Mast Therapeutics, Inc.
Form 10-Q
August 09, 2016

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, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-32157

Mast Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 84-1318182<br>(I.R.S. Employer<br>Identification No.) |
| 3611 Valley Centre Dr., Suite 500, San Diego, CA<br>(Address of principal executive offices) | 92130<br>(Zip Code) |

(858) 552-0866

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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 ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares outstanding of the registrant's common stock, $0.001 par value per share, as of August 5, 2016 was 211,815,450.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Mast Therapeutics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except for share and par value data)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $24,490 | $23,052 |
| Investment securities | 10,582 | 17,929 |
| Prepaid expenses and other current assets | 746 | 1,271 |
| Total current assets | 35,818 | 42,252 |
| Property and equipment, net | 171 | 226 |
| In-process research and development | 8,549 | 8,549 |
| Goodwill | 3,007 | 3,007 |
| Other assets | 131 | 183 |
| Total assets | $47,676 | $54,217 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $2,300 | $2,600 |
| Accrued liabilities | 9,424 | 8,152 |
| Accrued compensation and payroll taxes | 1,127 | 1,430 |
| Debt facility | 12,512 | 10,991 |
| Total current liabilities | 25,363 | 23,173 |
| Long-term lease obligation | 21 | 25 |
| Debt facility, net of current portion | 2,462 | 3,726 |
| Deferred income tax liability | 3,404 | 3,404 |
| Total liabilities | 31,250 | 30,328 |
| Stockholders' equity: | | |
| Common stock, $0.001 par value; 500,000,000 shares authorized; 208,341,530 and 163,614,297 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively | 208 | 164 |
| Additional paid-in capital | 313,097 | 298,715 |
| Accumulated other comprehensive income/(loss) | 7 | (17) |

| | | |
|---|---|---|
| Accumulated deficit | (296,886) | (274,973) |
| Total stockholders' equity | 16,426 | 23,889 |
| Total liabilities and stockholders' equity | $47,676 | $54,217 |

See accompanying notes to unaudited condensed consolidated financial statements.

Mast Therapeutics, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(in thousands, except for share and per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $— | $— | $— | $— |
| Operating expenses: | | | | |
| Research and development | 7,752 | 7,734 | 15,627 | 13,776 |
| Selling, general and administrative | 2,439 | 2,410 | 5,274 | 5,988 |
| Depreciation and amortization | 30 | 37 | 61 | 67 |
| Total operating expenses | 10,221 | 10,181 | 20,962 | 19,831 |
| Loss from operations | (10,221) | (10,181) | (20,962) | (19,831) |
| Interest income | 36 | 32 | 75 | 62 |
| Interest expense | (512) | (1) | (1,031) | (1) |
| Other income (loss), net | (9) | (1) | 5 | 3 |
| Net loss | $(10,706) | $(10,151) | $(21,913) | $(19,767) |
| Net loss per share - basic and diluted | $(0.05) | $(0.06) | $(0.12) | $(0.12) |
| Weighted average shares outstanding - basic and diluted | 196,553,963 | 162,128,100 | 187,334,590 | 160,800,809 |
| Comprehensive Income/(Loss): | | | | |
| Net loss | $(10,706) | $(10,151) | $(21,913) | $(19,767) |
| Other comprehensive income | 2 | 12 | 24 | 35 |
| Comprehensive net loss | $(10,704) | $(10,139) | $(21,889) | $(19,732) |

See accompanying notes to unaudited condensed consolidated financial statements.

Mast Therapeutics, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net loss | $(21,913) | $(19,767) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 61 | 67 |
| Share-based compensation expense related to employee stock options | 1,306 | 1,578 |
| Amortization of debt issuance costs and debt discount | 332 | — |
| Changes in assets and liabilities: | | |
| Decrease/(increase) in prepaid expenses and other assets | 577 | (124) |
| Increase in accounts payable and accrued liabilities | 668 | 2,364 |
| Net cash used in operating activities | (18,969) | (15,882) |
| Cash flows from investing activities: | | |
| Purchases of certificates of deposit | — | (7,986) |
| Proceeds from maturities of certificates of deposit | 7,371 | 7,337 |
| Purchases of property and equipment | (7) | (91) |
| Net cash provided by/(used in) investing activities | 7,364 | (740) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 14,033 | 2,140 |
| Payments for offering costs | (939) | (109) |
| Payments for capital lease | (4) | (3) |
| Costs paid in connection with debt facility | (47) | — |
| Net cash provided by financing activities | 13,043 | 2,028 |
| Net increase/(decrease) in cash and cash equivalents | 1,438 | (14,594) |
| Cash and cash equivalents at beginning of period | 23,052 | 35,808 |
| Cash and cash equivalents at end of period | $24,490 | $21,214 |

See accompanying notes to unaudited condensed consolidated financial statements.

Mast Therapeutics, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Mast Therapeutics, Inc., a Delaware corporation ("Mast Therapeutics," "we" or "our company"), prepared the unaudited interim condensed consolidated financial statements included in this report in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC") related to quarterly reports on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual audited financial statements and should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 14, 2016 ("2015 Annual Report"). The condensed consolidated balance sheet as of December 31, 2015 included in this report has been derived from the audited consolidated financial statements included in the 2015 Annual Report. In the opinion of management, these condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for any future period, including the full year.

We are a biopharmaceutical company focused on developing clinical-stage therapies for serious or life-threatening diseases. We have devoted substantially all of our resources to research and development ("R&D") and acquisition of our product candidates. We have not yet marketed or sold any products or generated any significant revenue. Through our acquisition of SynthRx, Inc. ("SynthRx") in 2011, we acquired our Membrane Adhesion & Sealant Technology (MAST) platform, which includes proprietary poloxamer-related data and know-how derived from over two decades of clinical, nonclinical and manufacturing experience, and we are leveraging the MAST platform to develop vepoloxamer (also known as MST-188) for serious or life-threatening diseases and conditions typically characterized by impaired microvascular blood flow and damaged cell membranes. Through our acquisition of Aires Pharmaceuticals, Inc. ("Aires") in February 2014, we acquired AIR001, a sodium nitrite inhalation solution for intermittent inhalation via nebulization, which we are developing for the treatment of heart failure with preserved ejection fraction (HFpEF).

The accompanying condensed consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, our working capital, anticipated operating expenses and net losses and the uncertainties surrounding our ability to raise additional capital as needed, as discussed below, raise substantial doubt about our ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to our ability to continue as a going concern.

We have incurred significant operating losses since inception and have relied on our ability to fund our operations primarily though equity financings and a debt financing. For the year ended December 31, 2015 and the six months ended June 30, 2016, we incurred losses from operations of $39.4 million and $21.0 million, respectively, and our net

cash used in operating activities was $32.9 million and $19.0 million, respectively. At June 30, 2016, our cash, cash equivalents and investment securities totaled $35.1 million and our working capital was $10.5 million. Our planned operating activities call for expenditures over the next 12 months to exceed our current cash, cash equivalents and investment securities balances and working capital. We intend to raise additional capital this year through our "at the market," or ATM, equity offering program (See Note 13, "Stockholders' Equity"), other equity or debt financings, and/or through collaborations, including licensing agreements. There can be no assurance that we will be successful in raising sufficient additional capital or that such capital, if available, will be on terms that are acceptable to us. Subject to limited exceptions, our debt facility (See Note 8, "Debt Facility") prohibits us from incurring indebtedness without the lender's prior written consent. Our anticipated operating expenses and net losses and the uncertainties surrounding our ability to raise additional capital as needed raise substantial doubt about our ability to continue as a going concern. If we are unable to continue as a going concern, we may have to liquidate our assets and might realize significantly less than the values at which they are carried on our financial statements. If we are unable to raise sufficient additional capital this year, we intend to significantly reduce the scope of our planned operations during the fourth quarter, including by delaying or discontinuing investment in development and commercial-readiness activities for vepoloxamer in sickle cell disease and heart failure, even if we have positive results from our Phase 3 clinical study of vepoloxamer in sickle cell disease, known as the EPIC study. In the event of negative results from the EPIC study and/or prepayment to our lender on or before October 14, 2016 of $10.0 million of the principal balance under our debt facility in accordance with its terms, we plan to immediately and more drastically reduce the scope of our operations. In either case, we expect that our cash, cash equivalents and investment securities as of June 30, 2016, would be sufficient to fund our operations, as reduced in scope, into the first quarter of 2017.

In addition to the uncertainties surrounding our ability to raise additional capital as needed which raise substantial doubt about our ability to continue as a going concern, our business, operating results, financial condition, and growth prospects are subject

to significant other risks and uncertainties, including failing to complete development of and obtain regulatory approval to commercialize our product candidates even if we are able to raise significant additional capital.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates and assumptions, including estimates related to R&D expenses, in-process research and development ("IPR&D"), goodwill, and share-based compensation expenses. We base our estimates on historical experience and various other relevant assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

3. Goodwill and IPR&D

At June 30, 2016 and December 31, 2015, our goodwill and IPR&D consisted of the following (in thousands):

| | |
|---|---|
| Goodwill | $3,007 |
| IPR&D | |
| Acquired IPR&D related to SynthRx acquisition | 6,549 |
| Acquired IPR&D related to Aires acquisition | 2,000 |
| Total goodwill and IPR&D | $11,556 |

Our goodwill represents the difference between the total purchase price for SynthRx and the aggregate fair values of tangible and intangible assets acquired, less liabilities assumed.

Our IPR&D consists of the estimated fair values of the vepoloxamer and AIR001 programs as of the dates we acquired SynthRx and Aires, respectively.

We test our goodwill and acquired IPR&D for impairment annually as of September 30, or, in the case of initially acquired IPR&D, on the first anniversary of the date we acquired it and subsequently on September 30, and between annual tests if we become aware of an event or a change in circumstances that would indicate the carrying value may be impaired. We performed a qualitative assessment of our goodwill and our acquired IPR&D as of September 30, 2015. We concluded that it is not more likely than not that the carrying value of our goodwill or our acquired IPR&D exceeds its fair value. Therefore, we concluded that no impairment charge is required.

4. Investment Securities

Investment securities are marketable equity or debt securities. All of our investment securities are “available-for-sale” securities and carried at fair value. Fair value for securities with short maturities and infrequent secondary market trades typically is determined by using a curve-based evaluation model that utilizes quoted prices for similar securities. The evaluation model takes into consideration the days to maturity, coupon rate and settlement date convention. Net unrealized gains or losses on these securities are included in accumulated other comprehensive loss, which is a separate component of stockholders’ equity. Realized gains and realized losses are included in other income, net while amortization of premiums and accretion of discounts are included in interest income. Interest and dividends on available-for-sale securities are included in interest income. We periodically evaluate our investment securities for impairment. If we determine that a decline in fair value of any investment security is other than temporary, then the cost basis would be written down to fair value and the decline in value would be charged to earnings.

Our investment securities are under the custodianship of a major financial institution and consist of FDIC-insured certificates of deposit. We have classified all of our available-for-sale investment securities, as current assets on our consolidated balance sheets because we consider them to be highly liquid and available for use, if needed, in current operations. As of June 30, 2016, none of our investment securities had contractual maturity dates of more than one year.

At June 30, 2016 and December 31, 2015, our investment securities were as follows (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Fair value of investment securities | $10,582 | $17,929 |
| Cost basis of investment securities | 10,575 | 17,946 |

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Net unrealized (gains)/losses on investment securities | $(7) | $17 |

5. Fair Value of Financial Instruments

Our cash equivalents are recorded at cost plus accrued interest, which approximates fair value. Our investment securities are carried at fair value. The fair value of financial assets and liabilities is measured under a framework that establishes "levels" which are defined as follows: (i) Level 1 fair value is determined from observable, quoted prices in active markets for identical assets or liabilities; (ii) Level 2 fair value is determined from inputs, other than Level 1 inputs, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, and (iii) Level 3 fair value is determined using the entity's own assumptions about the inputs that market participants would use in pricing an asset or liability.

The fair values at June 30, 2016 and December 31, 2015 of our cash equivalents and investment securities are summarized in the following table (in thousands):

| | | Fair Value Determined Under: | | |
|---|---|---|---|---|
| | Total Fair Value | (Level 1) | (Level 2) | (Level 3) |
| At June 30, 2016: | | | | |
| Cash equivalents | $13,234 | $13,234 | $— | $ — |
| Investment securities | $10,582 | $— | $10,582 | $ — |
| | | | | |
| At December 31, 2015: | | | | |
| Cash equivalents | $15,799 | $15,799 | $— | $ — |
| Investment securities | $17,929 | $— | $17,929 | $ — |

We believe that our debt facility (see Note 8 "Debt Facility") bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and, accordingly, the carrying value of the debt facility approximates fair value. The fair value of our debt facility is determined under Level 2 in the fair value hierarchy.

6. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which generally is three to five years. Leasehold improvements are amortized over the economic life of the asset or the lease term, whichever is shorter. Repairs and maintenance are expensed as incurred.

We lease certain office equipment under leases classified as capital leases. As of June 30, 2016, the total amount of leased equipment was $40,000 with interest rates ranging from 8% to 14% per annum. The equipment is being amortized over the life of the leases, which range from three to five years.

7. Accrued Liabilities

Accrued liabilities at June 30, 2016 and December 31, 2015 were as follows (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accrued R&D agreements and study expenses | $8,401 | $ 7,898 |
| Obligation to provide common stock | 686 | - |
| Other accrued liabilities | 337 | 254 |
| Total accrued liabilities | $9,424 | $ 8,152 |

Under our ATM program (See Note 13, “Stockholders’ Equity”), we received cash on June 30, 2016 from our sales agent in payment of shares of our common stock sold in June, but the shares were not issued by the registrar and transfer agent for our common stock until July 1, 2016. Accordingly, we recorded a current liability for the cash received for the shares that were issued on July 1, 2016.

8. Debt Facility

Hercules Loan and Security Agreement

We have borrowed an aggregate of $15.0 million pursuant to a Loan and Security Agreement, dated August 11, 2015, with Hercules Technology III, L.P. and Hercules Capital, Inc. (formerly known as, Hercules Technology Growth Capital, Inc.)

(together, "Hercules"), as amended by the First Amendment thereto dated September 28, 2015, the Second Amendment thereto dated December 31, 2015, the Third Amendment thereto dated February 25, 2016, and the Fourth Amendment thereto dated July 22, 2016 (collectively, the "Loan Agreement"). Pursuant to the terms and conditions of the Loan Agreement, we received the first advance of $5.0 million on August 11, 2015 and the second advance of $10.0 million on September 28, 2015.

Under the Loan Agreement, we are required to prepay to Hercules $10 million of the principal balance of the loan and any accrued but unpaid fees and expenses (the "Second Advance Prepayment") on or before October 14, 2016 unless on or before such date, we demonstrate, to the reasonable satisfaction of Hercules, positive results in our Phase 3 clinical study of vepoloxamer in patients with sickle cell disease, known as the EPIC study (the "Second Advance Prepayment Condition"). In the event that the Second Advance Prepayment Condition is not satisfied, the Second Advance Prepayment would be due on October 14, 2016; provided, however, that if we issue a public announcement of EPIC results that do not satisfy the Second Advance Prepayment Condition before October 14, 2016, we are required to make the Second Advance Prepayment promptly, but in any case, within three business days of the public announcement. Due to numerous factors, we are not able to predict with any reasonable certainty the probability of achieving the Second Advance Prepayment Condition; therefore, we have classified the Second Advance as a current liability on the balance sheet.

The interest rate for the principal balance under the Loan Agreement is the greater of (i) 8.95% plus the prime rate as reported in The Wall Street Journal minus 3.25%, and (ii) 8.95%, determined on a daily basis. Monthly payments under the Loan Agreement were interest only until July 1, 2016. Beginning July 1, 2016 and on the first business day of each month thereafter through the scheduled maturity date of January 1, 2019, we will repay the principal balance under the Loan Agreement in equal monthly installments of principal and interest. However, if we achieve the Second Advance Prepayment Condition, we have not made the Second Advance Prepayment, and no event of default has occurred, we can resume making interest-only payments and further payments against the principal balance will be deferred until March 1, 2017. If our interest-only payment period resumes and is extended to March 1, 2017, then the maturity date would extend to October 1, 2019. An end of term charge of $712,500 will be due on the scheduled maturity date and is being accrued through interest expense using the effective interest method.

If we elect to prepay the principal balance under the Loan Agreement prior to maturity, a prepayment charge of 1%, 2% or 3%, of the then outstanding principal balance also will be due, depending upon when the prepayment occurs. No prepayment penalty would apply to the Second Advance Prepayment, if required.

Our obligations under the Loan Agreement are secured by a first priority security interest in substantially all of our assets, excluding our intellectual property but including the proceeds from the sale, licensing or disposition of our intellectual property. Our intellectual property is subject to customary negative covenants.

In connection with the Loan Agreement, we have paid facility charges of $225,000 and a commitment charge of $25,000. Such charges were accounted for as debt issuance costs and are being amortized to interest expense using the effective interest method through the scheduled maturity date.

In connection with the Loan Agreement, we entered into a Warrant Agreement with Hercules, dated August 11, 2015, as amended by the First Amendment thereto dated September 28, 2015 and the Second Amendment thereto dated February 25, 2016, pursuant to which Hercules has a right to purchase up to 2,272,727 shares of our common stock at an exercise price of $0.275 per share. Prior to the Second Amendment to Warrant Agreement, the Warrant Agreement, as amended by the First Amendment, provided Hercules a right to purchase up to 1,524,390 shares of our common stock at an exercise price of $0.41 per share.

The warrants issued to Hercules were valued using the Black-Scholes option pricing model with the following assumptions: volatility of 83%, expected term of five years, risk-free interest rate of 1.2% and a zero dividend yield. The warrant fair value of $0.4 million has been recorded as a debt discount and is being amortized through interest expense using the effective interest method through the scheduled maturity date. See Note 13 “Stockholders’ Equity” for further description of the terms of the warrants.

Summary of Carrying Value

The following table summarizes the components of the debt facility carrying value (in thousands):

| | As of June 30, 2016 | |
|---|---|---|
| | Short-term | Long-term |
| Potential prepayment to lender | $10,000 | $ - |
| Principal payments to lender and end of term charge | 2,397 | 3,316 |
| Accrued interest | 115 | - |
| Debt issuance costs | - | (594) |
| Debt discount related to warrants | - | (260) |
| Carrying value | $12,512 | $ 2,462 |

9. Share-Based Compensation Expense

Share-based compensation expense related to equity awards granted to our employees and non-employee directors for the three and six months ended June 30, 2016 and 2015 was as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Selling, general and administrative expense | $425 | $371 | $849 | $1,312 |
| Research and development expense | 222 | 141 | 457 | 266 |
| Share-based compensation expense | $647 | $512 | $1,306 | $1,578 |

During the six months ended June 30, 2016, the only equity awards granted to our employees and non-employee directors were stock option awards. The following table summarizes the equity award activity during such six-month period:

| | Shares Underlying Option Awards | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2015 | 22,896,728 | $ 0.78 |
| Granted | 8,151,263 | $ 0.42 |
| Exercised | — | $ — |
| Expired/forfeited | (1,012,106) | $ 0.90 |
| Outstanding at June 30, 2016 | 30,035,885 | $ 0.68 |

At June 30, 2016, total unrecognized estimated compensation cost related to non-vested employee and non-employee director share-based awards granted prior to that date was $5.3 million, which is expected to be recognized over a weighted-average period of 2.7 years.

10. Net Loss Per Common Share

Basic and diluted net loss per common share was calculated by dividing the net loss for the three and six months ended June 30, 2016 and 2015 by the weighted-average number of common shares outstanding during those periods, respectively, without consideration for outstanding common stock equivalents because their effect would have been anti-dilutive. Common stock equivalents are included in the calculation of diluted earnings per common share only if their effect is dilutive. For the periods presented, our outstanding common stock equivalents consisted of options and warrants to purchase shares of our common stock. All common stock equivalents presented had an anti-dilutive impact due to losses reported in the applicable periods. The weighted-average number of those common stock equivalents outstanding for each of the periods presented is set forth in the table below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Options | 30,029,718 | 20,148,555 | 30,176,166 | 20,454,379 |
| Warrants | 105,178,730 | 76,559,927 | 97,712,362 | 77,847,594 |

11. Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation ("ASU 2016-09"), which involves multiple aspects of the accounting for share-based transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public companies, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842) ("ASU 2016-02"), ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. Accounting Standards Codification ("ASC") 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. We are in the process of evaluating the impact of this new guidance.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). Currently deferred taxes for each tax jurisdiction are presented as a net current asset or liability and net noncurrent asset or liability on the balance sheet. To simplify the presentation, the new guidance requires that all deferred tax assets and liabilities for each jurisdiction, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The new guidance becomes effective for public business entities in fiscal years beginning after December 15, 2016. We elected to early adopt this new standard prospectively for the year ended December 31, 2015 and it did not have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). The amendments in ASU 2014-15 will require management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern and, if management identifies conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued, to disclose in the notes to the entity's financial statements the principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's evaluation of their significance, and management's plans that alleviated or are intended to alleviate substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and early application is permitted. The amendments in ASU 2014-15 do not have any application to an entity's financial statements, but only to the related notes.

12. Supplemental Cash Flow Information

Non-cash investing and financing transactions presented separately from the condensed consolidated statements of cash flows for the six months ended June 30, 2016 and 2015 are as follows (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Cash paid for interest on debt facility | $700 | $- |
| | | |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Warrants issued in connection with debt facility | $26 | $- |
| Unrealized gain on investment securities | $(24) | $(35) |

13. Stockholders' Equity

Underwritten Public Offering of Common Stock and Warrants

In February 2016, we completed an underwritten public offering with gross proceeds of $8.0 million from the sale and issuance of 29,090,910 units, each consisting of one share of our common stock and one warrant to purchase one share of our common stock. Net proceeds, after deducting underwriting discounts and commissions and other estimated offering expenses, were

approximately $7.3 million. The warrants have an exercise price of $0.42 per share, are exercisable any time on or after August 17, 2016 and will expire on February 16, 2021.

"At the Market" Equity Offering Program

In February 2014, we entered into a sales agreement with Cowen and Company, LLC ("Cowen"), to sell shares of our common stock, with aggregate gross sales proceeds of up to $30.0 million, from time to time, through an "at the market," or ATM, equity offering program (the "2014 Sales Agreement"), under which Cowen acted as sales agent. In August 2015, we terminated the 2014 Sales Agreement upon entry into a new sales agreement with Cowen to sell shares of our common stock, with aggregate gross sales proceeds of up to $30.0 million, from time to time, through an ATM program. As of June 30, 2016, we had sold an aggregate of 42,015,010 shares at a weighted-average sales price of $0.58 per share under the ATM programs for aggregate gross proceeds of $24.2 million and $23.1 million in net proceeds, after deducting sales agent commission and discounts and our other offering costs. As of June 30, 2016, 40,495,430 of the 42,015,010 shares sold had been issued; the remaining 1,519,580 shares sold were issued on July 1, 2016.

Shares Issuable to Former SynthRx Stockholders Upon Achievement of Milestones

In April 2011, we acquired SynthRx as a wholly-owned subsidiary through a merger transaction in exchange for shares of our common stock and rights to additional shares of our common stock upon achievement of specified milestones related to the development of MST-188 in sickle cell disease. We have issued an aggregate of 3,050,851 shares of our common stock to the former SynthRx stockholders, 1,454,079 of which we repurchased in December 2012 for $0.001 per share pursuant to our exercise of a repurchase right under the merger agreement. We could issue up to an aggregate of 12,478,050 additional shares of our common stock to the former SynthRx stockholders if and when the development of MST-188 achieves the following milestones: (a) 3,839,400 shares upon acceptance for review by the U.S. Food and Drug Administration ("FDA") of a new drug application ("NDA") covering the use of purified poloxamer 188 for the treatment of sickle cell crisis in children and (b) 8,638,650 shares upon approval of such NDA by the FDA.

Warrants Issued to Hercules

In connection with the Loan Agreement, we entered into a Warrant Agreement with Hercules Technology III, L.P., dated August 11, 2015, as amended by the First Amendment thereto dated September 28, 2015 and the Second Amendment thereto dated February 25, 2016, pursuant to which Hercules has a right to purchase up to an aggregate of 2,272,727 shares of our common stock at an exercise price of $0.275 per share, at any time, or from time to time, through August 11, 2020. The Warrant Agreement, as amended, provides for adjustment to the exercise price and number of shares subject to Hercules' warrants in the event of a merger event, reclassification of our common stock, subdivision or combination of our common stock, or certain dividend payments. Upon exercise, the aggregate exercise price may be paid, at Hercules' election, in cash or on a net issuance basis, based upon the fair market value of our common stock at the time of exercise. If the fair market value of our common stock is greater than the exercise price of the warrants as of immediately before their expiration, to the extent the warrants are not previously exercised in full, the warrants shall be deemed automatically exercised on a net issuance basis as of immediately before their expiration.

Outstanding Warrants

At June 30, 2016, outstanding warrants to purchase shares of common stock are as follows:

| Shares Underlying Outstanding Warrants | Exercise Price | Expiration Date |
|---|---|---|
| 10,625,000 | $ 1.100 | November 2016 |
| 28,097,400 | $ 0.650 | June 2018 |
| 13,081,428 | $ 0.010 | November 2019 |
| 22,011,265 | $ 0.750 | |