AMBIT BIOSCIENCES CORP
Form 10-Q
August 12, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

o TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

From the transition period from to .

Commission File Number 001-35919

AMBIT BIOSCIENCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**33-0909648**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11080 Roselle St., San Diego, CA	**92121**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(858) 334-2100**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of July 31, 2014, there were 18,000,122 shares of common stock of the issuer outstanding.

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AMBIT BIOSCIENCES CORPORATIONS

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Ambit Biosciences Corporation

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2014 (unaudited)	December 31, 2013 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 52,802	$ 71,189
Accounts receivable		1,000
Prepaid expenses and other current assets	2,052	911
Total current assets	54,854	73,100
Property and equipment, net	795	785
Restricted cash	63	63
Total assets	$ 55,712	$ 73,948
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,098	$ 4,711
Accrued payroll and related expenses	1,545	1,997
Deferred revenue	88	
Warrant liabilities	6,867	9,650
Total current liabilities	13,598	16,358
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares outstanding at June 30, 2014 and December 31, 2013, respectively		
Common stock, $0.001 par value; 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 17,996,208 and 17,919,031 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	18	18
Additional paid-in capital	307,860	306,064
Accumulated other comprehensive loss	(314)	(326)
Accumulated deficit	(265,450)	(248,166)
Total stockholders equity	42,114	57,590
Total liabilities and stockholders equity	$ 55,712	$ 73,948

See accompanying notes.

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Ambit Biosciences Corporation

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
Revenues:				
Collaboration agreements	$ 26	$ 11,547	$ 58	$ 18,139
Operating expenses:				
Research and development	7,050	6,664	13,307	15,669
General and administrative	3,533	2,197	6,841	3,973
Total operating expenses	10,583	8,861	20,148	19,642
(Loss) income from operations	(10,557)	2,686	(20,090)	(1,503)
Other income (expense):				
Interest expense		(108)		(270)
Other income	16	5	24	12
Change in fair value of warrant and derivative liabilities	2,255	2,577	2,783	(1,380)
Total other income (expense), net	2,271	2,474	2,807	(1,638)
(Loss) income before income taxes	(8,286)	5,160	(17,283)	(3,141)
Provision for income tax			1	1
Consolidated net (loss) income	(8,286)	5,160	(17,284)	(3,142)
Net (income) loss attributable to redeemable non-controlling interest		(12)		61
Net (loss) income attributable to Ambit Biosciences Corporation	(8,286)	5,148	(17,284)	(3,081)
Other comprehensive income (loss):				
Foreign currency translation	167	3	12	(130)
Comprehensive (loss) income	$ (8,119)	$ 5,163	$ (17,272)	$ (3,272)
Net (loss) income per share attributable to common stockholders, basic	$ (0.46)	$ 0.45	$ (0.96)	$ (1.23)
Weighted average shares outstanding, basic	17,978,598	8,055,392	17,958,082	4,051,932
Net (loss) income per share attributable to common stockholders, diluted	$ (0.56)	$	$ (1.06)	$ (1.23)
Weighted average shares outstanding, diluted	18,963,707	9,751,585	18,950,226	4,051,932

See accompanying notes.

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Ambit Biosciences Corporation

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30,	
	2014	**2013**
	(unaudited)	
Operating activities		
Consolidated net loss	$ (17,284)	$ (3,142)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	155	219
Change in fair value of stock warrant and derivative liabilities	(2,783)	1,380
Noncash interest expense		92
Stock-based compensation	1,653	819
Gain on disposal of property and equipment		(11)
Deferred revenue	88	(13,724)
Changes in operating assets and liabilities:		
Accounts receivable	1,000	
Prepaid expenses and other current assets	(1,141)	296
Accounts payable and accrued expenses	367	(1,335)
Accrued payroll and related expenses	(452)	10
Net cash used in operating activities	(18,397)	(15,396)
Investing activities		
Proceeds from sale of property and equipment		18
Purchase of property and equipment	(146)	(465)
Restricted cash		(63)
Net cash used in investing activities	(146)	(510)
Financing activities		
Proceeds from issuance of common stock	143	83,709
Proceeds from issuance of put shares		2,725
Payments on notes payable		(2,593)
Net cash provided by financing activities	143	83,841
Effect of exchange rate changes on cash	13	(131)
Net change in cash and cash equivalents	(18,387)	67,804
Cash and cash equivalents at beginning of the period	71,189	17,481
Cash and cash equivalents at end of the period	$ 52,802	$ 85,285
Supplemental disclosures of noncash investing and financing information		
Conversion of redeemable non-controlling interest to common stock	$	$ 4,241
Conversion of preferred warrant liability to equity	$	$ 4,689
Conversion of preferred stock to common stock	$	$ 174,409
Supplemental disclosures of cash flow information		
Interest paid	$	$ 205
Taxes paid	$ 1	$ 1
Purchases of property and equipment included in accounts payable and accrued expenses at period end	$ 19	$

See accompanying notes.

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Ambit Biosciences Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Ambit Biosciences Corporation (Ambit or the Company), formerly Aventa Biosciences Corporation, was incorporated in Delaware on May 17, 2000 and is located in San Diego, California. Ambit is a biopharmaceutical company focused on the discovery, development and commercialization of drugs to treat unmet medical needs in oncology, autoimmune and inflammatory diseases by inhibiting kinases that are important drivers for those diseases.

Initial Public Offering and Concurrent Private Placement

The Company closed its initial public offering (the IPO) in May 2013, selling 8,125,000 shares of common stock at a price of $8.00 per share, resulting in gross proceeds of approximately $65.0 million and net proceeds of approximately $58.1 million, after underwriting and other expenses of approximately $6.9 million (consisting of $4.6 million in underwriting discounts and commissions and $2.3 million in other offering expenses). In connection with the completion of the IPO, all outstanding convertible preferred stock converted into 6,449,073 shares of common stock.

Concurrent with the IPO, the Company sold 3,134,495 shares of common stock to certain of the Company s existing stockholders in a concurrent private placement at the IPO price of $8.00 per share and received net proceeds of approximately $25.1 million.

Effective upon the closing of the IPO, 1,845,329 shares of common stock were reserved for future issuance under the Company s 2013 Equity Incentive Plan, including 1,214,212 shares of common stock reserved for issuance upon the exercise of outstanding options issued under the Company s 2011 Amended and Restated Equity Incentive Plan and 6,117 shares of common stock previously reserved for issuance under the Company s 2011 Amended and Restated Equity Incentive Plan, in each case that were added to the shares reserved under the 2013 Equity Incentive Plan upon its effectiveness.

Effective upon the closing of the Company s IPO, 125,000 shares of common stock were reserved for future issuance under the Company s 2013 Employee Stock Purchase Plan.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Ambit Europe Limited (Ambit Europe), and its controlled subsidiary, Ambit Biosciences (Canada) Corporation (Ambit Canada), which became a wholly-owned subsidiary upon the Company s IPO in May 2013. (*See Note 2 for further discussion on Ambit Canada*). All intercompany transactions and balances are eliminated in consolidation. Ambit Europe was incorporated in England in June 2008. As of June 30, 2014, there have been no significant transactions related to Ambit Europe. Ambit Canada was formed in Canada in December 2004.

Consolidation of Ambit Canada s results included the following (in thousands):

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Research and development expense	$ (7)	$ (126)
Interest expense	36	42
Net income (loss) of Ambit Canada	$ 29	$ (84)

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Income (loss) of Ambit Canada was allocated to the redeemable non-controlling interest based on the relative ownership of Ambit Canada. As of March 31, 2013, the last quarter prior to Ambit Canada becoming a wholly owned subsidiary, the Company had a redeemable non-controlling interest held at 64% of the outstanding shares of Ambit Canada.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited interim financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and following the requirements of the United States Securities and Exchange Commission (SEC) for interim reporting on Form 10-Q. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP in annual financial statements can be condensed or omitted. In management s opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company s financial position and its results of operations and comprehensive income (loss) and its cash flows for the periods presented. These statements do not include all disclosures required by GAAP and should be read in conjunction with the Company s audited financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2013, from which the balance sheet information herein was derived. The results for interim periods are not necessarily indicative of the results expected for the full fiscal year or any other interim period.

Foreign Currency Translation and Transactions

The accompanying condensed consolidated financial statements are presented in U.S. dollars. The financial statements of Ambit Canada are measured using the local currency as the functional currency. The translation of Ambit Canada s assets and liabilities to U.S. dollars is made at the exchange rate in effect at the balance sheet date, while the financing-related accounts are translated at the rate in effect at the date of the underlying transaction. Equity accounts, including retained earnings, are translated at historical rates. The translation of statement of comprehensive income (loss) data is made at the average rate in effect for the period. The translation of operating cash flow data is made at the average rate in effect for the period, and investing and financing cash flow data is translated at the rate in effect at the date of the underlying transaction. Translation gains and losses are recognized within accumulated other comprehensive income (loss) in the accompanying condensed consolidated balance sheets. Transactions expected to be settled in a currency other than the functional currency are remeasured to current exchange rates each period until such transaction is settled. The resulting gain or loss is included in other income (expense) in the accompanying condensed consolidated statements of comprehensive income (loss). There were no material transaction gains or losses during any period presented in the financial statements.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make informed estimates and assumptions that impact the amounts reported in the consolidated financial statements and accompanying notes. The most significant estimates in the Company s condensed consolidated financial statements relate to the fair value of the common and preferred stock warrant liabilities, redeemable non-controlling interest, clinical trial accruals and stock-based compensation. In addition, there is a significant amount of judgment used in the area of revenue recognition. Although these estimates and assumptions are based on the Company s knowledge of current events and actions it may undertake in the future, actual results could differ materially from those estimates and assumptions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments, which include money market funds that are readily convertible into cash without prior notice or penalty. The Company considers securities with remaining maturities of three months or less, at the date of purchase, to be cash equivalents. Cash and cash equivalents are recorded at face value or cost, which approximates fair market value.

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Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts payable and accrued liabilities are considered to be reasonable estimates of their respective fair values because of the short-term nature of those instruments. The carrying amount of the warrant liabilities represents its fair value.

Warrant Liabilities

Prior to the Company s IPO, warrants exercisable for shares of Series C, Series D and Series D-2 redeemable convertible preferred stock were classified as liabilities in the accompanying condensed consolidated balance sheets, as the terms for redemption of the underlying securities were outside the Company s control. The Company s outstanding common stock warrants issued in connection with its Series E financing in 2012 are classified as liabilities in the accompanying condensed consolidated balance sheets as they contain provisions that could require the Company to settle the warrants in cash. The warrants were recorded at fair value using either the Black-Scholes option pricing model, probability weighted expected return model or a binomial model, depending on the characteristics of the warrants. The fair value of these warrants is re-measured at each financial reporting period with any changes in fair value being recognized as a component of other income (expense) in the accompanying condensed consolidated statements of comprehensive income (loss).

Upon the closing of the IPO and the conversion of the underlying preferred stock to common stock, the Company s warrants to purchase shares of Series C, Series D, and Series D-2 redeemable convertible preferred stock were converted into warrants to purchase shares of the Company s common stock. The aggregate fair value of these warrants upon the closing of the IPO was $4.7 million, which was reclassified from liabilities to additional paid-in capital in the accompanying condensed consolidated balance sheets.

Revenue Recognition

The Company generates and recognizes revenue from collaboration agreements. Some of the Company s agreements contain multiple elements, including technological and territorial licenses and research and development services. In accordance with these agreements, the Company may be eligible for upfront fees, collaborative research funding and milestones. Revenues are recognized when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. Additional information on each type of revenue is outlined below.

Collaboration agreements

Each required deliverable in a collaboration agreement is evaluated to determine if it qualifies as a separate unit of accounting. For the Company this determination is generally based on whether the deliverable has stand-alone value to the customer. The arrangement s consideration is then allocated to each separate unit of accounting based on the relative selling price of each deliverable. The estimated selling price of each deliverable is determined using the following hierarchy of values: (i) vendor-specific objective evidence of fair value; (ii) third-party evidence of selling price; and (iii) best estimate of selling price (BESP). The BESP reflects the Company s best estimate of what the selling price would be if the deliverable was regularly sold by the Company on a stand-alone basis. The Company expects, in general, to use the BESP for allocating

consideration to each deliverable. In general, the consideration allocated to each unit of accounting is then recognized as the related goods or services are delivered limited to the consideration that is not contingent upon future deliverables.

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The Company has recognized the following revenue from collaboration agreements (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Upfront licensing fees	$	$ 9,872	$	$ 13,724
Collaborative research activities	26	1,675	58	4,415
Total revenue from collaboration agreements	$ 26	$ 11,547	$ 58	$ 18,139

Clinical Trial Accruals

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

Stock-Based Compensation

2013 Equity Incentive Plan

During 2013, the Board of Directors (the Board) of the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The 2013 Plan was approved by the Company s stockholders in May 2013, and became effective upon the IPO in May 2013. On May 15, 2014, the 2013 Plan was amended and restated to, among other things, provide for an increase in the number of shares of common stock that may be issued under the 2013 Plan (the 2013 Amended Plan) of 1,000,000 shares for a total number of shares of common stock reserved for issuance under the 2013 Amended Plan of an aggregate of the sum of 2,845,329 shares, plus certain annual automatic increases. Additionally, the adoption of the 2013 Amended Plan re-started the ten year period during which the Company may grant incentive stock options under the 2013 Amended Plan and constituted approval of terms and conditions set forth therein that permit the Company to grant stock options and performance-based stock and cash awards under the 2013 Amended Plan that may continue to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code. The 2013 Amended Plan was approved by the Company s stockholders during the Company s Annual Stockholders Meeting on May 15, 2014.

The 2013 Amended Plan provides that an additional number of shares will automatically be added annually to the shares authorized for issuance under the 2013 Plan on January 1 of each calendar year, beginning from January 1, 2014 through January 1, 2023. The number of shares added each year will be equal to either: (a) 4.0% of the total number of shares of capital stock outstanding on December 31 of the preceding calendar year; or (b) a number of shares of Common Stock that may be determined each year by the Board that is less than the preceding clause (a). Pursuant to this provision, 716,761 additional shares of the Company s common stock, which was 4.0% of the total number of shares of capital stock outstanding on December 31, 2013, were reserved for issuance under the 2013 Plan on January 1, 2014.

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2014 Long Term Incentive Plan

In April 2014, the Compensation Committee and Board approved a long-term incentive program under the 2013 Plan (the LTIP) that provides for the grant of restricted stock unit awards (the RSUs) under the 2013 Plan to employees and directors designated by the Board of Directors or the Compensation Committee. Under the LTIP, the Company granted RSUs to its executive officers during the quarter ended June 30, 2014. The RSUs will commence vesting only upon meeting specific performance goals consisting of three designated price thresholds for its common stock, as reported on Nasdaq or as consideration for its common stock in a Change of Control (as defined in the 2013 Amended Plan). Specifically, one-third of each RSU commences vesting upon meeting each of the three price thresholds. Each performance goal must occur on or before December 31, 2017 or the RSUs (or portions thereof that have not commenced vesting due to any performance goal or goals that were not met) will terminate. If a performance goal is met, the applicable portion of the RSU that commences vesting will vest annually over a three-year period, subject to the recipient continuing in service with the Company through each vesting date, and accelerate in full upon a Change of Control.

Employee Stock Purchase Plan

During 2013, the Company adopted the 2013 Employee Stock Purchase Plan (the ESPP), which allows all eligible employees to purchase shares of the Company s common stock at the lower of (a) 85% of the fair market value of a share of the Company s common stock on the first date of a six-month offering and purchase period or (b) 85% of the fair market value of a shares of the Company s common stock on the date of purchase. Employees may authorize the Company to withhold up to 15% of their compensation during any purchase period, subject to certain limitations.

The 2013 ESPP Plan provides that an additional number of shares will automatically be added annually to the shares authorized for issuance under the 2013 ESPP on January 1 of each calendar year, beginning from January 1, 2014 through January 1, 2023. The number of shares of Common Stock added each year will be equal to the least of: (a) 1.0% of the total number of share of capital stock outstanding on December 31 of the preceding calendar year; (b) 166,666 shares of Common Stock; or (c) a number of shares of Common Stock that may be determined each year by the Board that is less than the preceding clauses (a) and (b). Pursuant to this provision, 166,666 additional shares of the Company s common stock were reserved for issuance under the 2013 ESPP Plan on January 1, 2014.

At June 30, 2014, 41,729 shares of common stock have been issued under the ESPP at an average price of $6.12 per share.

Stock-Based Compensation

Stock-based compensation expense represents the cost of the grant date fair value of employee stock option grants recognized over the requisite service period of the awards (usually the vesting period) on a straight-line basis, net of estimated forfeitures. For stock option grants with performance-based milestones, the expense is recorded over the remaining service period after the point when the achievement of the milestone is probable or the performance condition has been achieved. The Company determines the value of stock option compensation using the Black-Scholes option pricing model.

Stock-based compensation expense for restricted stock unit grants represents the cost of the grant date fair value recognized over the derived service period of the grant on a straight-line basis, net of expected forfeitures. The Company determines the value of restricted stock unit compensation employing a lattice model using the Monte Carlo simulation.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Research and development	$ 276	$ 124	$ 528	$ 235
General and administrative	585	297	1,125	584
	$ 861	$ 421	$ 1,653	$ 819

As of June 30, 2014, total unrecognized stock-based compensation costs related to non-vested stock options was approximately $7.6 million and the weighted-average period over which it is expected to be recognized is approximately 2.8 years. As of June 30, 2014, total unrecognized stock-based compensation expense related to non-vested restricted stock unit grants was approximately $620,000 and the weighted average period over which it is expected to be recognized is 3.7 years.

Net Income (Loss) Per Share Attributable to Common Stockholders

Prior to the IPO, the Company had common stock and participating preferred stock outstanding. The Company applies the two-class method for calculating net income (loss) per share since it had issued securities, other than common stock, that contractually entitle the holder to participate in dividends and earnings of the Company. Effective upon the Company s IPO, the outstanding participating preferred stock was converted into shares of common stock.

Basic earnings per common share is calculated by dividing net earnings (loss) available to common stock holders by the weighted average number of shares outstanding, without consideration for common stock equivalents. All undistributed earnings are allocated first to the preferred stockholders based on their contractual right to dividends. This right is calculated on a prorated basis for the portion of the period the preferred shares were outstanding. Any remaining undistributed earnings are allocated between preferred and common stock on a weighted average basis.

For periods in which participating preferred shares are outstanding, the Company uses the two-class method to calculate diluted earnings per share. This calculation does not assume that preferred shares are converted into common shares. If an instrument is determined to be dilutive, both the numerator and the denominator are adjusted for its impact. For the three and six months ended June 30, 2014, the Company s liability-accounted warrants were determined to be dilutive. For the three months ended June 30, 2013, the Company s redeemable non-controlling interest, warrants to purchase preferred shares and warrants to purchase common shares were determined to be dilutive. The undistributed earnings after the adjustment for the effect of the dilutive securities is allocated first to the preferred stockholders based on their contractual right to dividends. This right was calculated on a prorated basis for the portion of the period the preferred shares were outstanding. Any remaining undistributed earnings are allocated between preferred and common stock on a weighted average basis. In all periods presented, the Company s outstanding stock options and unvested restricted stock unit grants were excluded from the calculation of earnings (loss) per share because the effect would be antidilutive.

For periods in which the Company has a net loss and no instruments are determined to be dilutive, such as for the six months ended June 30, 2013, basic and diluted earnings per share are the same. Consequently, diluted earnings per share for these periods are not presented separately in the table below.

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The computation for basic and diluted earnings per share (EPS) was as follows (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator for basic income (loss) per share:				
(Loss) income attributable to Ambit Biosciences Corporation	$ (8,286)	$ 5,148	$ (17,284)	$ (3,081)
Accretion to redemption value of redeemable convertible preferred stock		(1,315)		(3,634)
Change in fair value of redeemable non-controlling interest		3,246		1,747
Net income allocated to participating preferred stockholders		(3,457)		
Net (loss) income available to common stockholders	$ (8,286)	$ 3,622	$ (17,284)	$ (4,968)
Numerator for diluted loss per share:				
(Loss) income attributable to Ambit Biosciences Corporation	$ (8,286)	$ 5,148	$ (17,284)	
Accretion to redemption value of redeemable convertible preferred stock		(1,315)		
Net income allocated to redeemable non-controlling interest		12		
Change in fair value of warrants for purchase of convertible preferred stock		(743)		
Change in fair value of warrants for purchase of common stock	(2,254)	(1,748)	(2,783)	
Net income allocated to participating preferred stockholders		(1,354)		
Net (loss) income available to common stockholders	$ (10,540)	$	$ (20,067)	
Denominator for basic and diluted income (loss) per share:				
Weighted average shares for basic EPS	17,978,598	8,055,392	17,958,082	4,051,932
Weighted average effect of dilutive securities	985,109	1,696,193	992,144	
Weighted average shares for diluted EPS	18,963,707	9,751,585	18,950,226	
Basic EPS	$ (0.46)	$ 0.45	$ (0.96)	$ (1.23)
Diluted EPS	$ (0.56)	$	$ (1.06)	$ (1.23)

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Potentially dilutive securities not included in the calculation of diluted net income (loss) per share attributable to common stockholders because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Warrants for common stock	549,462		549,462	1,635,283
Common stock options	2,253,173	1,264,086	2,253,173	1,264,086
Unvested restricted stock units	578,824		578,824	
	3,381,459	1,264,086	3,381,459	2,899,369

Adoption of New Accounting Standards

On January 1, 2014, the Company adopted the provisions of Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 amends Accounting Standards Codification 740, Income Taxes, to require that in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. The adoption of ASU 2013-11 did not have a significant impact on the Company s condensed consolidated financial statements.

Recently Issued Accounting Standards

In May 2014, the FASB and the International Accounting Standards Board (IASB) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under US GAAP and International Financial Reporting Standards (IFRS). The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016. The Company is currently assessing the effect of the adoption of this standard.

2. Ambit Canada

Ambit Canada was incorporated on December 29, 2004. Through a series of debt and equity financing transactions between the Company, GrowthWorks Canadian Fund Ltd. (GrowthWorks), a Canadian investor and predecessor Canadian investor, and Ambit Canada, the Company acquired and held between 36% and 50% of Ambit Canada s total outstanding shares and at least 50% of the outstanding voting shares of Ambit Canada since its inception through the IPO in May 2013.

Prior to the IPO, GrowthWorks held Class C, Series D-1, Series D-2 and Series E shares of Ambit Canada. These shares were subject to put options whereby GrowthWorks could exchange its non-voting shares in Ambit Canada for shares of the Company s redeemable convertible preferred stock. Immediately prior to the IPO, GrowthWorks exercised their put options and exchanged their shares of Ambit Canada for 1,538,461 shares of the Company s Series C-2 redeemable convertible preferred stock, 612,649 shares of the Company s Series D redeemable convertible preferred stock, 3,666,169 shares of the Company s Series D-2 redeemable convertible preferred stock and 6,163,916 shares of the Company s Series E redeemable convertible preferred stock, all of which shares were converted to common stock upon the IPO.

The redeemable non-controlling interest was initially valued using the fair value of the Company s Series C-2, Series D, Series D-2 and Series E redeemable convertible preferred stock. At each reporting period, the Company adjusted the carrying value of the redeemable non-controlling interest by the net income (loss) attributable to the redeemable non-controlling interest. Any difference between the fair value and the adjusted carrying value of the redeemable non-controlling interest was recorded as an adjustment to additional paid-in capital and presented as a component of net loss attributable to common stockholders in the accompanying condensed consolidated statements of comprehensive income (loss). The redeemable non-controlling interest was measured at fair value until the IPO, at which time no Class C-2, Series D, Series D-2 or Class E shares of Ambit Canada were held by GrowthWorks or any other third party. The redeemable non-controlling interest was reclassified to additional paid-in capital.

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3. Fair Value Measurements

The following tables present information about the Company s financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. The Company classifies money market funds and United States Treasuries as Level 1 assets.

Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The Company obtains the fair value of Level 2 financial instruments from a third-party professional pricing service using quoted market prices for identical or comparable instruments. The Company s professional pricing service gathers market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources. The service uses these multiple prices as inputs into a distribution-curve based algorithm to determine a fair value. The Company then validates the quoted fair values provided by the professional pricing service by comparing the service s assessment of the fair values of the Company s Level 2 investment portfolio balance against the fair values of the Company s Level 2 investment portfolio balance provided by the Company s investment managers. The Company classifies United States government agency securities as Level 2 assets. There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014 or 2013. The Company currently does not hold any government agency securities.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Financial assets and liabilities that are measured or disclosed at fair value on a recurring basis, and are classified within the Level 3 designation include the preferred stock and common stock warrant liabilities and the redeemable non-controlling interest. None of the Company s non-financial assets and liabilities are recorded at fair value on a non-recurring basis.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following table presents our fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013 (in thousands):

	Fair Value as of June 30, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 47,848	$ 47,848	$	$
Liabilities:				
Common stock warrants	$ 6,867	$	$	$ 6,867

	Fair Value as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 66,323	$ 66,323	$	$
Liabilities:				
Common stock warrants	$ 9,650	$	$	$ 9,650

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The common stock warrant liabilities are recorded at fair value using the Black-Scholes option pricing model. The following weighted-average assumptions were used in determining the fair value of the common stock warrant liabilities valued using the Black-Scholes option pricing model as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Risk-free interest rate	2.4%	2.6%
Expected dividend yield	0.0%	0.0%
Expected volatility	66.3%	62.9%
Expected term in years	8.3	8.8

The following table is a reconciliation for all liabilities measured at fair value using Level 3 unobservable inputs (in thousands):

	Common Warrant Liabilities
Balance at December 31, 2013	$ 9,650
Change in fair value	(2,783)
Balance at June 30, 2014	$ 6,867

Of the inputs used to value the outstanding common stock warrant liabilities at June 30, 2014, the most subjective input is the Company s estimate of expected volatility. If volatility were increased to 80%, the weighted average fair market value of the outstanding common stock warrants outstanding would increase 0.4%.

4. Warrants and Warrant Liabilities

The Company s outstanding warrant liabilities consisted of the following (in thousands, except share and per share data):

Issue Date	Expiration Date	Series	Exercise Price per Share	June 30, 2014 Shares Issuable upon Exercise		Fair Value
October 2012	October 2022	Common	0.24	1,017,227	$	6,848
November 2012	October 2022	Common	0.24	2,787		19
				1,020,014	$	6,867

The Company s outstanding common stock warrants issued in connection with its Series E financing in 2012 are classified as liabilities in the accompanying condensed consolidated balance sheets as they contain provisions that could require the Company to settle the warrants in cash. The warrants were recorded at fair value using either the Black-Scholes option pricing model, probability weighted expected return model or a binomial model, depending on the characteristics of the warrants. The fair value of these warrants is re-measured at each financial reporting period with any changes in fair value being recognized as a component of other income (expense) in the accompanying condensed consolidated

statements of comprehensive loss.

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The following table summarizes the warrants outstanding for purchase of common stock as of June 30, 2014 (excluding the warrants above that require liability accounting):

Shares Issuable Upon Exercise		Exercise Price	Expiration Date
14,409	$	103.20	July 2014 - September 2017
218		54.99	August 2016
72,970		21.84	June 2019 - July 2019
78		2,184.00	July 2019
85,714		16.80	March 2020
20,690		36.96	September 2020
39		3,696.00	September 2020
355,344		0.02	May 2021
549,462			

5. Collaboration Agreements

Astellas Pharma Inc. and Astellas US LLC

In December 2009, the Company entered into an agreement with Astellas Pharma Inc. and Astellas US LLC (collectively Astellas) to jointly, research, develop and commercialize certain FLT3 kinase inhibitors in oncology and non-oncology indications. Under the agreement, the Company granted Astellas an exclusive, worldwide license, with limited rights to sublicense, develop, commercialize and otherwise exploit quizartinib and certain metabolites and derivatives of those compounds. In addition, the agreement provides that the Company and Astellas would conduct a five-year joint research program related to preclinical development of certain designated follow-on compounds to quizartinib. Astellas had sole ownership of all regulatory materials and approvals related to the compounds in exchange for certain payments described below and their commitment to jointly develop, and then commercialize and promote, products based on the licensed technology.

On March 7, 2013 Astellas exercised the right to terminate the agreement, effective September 3, 2013. Through September 3, 2013 Astellas and the Company continued to share agreed-upon development costs equally. Subsequent to September 3, 2013, the Company became solely responsible for development costs associated with quizartinib.

Astellas was obligated to reimburse the Company for half of certain agreed-upon costs in connection with the transition of Astellas development activities to the Company.

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

The following discussion and analysis should be read in conjunction with Ambit Biosciences Corporation s (we or our) financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto for the fiscal year ended December 31, 2013 and the related Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements, which represent our intent, belief, or current expectations, involve risks and uncertainties. We use words such as may, will, expect, anticipate, estimate, intend, plan, predict, potential, believe, should and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Such statements may include, but are not limited to, statements concerning: (i) the initiation, cost, timing, progress and results of our research and development activities, preclinical studies and future clinical trials, including our expected timeline for nominating clinical development candidates under our strategic alliances and our expected timeline for filing applications with regulatory authorities;(ii) our ability to obtain and maintain regulatory approval of our future product candidates, and any related restrictions, limitations, and/or warnings in the label of an approved product candidate; (iii) our ability to obtain funding for our operations; (iv) our plans to research, develop and commercialize our future product candidates; (v) our ability to attract collaborators with development, regulatory and commercialization expertise; (vi) our ability to obtain and maintain intellectual property protection for our future product candidates; (vii) the size and growth potential of the markets for our future product candidates, and our ability to serve those markets; (viii) our ability to successfully commercialize our future product candidates; (ix)the rate and degree of market acceptance of our product candidates; (x) our ability to develop sales and marketing capabilities, whether alone or with potential future collaborators; (xi) regulatory developments in the United States and foreign countries; and (xii) the performance of our third-party suppliers and manufacturers. Although we believe the expectations reflected in these forward-looking statements are reasonable, such statements are inherently subject to risk and we can give no assurances that our expectations will prove to be correct. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. As a result of many factors, including without limitation those set forth under Risk Factors under Item 1A of Part II below, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

Overview

We are a biopharmaceutical company focused on the discovery, development and commercialization of drugs to treat unmet medical needs in oncology, autoimmune and inflammatory diseases by inhibiting kinases that are important drivers for those diseases. Our pipeline currently includes three programs, each discovered internally and each aimed at the inhibition of validated kinase targets. Our lead drug candidate, quizartinib, is a once-daily, orally-administered FMS-like tyrosine kinase 3, or FLT3, kinase inhibitor. We initiated a Phase 3 clinical trial of quizartinib in April 2014 in patients with acute myeloid leukemia, or AML, who express a genetic mutation in FLT3 (referred to by us as FLT3-ITD positive) who are refractory to or relapsed after first-line treatment with or without hematopoietic stem cell transplantation, or HSCT, consolidation. We plan to enroll approximately 326 patients who will be randomized 2:1 to quizartinib monotherapy or salvage chemotherapy and a single interim analysis is planned. Our second drug candidate in clinical development, AC410, is a potent, selective, orally-administered, small molecule inhibitor of Janus kinase 2, or JAK2, that has potential utility for the treatment of autoimmune and inflammatory diseases. Our third program consists of a potent and exquisitely selective small molecule compound, AC708, which inhibits the colony-stimulating factor-1

receptor, or CSF1R, a receptor tyrosine kinase. This compound is in preclinical studies and has potential utility in oncology, autoimmune and inflammatory diseases. All of our drug candidates and clinical candidates have been internally discovered by us.

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We have no products approved for sale, we have not generated any revenues from product sales and we have incurred significant operating losses since our inception. We have generated revenues from upfront payments and reimbursements associated with our collaboration agreements and from our former kinase profiling services business. We have never been profitable and have incurred consolidated net losses of approximately $17.3 million for the six months ended June 30, 2014. As of June 30, 2014, we had an accumulated deficit of $265.5 million. We expect to continue to incur significant operating losses and negative cash flows from operating activities for the foreseeable future as we continue the clinical development of quizartinib, seek regulatory approval for and, if approved, pursue eventual commercialization of quizartinib, and advance our other drug candidates through preclinical studies and clinical trials.

We conduct our activities through Ambit Biosciences Corporation, a Delaware corporation, from our primary facility in San Diego, California. Additionally, as of June 30, 2014, we have a wholly-owned subsidiary, Ambit Canada, which in the past conducted limited research and development activities in Toronto. We also have a wholly-owned subsidiary, Ambit Europe Limited, located in the United Kingdom, which has limited operations related to regulatory filings in the European Union. The following information is presented on a consolidated basis to include the accounts of these subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Financial Overview

Revenues

We have generated revenues from upfront, milestone and collaborative research activity payments received under our collaboration agreements. Reimbursements paid to us from Astellas for 50% of the eligible research and development costs incurred by us under our collaboration agreement have been recorded as revenue. Any amounts due to Astellas for our share of costs incurred by Astellas have been recorded as research and development costs.

We currently have no products approved for sale, and we have not generated any revenues from product sales or product royalties and do not expect to receive any revenues from any drug candidates unless and until they obtain regulatory approval. To date, we have not submitted any drug candidate for regulatory approval. In the future, we may generate revenues from a combination of upfront licensing fees, additional milestone payments, reimbursements, and royalties in connection with our existing and any future collaborations, as well as product sales for any approved products. However, other than potential milestone payments from Teva Pharmaceutical Industries Ltd., or Teva, we do not expect to receive revenues unless and until we receive approval for quizartinib or potentially enter into additional collaboration agreements for quizartinib or our other drug candidates. If we fail to achieve clinical success in the development of quizartinib in a timely manner and/or obtain regulatory approval for this drug candidate, our ability to generate future revenues would be materially adversely affected.

Research and Development Expenses

The majority of our operating expenses to date have been incurred in research and development activities. Research and development expenses relate primarily to the discovery and development of our drug candidates. Our business model is dependent upon our continuing to conduct a significant amount of research and development. To date, quizartinib represents the largest portion of our research and development expense. From the date of our agreement with Astellas and through the effective date of the termination, we shared equally in any agreed-upon research and development costs for quizartinib and any follow-on compounds in the United States and European Union and Astellas was solely

responsible for development costs outside of the United States and European Union. Following the effective date of the termination, we are responsible for all world-wide development costs for quizartinib and any follow-on compounds, other than certain agreed upon transition costs, which are shared with Astellas. Our research and development expenses consist primarily of:

- expenses incurred under agreements with contract research organizations, or CROs, investigative sites and consultants that conduct our clinical trials and a substantial portion of our preclinical studies;

- employee-related expenses, which include salaries and benefits;

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- the cost of developing our chemistry, manufacturing and controls capabilities, or CMC, and acquiring clinical trial materials;

- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and equipment, and depreciation of fixed assets;

- stock-based compensation expense to employees and consultants; and

- costs associated with other research activities and regulatory approvals.

Research and development costs are expensed as incurred.

The following table indicates our research and development expense by project/category for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Total January 1, 2007 through June 30,
	2014	2013	2014	2013	2014
Quizartinib	$ 5,105	$ 4,895	$ 9,160	$ 11,887	$ 132,774
AC410 /AC430	256	12	306	50	16,069
CSF1R	388	522	1,294	873	15,216
Discovery projects	538	556	1,009	1,228	61,829
R&D administration	763	679	1,538	1,631	18,036
Total	$ 7,050	$ 6,664	$ 13,307	$ 15,669	$ 243,924

Prior to 2007, we did not track research and development costs by project/category.

At this time, due to the inherently unpredictable nature of preclinical and clinical development and given the early stage of our clinical and preclinical programs, we are unable to estimate with any certainty the costs we will incur in the continued development of quizartinib and our other clinical and preclinical programs. Clinical development timelines, the probability of success and development costs can differ materially from expectations. While we are currently focused on advancing quizartinib, our future research and development expenses will depend on the preclinical and clinical success of each drug candidate that we develop, as well as ongoing assessments of the commercial potential of such drug candidates. In addition, we cannot forecast with any degree of certainty which drug candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

Research and development expenditures will continue to be significant and will increase as we continue development of quizartinib and advance the development of our proprietary pipeline of novel drug candidates over at least the next several years. We expect to incur significant research and development costs as we complete the ongoing clinical trials of quizartinib, conduct our Phase 3 clinical trial in relapsed/refractory FLT3-ITD positive AML patients, which we initiated in April 2014, subject to receiving input from regulatory authorities, and prepare regulatory submissions.

The costs of clinical trials may vary significantly over the life of a project owing to factors that include but are not limited to the following:

- per patient trial costs;
- the number of patients that participate in the trials;
- the number of sites included in the trials;

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- the countries in which the trial is conducted;
- the length of time required to enroll eligible patients;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up; and
- the efficacy and safety profile of the drug candidate.

We do not expect quizartinib to be commercially available, if at all, for at least the next several years. We base our expenses related to clinical trials on estimates which are based on our experience and estimates provided by CROs and other third parties.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, business development, marketing, and legal functions. Other general and administrative expenses include facility costs, patent filing costs, and professional fees for legal, consulting, auditing and tax services.

We anticipate that our general and administrative expenses will continue to be significant and will increase as a result of being a public company and associated increased payroll, expanded infrastructure and higher consulting, legal, accounting and investor relations costs, and director and officer insurance premiums.

In addition, we expect to incur increased expenses associated with building a sales and marketing team. We expect to start incurring such expenses prior to receiving regulatory approval of quizartinib. We do not expect to receive any such regulatory approval for at least the next several years.

Interest Expense

Interest expense consists primarily of coupon interest, amortization of debt discount and amortization of deferred financing costs.

Other Income

Other income consists primarily of: (i) interest income earned on our cash and cash equivalents; and (ii) exchange rate gains and losses on transactions denominated in a currency other than our functional currency, the U.S. dollar.

Critical Accounting Policies and Significant Judgments and Estimates

Our management s discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

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We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity within Note 1 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. There were no material changes to our critical accounting policies and estimates during the six months ended June 30, 2014.

Results of Operations

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

Collaboration Agreement Revenues. We recorded revenues of $26,000 and $11.5 million for the three months ended June 30, 2014 and 2013, respectively. The decrease of approximately $11.5 million was primarily due to the termination of our agreement with Astellas, effective September 2013.

Research and Development Expenses. Our research and development expenses were $7.1 million and $6.7 million for the three months ended June 30, 2014 and 2013, respectively. A comparison of research and development expenses by category is as follows (in thousands):

	Three Months Ended June 30,		
	2014	2013	Increase/ (Decrease)
Outside services	$ 4,673	$ 4,377	$ 296
Salaries and personnel	1,916	1,805	111
Facilities and operations	461	482	(21)
Total	$ 7,050	$ 6,664	$ 386

Outside Services. Expenses for outside services, such as for CROs and investigator sites, increased approximately $0.3 million from $4.4 million for the three months ended June 30, 2013 to $4.7 million for the three months ended June 30, 2014. This increase was due to expenses incurred in connection with the commencement of our quizartinib Phase 3 clinical trial in April 2014. The increase was partially offset by lower expenses due to the completion of the Phase 2 clinical trial, resulting from a reduction in the number of patients being treated and followed.

Salaries and Personnel. Salaries and personnel-related expenses increased approximately $0.1 million from $1.8 million for the three months ended June 30, 2013 to $1.9 million for the three months ended June 30, 2014. The increase was primarily due to an increase in research and development headcount from 31 employees at June 30, 2013 to 37 employees at June 30, 2014. In addition, the increase was due to increased stock-based compensation expense.

General and Administrative Expenses. General and administrative expenses were $3.5 million and $2.2 million for the three months ended June 30, 2014 and 2013, respectively. The increase of approximately $1.3 million was due to increased personnel-related expenses, increased stock-based compensation expenses and increased legal expenses.

Interest Expense. Interest expense decreased from $108,000 for the three months ended June 30, 2013 to $0 for the three months ended June 30, 2014. The decrease in interest expense was due to the repayment in full of our outstanding venture loan in September 2013.

Change in Fair Value of Warrant and Derivative Liabilities. The change in fair value of the stock warrant liabilities decreased approximately $0.3 million from a contra-expense of $2.6 million for the three months ended June 30, 2013 to a contra-expense of $2.3 million for the three months ended June 30, 2014. The decrease was primarily due to changes in the estimated fair value of the securities underlying the warrants.

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

Collaboration Agreement Revenues. We recorded revenues of $58,000 and $18.1 million for the six months ended June 30, 2014 and 2013, respectively. The decrease of approximately $18.1 million was primarily due to the termination of our agreement with Astellas, effective September 2013.

Research and Development Expenses. Our research and development expenses were $13.3 million and $15.7 million for the six months ended June 30, 2014 and 2013, respectively. A comparison of research and development expenses by category is as follows (in thousands):

	Six Months Ended June 30,		
	2014	2013	Increase/ (Decrease)
Outside services	$ 8,268	$ 11,085	$ (2,817)
Salaries and personnel	4,057	3,509	548
Facilities and operations	982	1,075	(93)
Total	$ 13,307	$ 15,669	$ (2,362)

Outside Services. Expenses for outside services, such as for CROs and investigator sites, decreased approximately $2.8 million from $11.1 million for the six months ended June 30, 2013 to $8.3 million for the six months ended June 30, 2014. The decrease was due to lower quizartinib research and development expenses, resulting from a reduction in the number of patients being treated and followed in the Phase 2 clinical trial. The decrease was partially offset by an increase of expenses incurred in connection with the commencement of our quizartinib Phase 3 clinical trial in April 2014.

Salaries and Personnel. Salaries and personnel-related expenses increased approximately $0.6 million from $3.5 million for the six months ended June 30, 2013 to $4.1 million for the six months ended June 30, 2014. The increase was primarily due to increased stock-based compensation expense and increased personnel costs due to an increase in research and development headcount from 31 employees at June 30, 2013 to 37 employees at June 30, 2014.

General and Administrative Expenses. General and administrative expenses were $6.8 million and $4.0 million for the six months ended June 30, 2014 and 2013, respectively. The increase of approximately $2.9 million was due to increased personnel-related expenses, increased legal expenses and increased stock-based compensation expense.

Interest Expense. Interest expense decreased from $270,000 for the six months ended June 30, 2013 to $0 for the six months ended June 30, 2014. The decrease in interest expense was due to the repayment in full of our outstanding venture loan in September 2013.

Change in Fair Value of Warrant and Derivative Liabilities. Expense related to the change in fair value of the stock warrant liabilities decreased approximately $4.2 million from an expense of $1.4 million for the six months ended June 30, 2013 to a contra-expense of $2.8 million for the six months ended June 30, 2014. The difference was primarily due to changes in the estimated fair value of the securities underlying the

warrants.

Liquidity and Capital Resources

We have incurred losses substantially since inception and negative cash flows from operating activities for the six months ended June 30, 2014. As of June 30, 2014, we had an accumulated deficit of $265.5 million. We anticipate that we will continue to incur net losses for the foreseeable future as we: (i) continue the development and potential commercialization of our lead drug candidate, quizartinib; (ii) continue our research and development programs to advance our internal product pipeline; and (iii) incur additional costs associated with being a public company.

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From our inception through June 30, 2014, we have funded our consolidated operations primarily through the issuance of equity and convertible debt securities and upfront payments from our collaboration agreements. Additionally, we have funded a portion of our operations from service revenues and additional funding under our collaboration agreements. As of June 30, 2014, we had cash and cash equivalents of approximately $52.8 million.

The following table sets forth a summary of the net cash flow activity for each of the periods set forth below (in thousands):

	Six Months Ended June 30,	
	2014	**2013**
Net cash used in operating activities	$ (18,397)	$ (15,396)
Net cash used in investing activities	(146)	(510)
Net cash provided by financing activities	143	83,841
Effect of exchange rate changes on cash	13	(131)
Net increase (decrease) in cash and cash equivalents	$ (18,387)	$ 67,804

Cash used in operating activities increased by $3.0 million from $15.4 million for the six months ended June 30, 2013 to $18.4 million for the six months ended June 30, 2014. Our net loss increased approximately $14.1 million from $3.1 million for the six months ended June 30, 2013 to $17.3 million for the six months ended June 30, 2014. This increase was offset by a net decrease in the usage of deferred revenue of approximately $13.8 million from usage of $13.7 million for the six months ended June 30, 2013 to an increase in deferred revenue of $88,000 for the six months ended June 30, 2014. Non-cash expenses decreased approximately $3.5 million from $2.5 million for the six months ended June 30, 2013 to net contra-expense of $975,000 for the six months ended June 30, 2014. Changes in working capital and deferrals excluding deferred revenue in the six months ended June 30, 2014 and 2013 used cash of $226,000 and $1.0 million, respectively.

During the six months ended June 30, 2014, investing activities used cash of $146,000, primarily due to purchases of property and equipment. During the six months ended June 30, 2013, investing activities used cash of $510,000, primarily due to purchases of property and equipment.

Financing activities provided cash of $143,000 and $83.8 million for the six months ended June 30, 2014 and 2013, respectively. Cash provided during the six months ended June 30, 2014 was primarily derived from purchases of stock through our ESPP program. Cash provided during the six months ended June 30, 2013 was primarily derived from our IPO and concurrent private offering.

The financial statements of our Canadian subsidiary are measured using the local currency as the functional currency. The effect of exchange rate on cash relates to the fluctuation in exchange rate of the Canadian dollar to the U.S. dollar.

Operating Capital Requirements

Contractual Obligations.