amortization of milestone payments received in 2017 from ISU Abxis under our collaboration agreement.

Research and Development Expenses

Research and development expenses were \$3.8 million and \$3.4 million during the three months ended September 30, 2017 and 2016, respectively, an increase of \$0.4 million, or 12%. The increase was due primarily to an increase of \$1.5 million related to manufacturing expenses for marzeptacog alfa (activated), partially offset by a decrease of \$1.0 million in personnel-related costs and a decrease of \$0.1 million in lab and facility costs, both in connection with the reduction in workforce.

Research and development expenses were \$9.3 million and \$8.4 million during the nine months ended September 30, 2017 and 2016, respectively, an increase of \$0.9 million, or 10%. The increase was due primarily to an increase of \$4.1 million related to manufacturing expenses for marzeptacog alfa (activated), partially offset by a decrease of \$2.2 million in personnel-related costs and a decrease of \$0.5 million in lab supply and facility costs both in connection with the reduction in workforce as well as a decrease of \$0.5 million in costs related to preclinical third-party research and development service contracts.

General and Administrative Expenses

General and administrative expenses was \$2.4 million during both the three months ended September 30, 2017 and 2016.

General and administrative expenses were \$7.4 million and \$7.1 million during the nine months ended September 30, 2017 and 2016, respectively, an increase of \$0.3 million, or 5%. The increase was due primarily to an increase of \$0.6 million in personnel-related costs as a result of increased headcount and stock-based compensation costs and \$0.1 million related to facility and other costs; partially offset by a decrease of \$0.4 million in professional service costs.

Interest and Other Income

Interest and other income was \$0.1 million and \$0.9 million during the three months ended September 30, 2017 and 2016, respectively, a decrease of \$0.8 million, or 91%. The decrease was due primarily to a \$0.8 million net gain recognized in 2016, related to the sale of assets in 2016.

Interest and other income was \$0.2 million and \$2.0 million during the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$1.8 million, or 91%. The decrease was due primarily to a \$1.0 million gain recognized in 2016, related to the change in fair value of the derivative liability in 2016 and \$0.8 million net gain recognized in 2016, related to the sale of assets in 2016.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new standard involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, accounting for forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. We adopted ASU 2016-09 in the first quarter of 2017 and this guidance did not have a material impact on our financial statements.

Accounting Pronouncements Not Yet Adopted

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. ASU 2016-08 is effective for fiscal years beginning after December 15, 2017 using a retrospective transition method to each period presented and early adoption is permitted. We will adopt ASU 2016-18 in the first quarter of 2018 and it will impact our cash flows from financing activities.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The standard provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization. The standard is intended to reduce current diversity in practice. ASU 2016-15 will be effective for the Company beginning in the first quarter of 2018, but early adoption is permitted, including adoption in an interim period. We do not believe this guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which replaces the existing guidance for leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 will be effective for the Company beginning in the first quarter of 2019, but early adoption is permitted. We are currently evaluating the impact of adopting the new lease standard on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Topic 825-10), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in the first quarter of 2018, and early adoption is not permitted. We do not believe this guidance will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and

Licensing; and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. We will adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”), beginning in the first quarter of 2018. The new revenue standards may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption. Given the Company’s current level of revenue, we do not expect a significant impact from the adoption of this new accounting guidance on our financial statements and footnote disclosures.

Liquidity and Capital Resources

As of September 30, 2017, we had \$27.5 million of cash, cash equivalents and short-term investments. We have an accumulated deficit of \$167.7 million as of September 30, 2017. Our primary uses of cash are to fund operating expenses, including research and development expenditures and general and administrative expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in its outstanding accounts payable and accrued expenses.

On March 16, 2016, we entered into a Capital on Demand™ Sales Agreement with JonesTrading. In accordance with the terms of the sales agreement, we were able to offer and sell shares of our common stock having an aggregate offering price up to \$6.5 million, subject to certain limitations, from time to time in one or more public offerings of our common stock, with JonesTrading acting as agent, in transactions pursuant to a shelf registration statement that was declared effective by the SEC on April 28, 2016. We sold 479,681 shares of common stock in the open market for net proceeds (net of commissions) of \$6.3 million through September 30, 2017, in the Capital on Demand™ program. As of September 30, 2017, we had no more common stock available for sale under the Controlled Equity Offering™ program.

On April 6, 2017, our registration statement on Form S-1 relating to an underwritten public offering of our common and preferred stock was declared effective by the SEC. On April 12, 2017, we issued and sold 1,470,000 shares of common stock at a price to the public of \$5.00 per share (including 540,000 shares of common stock sold pursuant to the exercise of the underwriters’ overallotment option), 13,350 shares of Series A Preferred Stock, convertible into 2,670,000 shares of common stock, at a price to the public of \$1,000.00 per unit and warrants to purchase 2,070,000 shares of common stock at an exercise price of \$5.50 per share (which includes 270,000 sold pursuant to the exercise of the underwriters’ overallotment option). The net proceeds to the Company, after deducting the underwriting discounts and commissions and offering expenses payable by us were approximately \$18.6 million.

We believe that our existing capital resources will be sufficient to meet our projected operating requirements for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. We plan to continue to fund losses from operations and capital funding needs through future equity and/or debt financings, as well as potential additional asset sales, licensing transactions, collaborations or strategic partnerships with other companies. The sale of additional equity or convertible debt could result in additional dilution to our stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations. Licensing transactions, collaborations or strategic partnerships may result in us relinquishing valuable rights. We can provide no assurance that financing will be available in the amounts we need or on terms acceptable to us, if at all. If we are not able to secure adequate additional funding we may be forced to delay, make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. Any of these actions could materially harm our business.

The following table summarizes our cash flows for the periods presented (*in thousands*):

	<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
Cash used in operating activities	\$ (13,623)	\$ (13,495)
Cash used in investing activities	(9,726)	(7,149)
Cash provided by financing activities	24,058	865
Net increase (decrease) in cash and cash equivalents	<u>\$ 709</u>	<u>\$ (19,779)</u>

Cash Flows from Operating Activities

Cash used in operating activities for the nine months ended September 30, 2017 was \$13.6 million, due primarily to a net loss of \$15.8 million, partially offset by the change in our net operating assets and liabilities of \$1.5 million due primarily to a \$0.6 million increase in accrued compensation and other accrued liabilities, \$0.6 million increase in accounts payable, \$0.2 million increase in deferred revenue due to the additional milestone fees from our collaborations and a \$0.1 million decrease in prepaid expenses. Non-cash charges of \$0.6 million were recorded for stock-based compensation and \$0.1 million for depreciation and amortization.

Cash used in operating activities for the nine months ended September 30, 2016 was \$13.5 million, due primarily to a net loss of \$13.2 million offset by non-cash gains. Non-cash gains of \$1.0 million were recorded related to the change in fair value of the derivative liability and \$0.1 million related to extinguishment of redeemable convertible notes, partially offset by non-cash charges of \$0.5 million for stock-based compensation and \$0.3 million for depreciation and amortization.

Cash Flows from Investing Activities

Cash used in investing activities for the nine months ended September 30, 2017 was \$9.7 million, due primarily to \$16.5 million in purchases of investments, partially offset by \$6.8 million in proceeds from maturities of investments.

Cash used in investing activities for the nine months ended September 30, 2016 was \$7.1 million, due primarily to \$13.4 million in purchases of investments and \$0.3 million related to the purchase of property and equipment, partially offset by proceeds from maturities of investments of \$6.6 million.

Cash flows from Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2017 was \$24.1 million, due primarily to \$18.6 million in net proceeds from the issuance of preferred stock, common stock and warrants related to our underwritten public offering in April 2017, \$5.3 million in net proceeds from issuance of common stock in Capital on Demand™ transactions, \$0.2 million in proceeds from the exercise of common stock warrants and the release of restricted cash of \$13.6 million related to the redemption of some of the redeemable convertible notes which was offset by payments of \$13.6 million related to the redemption of such notes.

Cash provided by financing activities for the nine months ended September 30, 2016 was \$0.9 million, due primarily to \$0.9 million in net proceeds from issuance of common stock in at-the-market transactions and the release of restricted cash of \$4.1 million related to the redemption of some of the redeemable convertible notes which was offset by payments of \$4.1 million related to the redemption of some of the redeemable convertible notes.

Contractual Obligations

The following table summarizes our fixed contractual obligations as of September 30, 2017 (*in thousands*):

	Payments due by period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Contractual Obligations:					
Operating lease obligations ⁽¹⁾	\$ 312	\$ —	\$ —	\$ —	\$ 312
CMC Manufacturing obligations ⁽²⁾	654	—	—	—	654
Total contractual obligations ⁽³⁾	\$ 966	\$ —	\$ —	\$ —	\$ 966

- (1) Represents future minimum lease payments under the non-cancelable lease for our headquarters in South San Francisco, California. The minimum lease payments above do not include any related common area maintenance charges or real estate taxes.
- (2) Represents future payments due under our development and manufacturing services agreement initial statement of work, subject to the completion of applicable work stages, which we expect to occur in less than one year.
- (3) We may be obligated to pay ISU Abxis up to \$2.0 million in potential milestone payments. As the achievement and timing of these milestones are uncertain and not estimable, such commitments have not been included in the contractual obligation disclosed above. We may be obligated to pay Pfizer certain milestone payments up to \$17.5 million. The achievement and timing of these milestones are uncertain and not estimable and have not been included in the contractual obligation disclosed above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Certain of our accounting policies that involve a higher degree of judgment and complexity are discussed in “*Part II - Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Estimates*” in the Annual Report. There have been no significant changes to these critical accounting estimates during the first nine months of 2017.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and interest rates. We are exposed to market risks in the ordinary course of our business. Our primary exposure to market risk is interest income sensitivity in our investment portfolio, although currently income generated from our investment portfolio is insignificant. Fixed rate securities and borrowings may have their fair market value adversely impacted due to fluctuations in interest rates, while floating rate securities may produce less income than expected if interest rates fall and floating rate borrowings may lead to additional interest expense if interest rates increase. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on the fair market value of our investment portfolio. As of September 30, 2017, we had cash and cash equivalents of \$27.5 million, which consisted of bank deposits and money market funds. The Notes we issued in August 2015 in connection with the Merger do not bear interest and thus a change in market interest rates would not have an impact on an interest expense related to these redeemable convertible notes. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified during the first nine months of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

Other than as described below, we have not identified any material changes to the risk factors previously disclosed in “*Part I - Item 1A - Risk Factors*” in the Company’s Annual Report. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below or in the Annual Report, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price.

You should carefully consider the risks and uncertainties disclosed as “Risk Factors” in our Annual Report and described below, together with all of the other information in this Report, including the section titled “*Part I - Financial Information - Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the condensed consolidated financial statements and related notes.

We will need additional capital. If we are unable to raise sufficient capital, we will be forced to delay, reduce or eliminate product development programs.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. We expect our research and development expenses to increase with our ongoing activities, particularly activities related to the continued clinical development of marzeptacog alfa (activated), including a clinical efficacy trial and, if Phase 1/2 clinical trials of CB 2679d/ISU304 are successful, an efficacy trial for that compound. Until we can generate sufficient revenue from our product candidates, if ever, we expect to finance future cash needs through public or private equity offerings, debt financings, corporate collaborations and/or licensing arrangements. Additional funds may not be available when we need them on terms that are acceptable, or at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our research or development programs.

We believe that our available cash will be sufficient to fund our operations for at least twelve months. However, we will need to raise substantial additional capital to complete the development and commercialization of marzeptacog alfa (activated), CB 2679d/ISU304, and depending on the availability of capital, may need to delay development of some of our product candidates.

Because successful development of our product candidates is uncertain, we are unable to estimate the actual funds required to complete research and development and commercialize our products under development. Our future funding requirements, both near and long-term, will depend on many factors, including, but not limited to:

- the initiation, progress, timing, costs and results of clinical trials for our product candidates in hemophilia, including marzeptacog alfa (activated) and CB 2679d/ISU304;
- the number and characteristics of product candidates that we pursue;
- the terms and timing of any future collaboration, licensing or other arrangements that we may establish;
- the outcome, timing and cost of regulatory approvals;
- the cost of obtaining, maintaining, defending and enforcing intellectual property rights, including patent rights;
- the effect of competing technological and market developments;
- the cost and timing of completing outsourced manufacturing activities;
- market acceptance of any product candidates for which we may receive regulatory approval;
- the cost of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval; and
- the extent to which we acquire, license or invest in businesses, products or technologies.

Raising additional funds by issuing securities or through licensing arrangements may cause dilution to stockholders, restrict our operations or require us to relinquish proprietary rights.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, stockholders will be diluted, and the terms of these new securities may include liquidation or other preferences that adversely affect the rights of common stockholders.

Debt financing, if available at all, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, product candidates or future revenue streams or grant licenses on terms that are not favorable to us. We may also seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. There can be no assurance that we will be able to obtain additional funding if, and when necessary. If we are unable to obtain adequate financing on a timely basis, we could be required to delay, curtail or eliminate one or more, or all, of our development programs or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

We depend on our collaborative relationship with ISU Abxis for the Phase 1/2 development of CB 2679d/ISU304.

We have a collaboration agreement with ISU Abxis for preclinical and Phase 1/2 development of an improved, next-generation Factor IX product, CB 2679d/ISU304. Under this agreement, ISU Abxis is responsible for manufacturing and conducting a Phase 1/2 clinical trial for this product candidate, and we depend on ISU Abxis to complete these activities.

Our ability to generate revenues from this arrangement will depend on the ability of ISU Abxis to successfully perform the functions assigned to it in this agreement, and accordingly, any failure by ISU Abxis to develop this product candidate could adversely affect our cash flows. Further, this collaboration agreement may not lead to development or commercialization of this product candidate in the most efficient manner or at all, and ISU Abxis has the right to abandon development projects and terminate applicable agreements, including funding obligations, prior to or upon the expiration of the agreed upon terms. We are subject to a number of risks associated with our dependence on ISU Abxis:

- We are not able to control any decisions by ISU Abxis regarding the amount and timing of resource expenditures for the Phase 1/2 development of CB 2679d/ISU304;
- ISU Abxis may manufacture insufficient amounts or quality of product for a clinical trial, or have difficulty transferring manufacturing of CB 2679d/ISU304 to a CMO if needed for future clinical trials, or may experience delays in either case;
- ISU Abxis may delay clinical trials or, provide insufficient funding for a clinical trial, stop a clinical trial or abandon products, repeat or conduct new clinical trials or require a new formulation of products for clinical testing;
- ISU Abxis may not perform its obligations as expected;
- Adverse regulatory determinations or other legal action may interfere with the ability of ISU Abxis to conduct clinical trials or other development activity;
- ISU Abxis may be subject to regulatory or legal action resulting from the failure to meet healthcare industry compliance requirements in the conduct of clinical trials or the promotion and sale of products;
- Our relationship with ISU Abxis could be adversely impacted by changes in their key management personnel and other personnel that are administering collaboration agreements;
- Geopolitical instability and any civil disruption in South Korea could adversely affect the conduct of business activities in South Korea, including that activities of ISU Abxis under our agreement; and
- The collaboration with ISU Abxis may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of CB 2679d/ISU304.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See Index to Exhibits at the end of this Report, which is incorporated by reference here. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this Report.

EXHIBIT INDEX

Exhibit Number	Description
10.1*	<u>Form of Incentive Stock Option Award Notice (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the SEC on July 14, 2017).</u>
10.2*	<u>Form of Non-qualified Stock Option Award Notice (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on July 14, 2017).</u>
10.3*	<u>Amended and Restated Employment Agreement, dated as of September 19, 2017, by and between Catalyst Biosciences, Inc. and Dr. Nassim Usman, Ph. D. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the SEC on September 22, 2017).</u>
10.4*	<u>Amended and Restated Employment Agreement, dated as of September 19, 2017, by and between Catalyst Biosciences, Inc. and Fletcher Payne (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the SEC on September 22, 2017).</u>
31.1	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016; (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 (unaudited); (iii) the Consolidated Statement of Stockholders' Equity as of September 30, 2017 (unaudited); (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited); and (v) the Notes to Unaudited Interim Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement

SIGNATURES

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

CATALYST BIOSCIENCES, INC.

Date: November 2, 2017

/s/ Nassim Usman, Ph.D.

Nassim Usman, Ph.D.

President and Chief Executive Officer

(Principal Executive Officer)

Date: November 2, 2017

/s/ Fletcher Payne

Fletcher Payne

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nassim Usman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Catalyst Biosciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Nassim Usman, Ph.D.

Nassim Usman, Ph.D.

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT
OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Fletcher Payne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Catalyst Biosciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Fletcher Payne
Fletcher Payne

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Catalyst Biosciences, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nassim Usman, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

/s/ Nassim Usman, Ph.D.

Nassim Usman, Ph.D.

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Catalyst Biosciences, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fletcher Payne, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

/s/ Fletcher Payne

Fletcher Payne

Chief Financial Officer

(Principal Financial and Accounting Officer)