

Clovis Oncology, Inc.
Form 10-Q
August 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018.

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: 001-35347

Clovis Oncology, Inc.

(Exact name of Registrant as specified in its charter)

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Delaware 90-0475355
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5500 Flatiron Parkway, Suite 100
Boulder, Colorado 80301
(Address of principal executive offices) (Zip Code)

(303) 625-5000

(Registrant's telephone number, including area code)

Not Applicable

(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 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 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
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of July 27, 2018 was 52,649,591.

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CLOVIS ONCOLOGY, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLOVIS ONCOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Revenues:				
Product revenue	\$ 23,757	\$ 14,620	\$ 42,279	\$ 21,665
Operating expenses:				
Cost of sales - product	4,490	2,730	8,495	3,893
Cost of sales - intangible asset amortization	709	372	1,080	743
Research and development	52,707	33,108	96,250	65,555
Selling, general and administrative	44,864	36,149	84,138	65,373
Total expenses	102,770	72,359	189,963	135,564
Operating loss	(79,013)	(57,739)	(147,684)	(113,899)
Other income (expense):				
Interest expense	(3,581)	(2,598)	(6,216)	(5,178)
Foreign currency (loss) gain	(104)	76	(185)	(83)
Legal settlement loss	—	(117,000)	(7,975)	(117,000)
SEC settlement costs reserve	(20,000)	—	(20,000)	—
Other income	1,475	594	2,883	946
Other expense, net	(22,210)	(118,928)	(31,493)	(121,315)
Loss before income taxes	(101,223)	(176,667)	(179,177)	(235,214)
Income tax benefit	33	1,281	292	1,365
Net loss	\$ (101,190)	\$ (175,386)	\$ (178,885)	\$ (233,849)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(3,470)	2,812	(1,953)	3,279
Net unrealized gain (loss) on available-for-sale securities, net of tax	86	—	81	(5)
Other comprehensive (loss) income:	(3,384)	2,812	(1,872)	3,274
Comprehensive loss	\$ (104,574)	\$ (172,574)	\$ (180,757)	\$ (230,575)

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Loss per basic and diluted common share:

Basic and diluted net loss per common share	\$ (1.94)	\$ (3.88)	\$ (3.48)	\$ (5.24)
Basic and diluted weighted average common shares outstanding	52,223	45,176	51,425	44,610

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CLOVIS ONCOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except for share amounts)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 468,321	\$ 464,198
Accounts receivable, net	12,304	6,181
Inventories	62,989	27,508
Available-for-sale securities	213,921	99,533
Prepaid research and development expenses	2,723	1,559
Deposit on inventory	—	20,461
Other current assets	8,360	7,500
Total current assets	768,618	626,940
Deposit on inventory	53,937	—
Property and equipment, net	5,696	4,007
Intangible assets, net	53,480	19,561
Goodwill	63,475	65,217
Other assets	22,526	19,505
Total assets	\$ 967,732	\$ 735,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,900	\$ 15,147
Accrued research and development expenses	19,788	18,465
Milestone liability	—	22,022
Accrued SEC settlement liability	20,000	—
Other accrued expenses	20,928	25,883
Total current liabilities	76,616	81,517
Convertible senior notes	574,335	282,406
Deferred rent, long-term	4,431	3,671
Total liabilities	655,382	367,594
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 10,000,000 shares authorized, no shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, \$0.001 par value per share, 100,000,000 shares authorized at June 30, 2018 and December 31, 2017; 52,637,375 and 50,565,119 shares issued and outstanding at June 30, 2018 and December 31, 2017 respectively	53	51
Additional paid-in capital	2,010,311	1,887,198

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Accumulated other comprehensive loss	(44,045)	(42,173)
Accumulated deficit	(1,653,969)	(1,477,440)
Total stockholders' equity	312,350	367,636
Total liabilities and stockholders' equity	\$ 967,732	\$ 735,230

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CLOVIS ONCOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six months ended June 30,	
	2018	2017
Operating activities		
Net loss	\$ (178,885)	\$ (233,849)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	26,768	19,563
Depreciation and amortization	1,507	1,281
Amortization of premiums and discounts on available-for-sale securities	693	245
Amortization of debt issuance costs	895	635
Legal settlement loss	—	117,000
Deferred income taxes	—	(1,266)
Changes in operating assets and liabilities:		
Accounts receivable	(2,786)	(1,023)
Inventory	(35,543)	(6,478)
Prepaid and accrued research and development expenses	102	(15,162)
Deposit on inventory	(33,476)	—
Other operating assets	(3,881)	(36,855)
Accounts payable	860	3,202
Other accrued expenses	12,902	3,166
Net cash used in operating activities	(210,844)	(149,541)
Investing activities		
Purchases of property and equipment	(2,208)	(249)
Deposits for purchases of property and equipment	—	(2,515)
Purchases of available-for-sale securities	(125,000)	(180,000)
Sales of available-for-sale securities	10,000	50,000
Acquired in-process research and development - milestone payment	(55,000)	(1,100)
Net cash used in investing activities	(172,208)	(133,864)
Financing activities		
Proceeds from the sale of common stock, net of issuance costs	93,754	546,170
Proceeds from the issuance of convertible senior notes, net of issuance costs	291,035	—
Proceeds from the exercise of stock options and employee stock purchases	2,593	12,270
Net cash provided by financing activities	387,382	558,440
Effect of exchange rate changes on cash and cash equivalents	(207)	565
Increase (decrease) in cash and cash equivalents	4,123	275,600
Cash and cash equivalents at beginning of period	464,198	216,186
Cash and cash equivalents at end of period	\$ 468,321	\$ 491,786
Supplemental disclosure of cash flow information:		

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Cash paid for interest	\$ 3,594	\$ 3,594
Non-cash investing and financing activities:		
Vesting of restricted stock units	\$ 8,357	\$ 2,627

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CLOVIS ONCOLOGY, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Clovis Oncology, Inc. (together with its consolidated subsidiaries, the “Company”, “Clovis”, “we”, “our”, “us”) is a biopharmaceutical company focused on acquiring, developing and commercializing innovative anti-cancer agents in the United States, Europe and additional international markets. We target our development programs for the treatment of specific subsets of cancer populations, and simultaneously develop, with partners, diagnostic tools intended to direct a compound in development to the population that is most likely to benefit from its use. We have and intend to continue to license or acquire rights to oncology compounds in all stages of clinical development. In exchange for the right to develop and commercialize these compounds, we generally expect to provide the licensor with a combination of upfront payments, milestone payments and royalties on future sales. In addition, we generally expect to assume the responsibility for future drug development and commercialization costs. We currently operate in one segment. Since inception, our operations have consisted primarily of developing in-licensed compounds, evaluating new product acquisition candidates and general corporate activities and since 2016 we have also marketed and sold products.

Our marketed product Rubraca® (rucaparib) is approved in the United States by the Food and Drug Administration (“FDA”) for two indications, encompassing two settings for the treatment of recurrent epithelial ovarian, fallopian tube or primary peritoneal cancer. The initial treatment indication received in December 2016 covers the treatment of adult patients with deleterious BRCA (human genes associated with the repair of damaged DNA) mutation (germline and/or somatic) epithelial ovarian, fallopian tube, or primary peritoneal cancer who have been treated with two or more chemotherapies, and selected for therapy based on an FDA-approved companion diagnostic for Rubraca. In April 2018, the FDA also approved Rubraca for the maintenance treatment of adult patients with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy. The FDA granted regular approval for Rubraca in this second, broader and earlier-line indication on a priority review timeline based on positive data from the phase 3 ARIEL3 clinical trial. Diagnostic testing is not required for patients to be prescribed Rubraca in this maintenance treatment indication.

In May 2018, the European Commission granted a conditional marketing authorization for Rubraca as monotherapy treatment of adult patients with platinum sensitive, relapsed or progressive, BRCA mutated (germline and/or somatic), high-grade epithelial ovarian, fallopian tube, or primary peritoneal cancer, who have been treated with two or more prior lines of platinum based chemotherapy, and who are unable to tolerate further platinum based chemotherapy. As this is a conditional approval, it will be necessary to complete confirmatory post marketing commitments, including ensuring that sufficient partially platinum sensitive patients are enrolled in our ARIEL4 confirmatory trial to support the indication. This may require enrollment of additional patients into the study, increasing its overall size and extending the time for enrollment. In June 2018, we submitted to the European Union’s European Medicines Agency (“EMA”) a variation to the marketing authorization for the maintenance treatment of adult patients with recurrent

epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy, for which we received EMA validation for this application in July 2018. We anticipate an opinion on this application from the Committee for Medicinal Products for Human Use (“CHMP”) of the EMA by the end of 2018.

Beyond our initial labeled indication, we have a robust Rubraca clinical development program underway in a variety of solid tumor types, also including prostate and bladder cancers, and in July 2017, we entered into a broad clinical collaboration with Bristol-Myers Squibb Company to evaluate the combination of their immunotherapy OPDIVO® (nivolumab) with Rubraca in several tumor types. We hold worldwide rights for Rubraca.

In addition to Rubraca, we have two other product candidates.

Lucitanib is an oral, potent inhibitor of the tyrosine kinase activity of vascular endothelial growth factor receptors 1 through 3 (VEGFR1-3), platelet-derived growth factor receptors alpha and beta (PDGFR /) and fibroblast growth factor receptors 1 through 3 (FGFR1-3). Lucitanib was originally developed by Clovis and Servier with the hypothesis of activity in FGFR driven tumors; however, data in breast and lung cancer were insufficient to move the program forward. We have received notice from Servier of termination of their rights to lucitanib, resulting in the return of global rights (excluding China) for lucitanib to us later in 2018. We believe that recent data for a drug similar to lucitanib that

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inhibits these same pathways – when combined with a PD-1 inhibitor – provide support for development of lucitanib in combination with a PD-(L)1 inhibitor, and we intend to initiate a study of the combination. We also intend to initiate a study of lucitanib in combination with Rubraca, based on encouraging data of VEGF and PARP inhibitors in combination. Each of these studies is expected to initiate in the first quarter of 2019. We maintain certain development and commercialization rights for lucitanib. Following the termination of the Servier license agreement, we will have global development and commercialization rights (except for China) for lucitanib.

Rociletinib is an oral mutant-selective inhibitor of epidermal growth factor receptor (“EGFR”). While we have stopped enrollment in ongoing trials for rociletinib, we continue to provide drug to patients whose clinicians recommend continuing therapy. We have global development and commercialization rights for rociletinib.

Basis of Presentation

All financial information presented includes the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited financial statements of Clovis Oncology, Inc. included herein reflect all adjustments that, in the opinion of management, are necessary to fairly state our financial position, results of operations and cash flows for the periods presented herein. Interim results may not be indicative of the results that may be expected for the full year. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto which are included in our Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”) for a broader discussion of our business and the opportunities and risks inherent in such business.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and revenue and related disclosures. On an ongoing basis, we evaluate our estimates, including estimates related to revenue deductions, intangible asset impairment, clinical trial accruals and share-based compensation expense. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

Liquidity

We have incurred significant net losses since inception and have relied on our ability to fund our operations through debt and equity financings. We expect operating losses and negative cash flows to continue for the foreseeable future. As we continue to incur losses, transition to profitability is dependent upon achieving a level of revenues from Rubraca adequate to support our cost structure. We may never achieve profitability, and unless or until we do, we will continue to need to raise additional cash.

In April 2018, we sold 1,837,898 shares of our common stock in a public offering at \$54.41 per share. The net proceeds from the offering were \$93.8 million, after deducting underwriting discounts and commissions and offering expenses. Concurrently, we completed the public offering of \$300.0 million aggregate principal amount of 1.25% convertible senior notes due 2025. The net proceeds from this offering were \$291.0 million, after deducting underwriting discounts and commissions and offering expenses. We intend to use the net proceeds of the offerings for general corporate purposes, including sales and marketing expenses associated with Rubraca in the United States and Europe, funding of our development programs, general and administrative expenses, acquisition or licensing of additional product candidates or businesses and working capital. Based on current estimates, we believe that our existing cash, cash equivalents and available-for-sale securities will allow us to fund our operating plan through at least the next 12 months.

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2. Summary of Significant Accounting Policies

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers”, and has subsequently issued several supplemental and/or clarifying ASUs (collectively, “ASC 606”). ASC 606 prescribes a single common revenue standard that replaces most existing U.S. GAAP revenue recognition guidance. ASC 606 is intended to provide a more consistent interpretation and application of the principles outlined in the standard across filers in multiple industries and within the same industries compared to current practices, which should improve comparability. Adoption of ASC 606 is required for annual and interim periods beginning after December 15, 2017. Upon adoption, we must elect to adopt either retrospectively to each prior reporting period presented or use the modified retrospective transition method with the cumulative effect of initial adoption recognized at the date of initial application. We adopted the new standard using the modified retrospective method on January 1, 2018 for contracts that are not completed as of the adoption date.

Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We examined our revenue recognition policy specific to revenue streams from contracts governing product sales from Rubraca and have come to conclusions on the impact of the new standard using the 5-step process prescribed by ASC 606. We reviewed all of our contracts, including our collaboration agreements with Servier and Bristol-Myers Squibb, and determined the potential impact to our accounting policies, financial controls and operations. Our conclusions include recognizing revenue on product sales once the product is sold to the specialty distributor and specialty pharmacy providers.

As noted above, we used the modified retrospective method to adopt the new standard. This means that we did not restate previously issued financial statements, but we recorded a one-time adjustment to retained earnings of \$2.4 million. This adjustment represents the sales of our product to our customers prior to January 1, 2018, that had not been sold to patients or healthcare providers, offset by related gross-to-net adjustments and other direct costs, including royalties and sales incentive compensation.

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The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606 was as follows (in thousands):

	Balance at December 31, 2017	Adjustments due to Adoption of ASC 606	Balance at January 1, 2018
ASSETS			
Accounts receivable, net	\$ 6,181	\$ 3,336	\$ 9,517
Inventories	\$ 27,508	(62)	\$ 27,446
Total assets	\$ 735,230	\$ 3,274	\$ 738,504
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other accrued expenses	\$ 25,883	\$ 918	\$ 26,801
Accumulated deficit	\$ (1,477,440)	2,356	\$ (1,475,084)
Total liabilities and stockholders' equity	\$ 735,230	\$ 3,274	\$ 738,504

Previously, we recognized revenue on product sales once the product was sold to the patient or healthcare provider by the specialty distributor or specialty pharmacy provider, i.e. when product is sold through the channel. Effective January 1, 2018, we began recognizing revenue when our customers, the specialty distributors and specialty pharmacy providers, take control of our product or when product is sold into the channel. This will have the impact of us recognizing revenue approximately two to four weeks earlier than before adopting the new standard and will also

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increase the significance of estimating variable consideration. The following financial statement line items for the three and six months ended June 30, 2018 were affected as a result of the adoption.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except for per share amounts)

	Three months ended June 30, 2018		
	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Product revenue	\$ 23,757	\$ 20,372	\$ 3,385
Cost of sales - product	\$ 4,490	\$ 3,998	\$ 492
Selling, general and administrative	\$ 44,864	\$ 44,679	\$ 185
Net loss	\$ (101,190)	\$ (103,898)	\$ (2,708)
Loss per basic and diluted common share:			
Basic and diluted net loss per common share	\$ (1.94)	\$ (1.99)	\$ (0.05)

	Six months ended June 30, 2018		
	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
Product revenue	\$ 42,279	\$ 38,328	\$ 3,951
Cost of sales - product	\$ 8,495	\$ 7,539	\$ 956
Selling, general and administrative	\$ 84,138	\$ 83,913	\$ 225
Net loss	\$ (178,885)	\$ (181,654)	\$ (2,769)
Loss per basic and diluted common share:			
Basic and diluted net loss per common share	\$ (3.48)	\$ (3.53)	\$ (0.05)

CONSOLIDATED BALANCE SHEET

(In thousands)

	June 30, 2018		
	As reported	Balances without Adoption of ASC 606	Effect of Change Higher/(Lower)
ASSETS			
Accounts receivable, net	\$ 12,304	\$ 8,644	\$ 3,660
Inventories	\$ 62,989	\$ 62,887	\$ 102
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other accrued expenses	\$ 20,928	\$ 19,880	\$ 1,048
Accumulated deficit	\$ (1,653,969)	\$ (1,656,677)	\$ (2,708)

ASC 606 did not have an aggregate impact on our net cash provided by operating activities but resulted in offsetting changes in certain assets and liabilities presented within net cash used in operating activities in our consolidated statement of cash flows, as reflected in the above tables.

Recently Issued Accounting Standards

From time to time, the FASB or other standards setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification (“ASC”) are communicated through issuance of an ASU.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early

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adoption is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the impact the standard may have on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”, which allow a reclassification from accumulated other comprehensive income (loss) (“AOCI”) to retained earnings for stranded tax effects resulting from the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts at the date of enactment of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”). The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact the standard may have on our consolidated financial statements and related disclosures.

Revenue Recognition

We are currently approved to sell Rubraca in the United States market. We distribute our product principally through a limited number of specialty distributor and specialty pharmacy providers, collectively, our customers. Our customers subsequently sell our products to patients and health care providers. Separately, we have arrangements with certain payors and other third parties that provide for government-mandated and privately-negotiated rebates, chargebacks and discounts.

Product Revenue

Revenue from product sales are recognized when the performance obligation is satisfied, which is when customers obtain control of our product at a point in time, typically upon delivery. We expense incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that we would have recognized is one year or less.

Reserves for Variable Consideration

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from rebates, chargebacks, discounts, co-pay assistance, estimated product returns and other allowances that are offered within contracts between us and our customers, health care providers, payors and other indirect customers relating to the sales of our product. These reserves are based on the amounts earned or to be claimed on the related sales and are classified as reductions of

accounts receivable (if the amount is payable to the customers) or a current liability (if the amount is payable to a party other than a customer). Where appropriate, these estimates take into consideration a range of possible outcomes which are probability-weighted for relevant factors such as our historical experience, current contractual and statutory requirements, specific known market events and trends, industry data and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract. The amount of variable consideration which is included in the transaction price may be constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we adjust these estimates, which would affect product revenue and earnings in the period such variances become known.

Rebates. Rebates include mandated discounts under the Medicaid Drug Rebate Program and the Medicare coverage gap program. Rebates are amounts owed after the final dispensing of products to a benefit plan participant and are based upon contractual agreements or legal requirements with the public-sector benefit providers. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability which is included in accrued expenses on the consolidated balance sheet. We estimate our Medicaid and Medicare rebates based upon a range of possible outcomes that are probability-weighted for the estimated payor mix. The accrual for rebates is based on statutory discount rates and known sales to specialty pharmacy patients or expected utilization for specialty distributor sales to healthcare providers. As we gain more historical experience, the accrual will be based solely on the expected utilization from historical data we have accumulated since the Rubraca product launch. Rebates are generally invoiced and paid quarterly in arrears so that the accrual balance

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consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known or estimated prior quarters' unpaid rebates.

Chargebacks. Chargebacks are discounts that occur when contracted customers, which currently consist primarily of group purchasing organizations, Public Health Service organizations and federal government entities purchasing via the Federal Supply Schedule, purchase directly from our specialty distributors at a discounted price. The specialty distributor, in turn, charges back the difference between the price initially paid by the specialty distributor and the discounted price paid to the specialty distributor by the healthcare provider. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and accounts receivable. The accrual for specialty distributor chargebacks is estimated based on known chargeback rates and known sales to specialty distributors adjusted for the estimated utilization by healthcare providers.

Discounts and Fees. Our payment terms are generally 30 days. Specialty distributors and specialty pharmacies are offered various forms of consideration, including service fees and prompt pay discounts for payment within a specified period. We expect these customers will earn prompt pay discounts and therefore, we deduct the full amount of these discounts and service fees from product sales when revenue is recognized.

Co-pay assistance. Patients who have commercial insurance and meet certain eligibility requirements may receive co-pay assistance. The intent of this program is to reduce the patient's out of pocket costs. Liabilities for co-pay assistance are based on actual program participation provided by third-party administrators at month end.

Returns. Consistent with industry practice, we generally offer customers a right of return limited only to product that will expire in six months or product that is six months beyond the expiration date. To date, we have had minimal product returns and we currently do not have an accrual for product returns. We will continue to assess our estimate for product returns as we gain additional historical experience.

Cost of Sales – Product

Product cost of sales consists primarily of materials, third-party manufacturing costs as well as freight and royalties owed to our licensing partners for Rubraca sales.

Cost of Sales – Intangible Asset Amortization

Cost of sales for intangible asset amortization consists of the amortization of capitalized milestone payments made to our licensing partners upon FDA approval of Rubraca. Milestone payments are amortized on a straight-line basis over the estimated remaining patent life of Rubraca.

Inventory

Inventories are stated at the lower of cost or estimated net realizable value, on a first-in, first-out (“FIFO”) basis. We began capitalizing incurred inventory related costs upon the regulatory approval of Rubraca. Prior to the regulatory approval of Rubraca, we incurred costs for the manufacture of the drug that could potentially be available to support the commercial launch of Rubraca and all such costs were recognized as research and development expense. We periodically analyze our inventory levels, and write down inventory that has become obsolete, inventory that has a cost basis in excess of its estimated realizable value and/or inventory in excess of expected sales requirements as cost of product revenues. Expired inventory would be disposed of and the related costs would be written off as cost of product revenues.

The active pharmaceutical ingredient (“API”) in Rubraca is currently produced by a single supplier. As the API has undergone significant manufacturing specific to its intended purpose at the point it is purchased by us, we classify the API as work-in-process inventory. Inventory used in clinical trials is expensed as research and development expense when it has been identified for such use.

Our other significant accounting policies are described in Note 2, Summary of Significant Accounting Policies of the Notes to the Consolidated Financial Statements included in our 2017 Form 10-K.

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3. Financial Instruments and Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (at exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices in active markets for identical assets or liabilities. Our Level 1 assets consist of money market investments. We do not have Level 1 liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Level 2 assets consist of U.S. treasury securities. We do not have Level 2 liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity. We do not have Level 3 assets or liabilities that are measured at fair value on a recurring basis.

The following table identifies our assets and liabilities that were measured at fair value on a recurring basis (in thousands):

	Balance	Level 1	Level 2	Level 3
June 30, 2018				
Assets:				
Money market	\$ 422,029	\$ 422,029	\$ —	\$ —
U.S. treasury securities	213,921	—	213,921	—
Total assets at fair value	\$ 635,950	\$ 422,029	\$ 213,921	\$ —
December 31, 2017				
Assets:				
Money market	\$ 433,136	\$ 433,136	\$ —	\$ —
U.S. treasury securities	99,533	—	99,533	—
Total assets at fair value	\$ 532,669	\$ 433,136	\$ 99,533	\$ —

There were no transfers between the Level 1 and Level 2 categories or into or out of the Level 3 category during the three and six months ended June 30, 2018.

Financial instruments not recorded at fair value include our convertible senior notes. At June 30 2018, the carrying amount of the 2021 Notes was \$283.0 million, which represents the aggregate principal amount net of remaining debt issuance costs, and the fair value was \$310.2 million. At June 30 2018, the carrying amount of the 2025 Notes was \$291.0 million, which represents the aggregate principal amount net of remaining debt issuance costs, and the fair value was \$276.0 million. The fair value was determined using Level 2 inputs based on the indicative pricing published by certain investment banks or trading levels of these notes, which are not listed on any securities exchange or quoted on an inter-dealer automated quotation system. See Note 9, Convertible Senior Notes for discussion of the convertible senior notes.

4. Available-for-Sale Securities

As of June 30, 2018, available-for-sale securities consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	\$ 213,957	\$ —	\$ (36)	\$ 213,921

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As of December 31, 2017, available-for-sale securities consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
U.S. treasury securities	\$ 99,650	\$ —	\$ (117)	\$ 99,533

As of June 30, 2018, our available-for-sale securities have been in a continuous loss position for less than 12 months. We have concluded that decline in the market value of the available-for-sale securities is temporary. A decline in the market value of a security below its cost that is deemed to be other than temporary is charged to earnings and results in the establishment of a new cost basis for the security. Factors evaluated to determine if an investment is other-than-temporarily impaired include significant deterioration in earnings performance, credit rating, asset quality or business prospects of the issuer; adverse changes in the general market conditions in which the issuer operates; and our intent and ability to hold the security until an anticipated recovery in value occurs.

As of June 30, 2018, the amortized cost and fair value of available-for-sale securities by contractual maturity were (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 213,957	\$ 213,921
Due in one year to two years	—	—
Total	\$ 213,957	\$ 213,921

5. Inventories

The following table presents inventories as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
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Work-in-process	\$ 57,453	\$ 24,721
Finished goods	5,536	2,787
Total inventories	\$ 62,989	\$ 27,508

Some of the costs related to our finished goods on-hand as of June 30, 2018 were expensed as incurred prior to the commercialization of Rubraca on December 19, 2016.

At June 30, 2018, deposit on inventory on the Consolidated Balance Sheets is a cash deposit of \$53.9 million made to a manufacturer for the purchase of work-in-process inventory which we expect to be converted to finished goods beyond the next twelve months.

6. Other Current Assets

Other current assets were comprised of the following (in thousands):

	June 30, 2018	December 31, 2017
Prepaid insurance	\$ 1,403	\$ 1,926
Prepaid expenses - other	4,768	3,355
Receivable - other	1,918	2,023
Other	271	196
Total	\$ 8,360	\$ 7,500

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7. Intangible Assets and Goodwill

Intangible assets related to capitalized milestones under license agreements consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Intangible asset - milestones	\$ 56,100	\$ 21,100
Accumulated amortization	(2,620)	(1,539)
Total intangible asset, net	\$ 53,480	\$ 19,561

The increase in our intangible asset – milestones since December 31, 2017 is due to a \$15.0 million milestone payment to Pfizer related to the April 6, 2018 FDA approval of our sNDA for Rubraca as maintenance treatment and a \$20.0 million milestone payment to Pfizer related to the European Commission approval of Rubraca in May 2018. See Note 12, License Agreements for further discussion of these approvals.

The estimated useful lives of these intangible assets are based on the estimated remaining patent life of Rubraca and extend through 2035.

We recorded amortization expense of \$0.7 million and \$1.1 million related to capitalized milestone payments during the three and six months ended June 30, 2018, respectively. We recorded amortization expense of \$0.4 million and \$0.8 million related to capitalized milestone payments during the three and six months ended June 30, 2017, respectively. Amortization expense is included in cost of sales – intangible asset amortization on the Consolidated Statements of Operations and Comprehensive Loss.

Estimated future amortization expense associated with intangibles is expected to be as follows (in thousands):

2018	\$ 1,603
2019	3,209
2020	3,209
2021	3,209
2022	3,209
Thereafter	39,041
	\$ 53,480

The change in goodwill established as part of the purchase accounting of EOS in November 2013 consisted of the following (in thousands):

Balance at December 31, 2017	\$ 65,217
Change in foreign currency gains and losses	(1,742)
Balance at June 30, 2018	\$ 63,475

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8. Other Accrued Expenses

Other accrued expenses were comprised of the following (in thousands):

	June 30, 2018	December 31, 2017
Accrued personnel costs	\$ 9,552	\$ 13,889
Accrued interest payable	2,846	2,096
Income tax payable	100	—
Accrued corporate legal fees and professional services	219	415
Accrued royalties	4,163	2,984
Accrued variable considerations	1,788	1,008
Payable to third party logistics provider	14	2,661
Accrued expenses - other	2,246	2,830
Total	\$ 20,928	\$ 25,883

9. Convertible Senior Notes

2021 Notes

On September 9, 2014, we completed a private placement of \$287.5 million aggregate principal amount of 2.5% convertible senior notes due 2021 (the “2021 Notes”) resulting in net proceeds of \$278.3 million after deducting offering expenses. In accordance with the accounting guidance, the conversion feature did not meet the criteria for bifurcation, and the entire principal amount was recorded as a long-term liability on the Consolidated Balance Sheets.

The 2021 Notes are governed by the terms of the indenture between the Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2021 Notes are senior unsecured obligations and bear interest at a rate of 2.5% per year, payable semi-annually in arrears on March 15 and September 15 of each year. The 2021 Notes will mature on September 15, 2021, unless earlier converted, redeemed or repurchased.

Holder may convert all or any portion of the 2021 Notes at any time prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, the holders will receive shares of our common stock at an initial conversion rate of 16.1616 shares per \$1,000 in principal amount of 2021 Notes, equivalent to a conversion

price of approximately \$61.88 per share. The conversion rate is subject to adjustment upon the occurrence of certain events described in the indenture. In addition, following certain corporate events that occur prior to the maturity date or upon our issuance of a notice of redemption, we will increase the conversion rate for holders who elect to convert the 2021 Notes in connection with such a corporate event or during the related redemption period in certain circumstances.

On or after September 15, 2018, we may redeem the 2021 Notes, at our option, in whole or in part, if the last reported sale price of our common stock has been at least 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending not more than two trading days preceding the date on which we provide written notice of redemption at a redemption price equal to 100% of the principal amount of the 2021 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2021 Notes.

If we undergo a fundamental change, as defined in the indenture, prior to the maturity date of the 2021 Notes, holders may require us to repurchase for cash all or any portion of the 2021 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2021 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The 2021 Notes rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the 2021 Notes; equal in right of payment to all of our liabilities that are not so subordinated; effectively junior in right of payment to any secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

In connection with the issuance of the 2021 Notes, we incurred \$9.2 million of debt issuance costs. The debt issuance costs are presented as a deduction from the convertible senior notes on the Consolidated Balance Sheets and are

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amortized as interest expense over the expected life of the 2021 Notes using the effective interest method. We determined the expected life of the debt was equal to the seven-year term of the 2021 Notes.

2025 Notes

On April 19, 2018, we completed an underwritten public offering of \$300.0 million aggregate principal amount of 1.25% convertible senior notes due 2025 (the “2025 Notes”) resulting in net proceeds of \$291.0 million, after deducting underwriting discounts and commissions and offering expenses. In accordance with the accounting guidance, the conversion feature did not meet the criteria for bifurcation, and the entire principal amount was recorded as a long-term liability on the Consolidated Balance Sheets.

The 2025 Notes are governed by the terms of the indenture between the Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented by the terms of that certain first supplemental indenture thereto. The 2025 Notes are senior unsecured obligations and bear interest at a rate of 1.25% per year, payable semi-annually in arrears on May 1 and November 1 of each year. The 2025 Notes will mature on May 1, 2025, unless earlier converted, redeemed or repurchased.

Holder may convert all or any portion of the 2025 Notes at any time prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, the holders will receive shares of our common stock at an initial conversion rate of 13.1278 shares per \$1,000 in principal amount of 2025 Notes, equivalent to a conversion price of approximately \$76.17 per share. The conversion rate is subject to adjustment upon the occurrence of certain events described in the indenture. In addition, following certain corporate events that occur prior to the maturity date or upon our issuance of a notice of redemption, we will increase the conversion rate for holders who elect to convert the 2025 Notes in connection with such a corporate event or during the related redemption period in certain circumstances.

On or after May 2, 2022, we may redeem the 2025 Notes, at our option, in whole or in part, if the last reported sale price of our common stock has been at least 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending not more than two trading days preceding the date on which we provide written notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2025 Notes.

If we undergo a fundamental change, as defined in the indenture, prior to the maturity date of the 2025 Notes, holders may require us to repurchase for cash all or any portion of the 2025 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2025 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The 2025 Notes rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the 2025 Notes; equal in right of payment to all of our liabilities that are not so subordinated, including the 2021 Notes; effectively junior in right of payment to any secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

In connection with the issuance of the 2025 Notes, we incurred \$9.0 million of debt issuance costs. The debt issuance costs are presented as a deduction from the convertible senior notes on the Consolidated Balance Sheets and are amortized as interest expense over the expected life of the 2025 Notes using the effective interest method. We determined the expected life of the debt was equal to the seven-year term of the 2025 Notes.

As of June 30, 2018 and December 31, 2017, the balance of unamortized debt issuance costs was \$13.2 million and \$5.1 million, respectively.

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The following table sets forth total interest expense recognized during the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Contractual interest expense	\$ 2,547	\$ 1,797	\$ 4,344	\$ 3,594
Accretion of interest on milestone liability	465	483	977	949
Amortization of debt issuance costs	569	318	895	635
Total interest expense	\$ 3,581	\$ 2,598	\$ 6,216	\$ 5,178

10. Stockholders' Equity

Common Stock

In April 2018, we sold 1,837,898 shares of our common stock in a public offering at \$54.41 per share. The net proceeds from the offering were \$93.8 million, after deducting underwriting discounts and commissions and offering expenses.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by our stockholders. Subject to the preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by our Board of Directors.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of changes in foreign currency translation adjustments, which includes changes in a subsidiary's functional currency, and unrealized gains and losses on available-for-sale securities.

The changes in accumulated balances related to each component of other comprehensive income (loss) are summarized for the three months ended June 30, 2018 and 2017, as follows (in thousands):

	Foreign Currency		Unrealized		Total Accumulated	
	Translation Adjustments		(Losses) Gains		Other Comprehensive	
	2018	2017	2018	2017	2018	2017
Balance at April 1,	\$ (40,400)	\$ (46,967)	\$ (261)	\$ (151)	\$ (40,661)	\$ (47,118)
Other comprehensive income (loss)	(3,944)	4,451	88	(3)	(3,856)	4,448
Total before tax	(44,344)	(42,516)	(173)	(154)	(44,517)	(42,670)
Tax effect	474	(1,639)	(2)	3	472	(1,636)
Balance at June 30,	\$ (43,870)	\$ (44,155)	\$ (175)	\$ (151)	\$ (44,045)	\$ (44,306)

The changes in accumulated balances related to each component of other comprehensive income (loss) are summarized for the six months ended June 30, 2018 and 2017, as follows (in thousands):

	Foreign Currency		Unrealized		Total Accumulated	
	Translation Adjustments		(Losses) Gains		Other Comprehensive	
	2018	2017	2018	2017	2018	2017
Balance at January 1,	\$ (41,917)	\$ (47,434)	\$ (256)	\$ (146)	\$ (42,173)	\$ (47,580)
Other comprehensive income (loss)	(1,953)	5,186	81	(8)	(1,872)	5,178
Total before tax	(43,870)	(42,248)	(175)	(154)	(44,045)	(42,402)
Tax effect	—	(1,907)	—	3	—	(1,904)
Balance at June 30,	\$ (43,870)	\$ (44,155)	\$ (175)	\$ (151)	\$ (44,045)	\$ (44,306)

The period change in each of the periods was primarily due to the currency translation of the goodwill and deferred income taxes associated with the acquisition of EOS in November 2013. There were no reclassifications out of accumulated other comprehensive loss in each of the three and six months ended June 30, 2018 and 2017.

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11. Share-Based Compensation

Share-based compensation expense for all equity based programs, including stock options, restricted stock units and the employee stock purchase plan, for the three and six months ended June 30, 2018 and 2017 was recognized in the accompanying Consolidated Statements of Operations as follows (in thousands):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Research and development	\$ 4,966	\$ 4,825	\$ 10,342	\$ 8,991
Selling, general and administrative	9,889	5,792	16,426	10,572
Total share-based compensation expense	\$ 14,855	\$ 10,617	\$ 26,768	\$ 19,563

We did not recognize a tax benefit related to share-based compensation expense during the three and six months ended June 30, 2018 and 2017, respectively, as we maintain net operating loss carryforwards and have established a valuation allowance against the entire net deferred tax asset as of June 30, 2018.

Stock Options

The following table summarizes the activity relating to our options to purchase common stock for the six months ended June 30, 2018:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Outstanding at December 31, 2017	5,789,735	\$ 46.77		
Granted	475,768	56.47		
Exercised	(47,091)	25.82		
Forfeited	(114,991)	62.86		
Outstanding at June 30, 2018	6,103,421	\$ 47.39	6.8	\$ 68,594
Vested and expected to vest at June 30, 2018	5,864,188	\$ 47.21	6.7	\$ 67,088
Vested and exercisable at June 30, 2018	4,129,536	\$ 45.35	5.9	\$ 54,282

The aggregate intrinsic value in the table above represents the pretax intrinsic value, based on our closing stock price of \$45.47 as of June 29, 2018, which would have been received by the option holders had all option holders with in-the-money options exercised their options as of that date.

The following table summarizes information about our stock options as of and for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share amounts):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Weighted-average grant date fair value per share	\$ 35.56	\$ 44.94	\$ 41.69	\$ 46.53
Intrinsic value of options exercised	\$ 610	\$ 4,759	\$ 1,372	\$ 14,284
Cash received from stock option exercises	\$ 702	\$ 5,439	\$ 1,216	\$ 11,113

As of June 30, 2018, the unrecognized share-based compensation expense related to unvested options, adjusted for expected forfeitures, was \$66.2 million and the estimated weighted-average remaining vesting period was 2.52 years.

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Restricted Stock

The following table summarizes the activity relating to our unvested restricted stock units (“RSUs”) for the six months ended June 30, 2018:

	Number of Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2017	589,529	\$ 41.67
Granted	406,440	57.22
Vested	(151,599)	39.55
Forfeited	(33,365)	45.29
Unvested as of June 30, 2018	811,005	\$ 49.71
Expected to vest after June 30, 2018	689,899	\$ 49.36

As of June 30, 2018, the unrecognized share-based compensation expense related to unvested RSUs, adjusted for expected forfeitures, was \$31.5 million and the estimated weighted-average remaining vesting period was 3.17 years.

12. License Agreements

Rucaparib

In June 2011, we entered into a worldwide license agreement with Pfizer, Inc. to obtain exclusive global rights to develop and commercialize rucaparib, a small molecule inhibitor of poly (ADP-ribose) polymerase (“PARP”), used for the treatment of selected solid tumors. The exclusive rights are exclusive even as to Pfizer and include the right to grant sublicenses. Pursuant to the terms of the license agreement, we made a \$7.0 million upfront payment to Pfizer and are required to make additional payments to Pfizer for the achievement of certain development and regulatory and sales milestones and royalties on sales as required by the license agreement. Prior to the FDA approval of rucaparib, discussed below, we made milestone payments of \$1.4 million, which were recognized as acquired in-process research and development expense.

On August 30, 2016, we entered into a first amendment to the worldwide license agreement with Pfizer, which amends the June 2011 existing worldwide license agreement to permit us to defer payment of the milestone payments payable upon (i) FDA approval of an NDA for 1st Indication in US and (ii) EMA approval of an MAA for 1st

Indication in EU, to a date that is 18 months after the date of achievement of such milestones.

On December 19, 2016, the FDA approved Rubraca (rucaparib) tablets as monotherapy for the treatment of patients with deleterious BRCA mutation (germline and/or somatic) associated advanced ovarian cancer who have been treated with two or more chemotherapies, and selected for therapy based on an FDA-approved companion diagnostic for Rubraca. The FDA approval resulted in a \$0.75 million milestone payment to Pfizer as required by the license agreement, which was made in the first quarter of 2017. The FDA approval also resulted in the obligation to pay a \$20.0 million milestone payment, for which we exercised the option to defer payment by agreeing to pay \$23.0 million within 18 months after the date of the FDA approval. We paid the \$23.0 million milestone payment in June 2018.

On April 6, 2018, the FDA approved our sNDA for Rubraca as maintenance treatment of adult patients with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy. This approval resulted in the obligation to pay a \$15.0 million milestone payment, which we paid in April 2018.

In May 2018, the European Commission granted a conditional marketing authorization for Rubraca as monotherapy treatment of adult patients with platinum sensitive, relapsed or progressive, BRCA mutated (germline and/or somatic), high-grade epithelial ovarian, fallopian tube, or primary peritoneal cancer, who have been treated with two or more prior lines of platinum based chemotherapy, and who are unable to tolerate further platinum based chemotherapy. This approval resulted in the obligation to pay a \$20.0 million milestone payment, which we paid in June 2018.

These milestone payments were recognized as intangible assets and will be amortized over the estimated remaining useful life of Rubraca.

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We are obligated under the license agreement to use commercially reasonable efforts to develop and commercialize rucaparib and we are responsible for all remaining development and commercialization costs for rucaparib. We are required to make regulatory milestone payments to Pfizer of up to an additional \$31.75 million in aggregate if specified clinical study objectives and regulatory filings, acceptances and approvals are achieved. In addition, we are obligated to make sales milestone payments to Pfizer if specified annual sales targets for rucaparib are met, which relate to annual sales targets of \$250.0 million and above, which, in the aggregate, could amount to total milestone payments of \$170.0 million, and tiered royalty payments at a mid-teen percentage rate on our net sales, with standard provisions for royalty offsets to the extent we need to obtain any rights from third parties to commercialize rucaparib.

In April 2012, we entered into a license agreement with AstraZeneca UK Limited to acquire exclusive rights associated with rucaparib under a family of patents and patent applications that claim methods of treating patients with PARP inhibitors in certain indications. The license enables the development and commercialization of rucaparib for the uses claimed by these patents. AstraZeneca receives royalties on any net sales of rucaparib.

Lucitanib

In connection with our acquisition of EOS in November 2013, we gained rights to develop and commercialize lucitanib, an oral, selective tyrosine kinase inhibitor. As further described below, EOS licensed the worldwide rights, excluding China, to develop and commercialize lucitanib from Advenchen Laboratories LLC (“Advenchen”). Subsequently, rights to develop and commercialize lucitanib in markets outside the U.S. and Japan were sublicensed by EOS to Servier in exchange for upfront milestone fees, royalties on sales of lucitanib in the sublicensed territories and research and development funding commitments.

In October 2008, EOS entered into an exclusive license agreement with Advenchen to develop and commercialize lucitanib on a global basis, excluding China. We are obligated to pay Advenchen tiered royalties at percentage rates in the mid-single digits on net sales of lucitanib, based on the volume of annual net sales achieved. In addition, after giving effect to the first and second amendments to the license agreement, we are required to pay to Advenchen 25% of any consideration, excluding royalties, received pursuant to any sublicense agreements for lucitanib, including the agreement with Servier. We are obligated under the agreement to use commercially reasonable efforts to develop and commercialize at least one product candidate containing lucitanib, and we are also responsible for all remaining development and commercialization costs for lucitanib.

The license agreement with Advenchen will remain in effect until the expiration of all our royalty obligations to Advenchen, determined on a product-by-product and country-by-country basis, unless we elect to terminate the agreement earlier. If we fail to meet our obligations under the agreement and are unable to cure such failure within specified time periods, Advenchen can terminate the agreement, resulting in a loss of our rights to lucitanib.

During 2017, we completed the committed on-going development activities related to lucitanib and received full reimbursement of our development costs from Servier. Reimbursements are recorded as a reduction to research and development expense on the Consolidated Statements of Operations. Lucitanib was originally developed by Clovis and Servier with the hypothesis of activity in FGFR driven tumors; however, data in breast and lung cancer were insufficient to move the program forward. We have received notice from Servier of termination of their rights to lucitanib, resulting in the return of global rights (excluding China) for lucitanib to us later in 2018.

We are party to a product license agreement for our other drug candidate rociletinib (see our 2017 Form 10-K for additional details).

13. Net Loss Per Common Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding using the treasury-stock method for the stock options and RSUs and the if-converted method for the 2021 Notes and 2025 Notes. As a result of our net losses for the periods presented, all potentially dilutive common share equivalents were considered anti-dilutive and were excluded from the computation of diluted net loss per share.

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The shares outstanding at the end of the respective periods presented in the table below were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect (in thousands):

	Three and Six months ended June 30,	
	2018	2017
Common shares under option	3,723	6,373
Convertible senior notes	8,584	4,646
Total potential dilutive shares	12,307	11,019

14. Commitments and Contingencies

Royalty and License Fee Commitments

We have entered into certain license agreements, as identified in Note 12, License Agreements, with third parties that include the payment of development and regulatory milestones, as well as royalty payments, upon the achievement of pre-established development, regulatory and commercial targets. Our payment obligation related to these license agreements is contingent upon the successful development, regulatory approval and commercialization of the licensed products. Due to the nature of these arrangements, the future potential payments are inherently uncertain, and accordingly, we only recognize payment obligations which are probable and estimable as of the balance sheet date. Milestone liabilities of \$0.0 million and \$22.0 million are recorded on our Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively, and relate to milestone payments for the licensing of our rucaparib product, which was approved by the FDA on December 19, 2016.

Manufacture and Services Agreement Commitments

On October 3, 2016, we entered into a Manufacturing and Services Agreement (the "Agreement") with a non-exclusive third-party supplier for the production of the active ingredient for Rubraca. Under the terms of the Agreement, we will provide the third-party supplier a rolling forecast for the supply of the active ingredient in Rubraca that will be updated by us on a quarterly basis. We are obligated to order material sufficient to satisfy an initial quantity specified in any forecast. In addition, the third-party supplier will construct, in its existing facility, a production train that will be exclusively dedicated to the manufacture of the Rubraca active ingredient. We are obligated to make scheduled capital

program fee payments toward capital equipment and other costs associated with the construction of the dedicated production train. Further, once the facility is operational, we are obligated to pay a fixed facility fee each quarter for the duration of the Agreement, which expires on December 31, 2025, unless extended by mutual consent of the parties. As of June 30, 2018, \$147.8 million of purchase commitments exist under the Agreement.

Legal Proceedings

We and certain of our officers were named as defendants in several lawsuits, as described below. We cannot reasonably predict the outcome of these legal proceedings, nor can we estimate the amount of loss or range of loss, if any, that may result. An adverse outcome in these proceedings could have a material adverse effect on our results of operations, cash flows or financial condition.

Rociletinib-Related Litigation

Following Clovis' regulatory announcement in November 2015 of adverse developments in its ongoing clinical trials for rociletinib, Clovis and certain of its current and former executives were named in various securities lawsuits, the largest of which was a putative class action lawsuit in the District of Colorado (the "Medina Action") which was settled on October 26, 2017 (the "Medina Settlement"). The open actions currently pending against Clovis are discussed below.

On November 10, 2016, Antipodean Domestic Partners ("Antipodean") filed a complaint (the "Antipodean Complaint") against Clovis and certain of its officers, directors and underwriters in New York Supreme Court, County of New York. The Antipodean Complaint alleges that the defendants violated certain sections of the Securities Act by making allegedly false statements to Antipodean and in the offering materials for the July 2015 Offering relating to the efficacy of rociletinib, its safety profile, and its prospects for market success. In addition to the Securities Act claims, the

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Antipodean Complaint also asserts Colorado state law claims and common law claims. Both the state law and common law claims are based on allegedly false and misleading statements regarding rociletinib's progress toward FDA approval. The Antipodean Complaint seeks compensatory, recessionary, and punitive damages.

On December 15, 2016, the Antipodean Plaintiffs filed an amended complaint (the "Antipodean Amended Complaint") asserting substantially the same claims against the same defendants and purporting to correct certain details in the original Antipodean Complaint.

On January 31, 2017, the defendants filed a motion to stay the Antipodean action pending resolution of the Medina Action in the District of Colorado. On March 14, 2017, the Clovis defendants and Antipodean participated in a mediation, which did not result in a settlement.

On March 29, 2017, the defendants filed a motion to dismiss the Antipodean Amended Complaint. On August 8, 2017, Justice Masley of the New York Supreme Court, County of New York granted the defendants' motion to stay. Per the Court's August 10, 2017 order, the defendants' motion to dismiss was held in abeyance and deemed submitted on November 1, 2017. On November 1, 2017, the defendants provided a status update to the Court regarding the outcome of the hearing. The update informed the Court that Antipodean had excluded itself from the Medina Settlement, as memorialized in the final judgment entered by the Medina Court.

On April 17, 2018, the parties participated in a Preliminary Conference, following which the Court entered a preliminary conference order, providing for, among other things, an end date for discovery of February 4, 2019.

On May 2, 2018, the Court issued an order denying the defendants' motion to dismiss. Defendants filed an answer to the Antipodean Amended Complaint on June 6, 2018.

The Company intends to vigorously defend against the allegations in the Antipodean Amended Complaint. However, there can be no assurance that the defense will be successful.

In March 2017, two putative shareholders of the Company, Macalinao and McKenry (the "Derivative Plaintiffs"), filed shareholder derivative complaints against certain directors and officers of the Company in the Court of Chancery of the State of Delaware. On May 4, 2017, the Macalinao and McKenry actions were consolidated for all purposes in a single proceeding under the caption In re Clovis Oncology, Inc. Derivative Litigation, Case No. 2017-0222 (the "Consolidated Derivative Action").

On May 18, 2017, the Derivative Plaintiffs filed a Consolidated Verified Shareholder Derivative Complaint (the “Consolidated Derivative Complaint”). The Consolidated Derivative Complaint generally alleged that the defendants breached their fiduciary duties owed to the Company by allegedly causing or allowing misrepresentations of the Company’s business operations and prospects, failing to ensure that the TIGER-X clinical trial was being conducted in accordance with applicable rules, regulations and protocols, and engaging in insider trading. The Consolidated Derivative Complaint purported to rely on documents produced by the Company in response to prior demands for inspection of the Company’s books and records served on the Company by each of Macalinao and McKenry under 8 Del. C. § 220. The Consolidated Derivative Complaint sought, among other things, an award of money damages.

On July 31, 2017, the defendants filed a motion to dismiss the Consolidated Derivative Complaint. Plaintiffs filed an opposition to the motion to dismiss on August 31, 2017, and the defendants filed a reply in further support of the motion to dismiss on September 26, 2017. Oral argument on the defendants’ motion to dismiss the Consolidated Derivative Complaint has been scheduled for February 4, 2019.

The Company intends to vigorously defend against the allegations in the Consolidated Derivative Complaint, but there can be no assurance that the defense will be successful.

On March 20, 2017, a purported shareholder of the Company, filed a shareholder derivative complaint (the “Guo Complaint”) against certain officers and directors of the Company in the United States District Court for the District of Colorado. The Guo Complaint generally alleged that the defendants breached their fiduciary duties owed to the Company by either recklessly or with gross negligence approving or permitting misrepresentations of the Company’s business operations and prospects. The Guo Complaint also alleged claims for waste of corporate assets and unjust enrichment. Finally, the Guo Complaint alleged that certain of the individual defendants violated Section 14(a) of the

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Securities Exchange Act, by allegedly negligently issuing, causing to be issued, and participating in the issuance of materially misleading statements to stockholders in the Company's Proxy Statement on Schedule DEF 14A in connection with the 2015 Annual Meeting of Stockholders, held on June 11, 2015. The Guo Complaint sought, among other things, an award of money damages.

On June 19, 2017, the parties filed a joint motion to stay the Guo action pending resolution of the motion to dismiss the Consolidated Derivative Complaint. On June 20, 2017, the court granted the motion to stay.

The Company intends to vigorously defend against the allegations in the Guo Complaint, but there can be no assurance that the defense will be successful.

As previously disclosed, the Company has received inquiries and requests for information from governmental agencies, including the U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice, relating to the Company's regulatory update announcement in November 2015 that the FDA requested additional clinical data on the efficacy and safety of rociletinib. On April 9, 2018, the Company received a "Wells Notice" letter from the staff of the SEC issued in connection with this investigation. In addition, the Company's CEO, Patrick Mahaffy, also received a Wells notice. These Wells Notices advised that the staff had made a preliminary determination to recommend to the SEC that it file an action against the Company and Mr. Mahaffy regarding possible violations of the federal securities laws. The Company and Mr. Mahaffy then submitted Wells Submissions explaining their view that no enforcement action was warranted to the SEC staff.

Following these submissions, the Company and Mr. Mahaffy then engaged in discussions with the SEC staff to resolve this matter. The Company has now reached an agreement in principle with the SEC staff to settle this matter on negligence-based charges. Pursuant to the proposed settlement, without admitting or denying the SEC's allegations, the Company would agree to pay a \$20.0 million civil penalty, which the Company reserved as a loss contingency on its consolidated balance sheet as of June 30, 2018, and would stipulate to a standard injunction against future violations of those provisions of the federal securities laws. Mr. Mahaffy has separately reached an agreement in principle with the SEC staff on similar negligence-based allegations, to which he would neither admit nor deny, and pay a civil penalty and be similarly enjoined. Mr. Mahaffy will continue to serve as the Company's Chief Executive Officer and as a member of the Company's Board of Directors.

The proposed settlements would not allege that the Company or any of its current or former officers engaged in any intentional fraud or misconduct. The proposed settlements are subject to approval by the SEC and will also require approval by the United States District Court where the settlements are ultimately filed. There can be no assurances that the proposed settlements ultimately will be approved on these terms by either the SEC or the court, or when the settlements will be finalized. Once finalized, the settlements will resolve the SEC's nearly three year investigation into the regulatory approval process of rociletinib.

Director Compensation Litigation

On May 10, 2017, John Solak, a purported shareholder of the Company, filed a shareholder derivative complaint in the Court of Chancery of the State of Delaware (the “Solak Complaint”) against certain directors and an officer of the Company. The Solak Complaint generally alleged that the defendants breached their fiduciary duties owed to the Company by adopting a compensation plan that overcompensated the non-employee director defendants, in relation to companies of comparable market capitalization and size. The Solak Complaint also alleged claims of waste of corporate assets and unjust enrichment. The Solak Complaint sought, among other things, an award of money damages and the imposition of corporate governance reforms.

On February 26, 2018, the defendants entered into a stipulation of compromise and settlement with plaintiff that was intended to settle the Solak action. On May 30, 2018, the Court approved the stipulation upon the conclusion of a settlement hearing concerning the fairness of the terms of the proposed settlement. In accordance with the terms of the settlement, as incorporated by reference in the Court’s Order and Final Judgment entered on the day of the hearing, the Company presented a new non-employee director compensation policy for shareholder vote at its 2018 annual shareholder meeting. Pursuant to the settlement, the Company is also instituting a number of corporate governance reforms, including, enhanced proxy disclosures, the codification of the Company’s stock ownership guidelines for directors, and enhanced disclosure requirements for certain forms of director compensation. While no cash payments

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were made to investors as part of the settlement, the court awarded a plaintiff's fee of \$395,000, which the Company paid on June 4, 2018. The settlement contained no admission of wrongdoing.

European Patent Opposition

Two oppositions were filed in the granted European counterpart of the rucaparib camsylate salt/polymorph patent on June 20, 2017. The grounds of opposition related to Rubraca were lack of novelty and lack of inventive step. A preliminary opinion and summons to oral proceedings were issued on April 4, 2018. The oral hearing is scheduled for December 4, 2018. The preliminary opinion provides a non-binding indication of the tribunal's view. In the preliminary opinion, the tribunal agree with some of our positions and agree with certain objections made by the opponents. As part of the proceeding, we have the opportunity to submit further argument and pursue alternative claims in the form of auxiliary requests. While the ultimate results of patent challenges can be difficult to predict, we believe a number of factors, including a constellation of unexpected properties, support the novelty and non-obviousness of our rucaparib camsylate salt/polymorph composition of matter patent.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Quarterly Report on Form 10-Q and the information incorporated herein by reference includes statements that are, or may be deemed, "forward-looking statements." In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "plans," "intends," "may," "could," "might," "will," "should," "approximately" or, in each case, their negative or other variations thereof, or comparable terminology, although not all forward-looking statements contain these words. They appear in a number of places throughout this Quarterly Report on Form 10-Q and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things, our ongoing and planned non-clinical studies and clinical trials, the timing of and our ability to make regulatory filings and obtain and maintain regulatory approvals for our product candidates, the degree of clinical utility of our products, particularly in specific patient populations, expectations regarding clinical trial data, our results of operations, financial condition, liquidity, prospects, growth and strategies, the industry in which we operate and the trends that may affect the industry or us.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics and industry change and depend on the economic circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. We caution you that forward-looking statements are not

guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industry in which we operate may differ materially from the forward-looking statements contained herein.

Any forward-looking statements that we make in this Quarterly Report on Form 10-Q speak only as of the date of such statement, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

You should also read carefully the factors described in the “Risk Factors” in Part I, Item 1A in our most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”), as updated from time to time in our subsequent SEC filings, to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

Overview

We are a biopharmaceutical company focused on acquiring, developing and commercializing innovative anti-cancer agents in the United States, Europe and additional international markets. We target our development programs for the treatment of specific subsets of cancer populations, and simultaneously develop, with partners, diagnostic tools intended to direct a compound in development to the population that is most likely to benefit from its use.

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Our marketed product Rubraca® (rucaparib) is approved in the United States by the Food and Drug Administration (“FDA”) for two indications, encompassing two settings for the treatment of recurrent epithelial ovarian, fallopian tube or primary peritoneal cancer. The initial treatment indication received in December 2016 covers the treatment of adult patients with deleterious BRCA (human genes associated with the repair of damaged DNA) mutation (germline and/or somatic) epithelial ovarian, fallopian tube, or primary peritoneal cancer who have been treated with two or more chemotherapies, and selected for therapy based on an FDA-approved companion diagnostic for Rubraca. In April 2018, the FDA also approved Rubraca for the maintenance treatment of adult patients with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy. The FDA granted regular approval for Rubraca in this second, broader and earlier-line indication on a priority review timeline based on positive data from the phase 3 ARIEL3 clinical trial. Diagnostic testing is not required for patients to be prescribed Rubraca in this maintenance treatment indication.

In May 2018, the European Commission granted a conditional marketing authorization for Rubraca as monotherapy treatment of adult patients with platinum sensitive, relapsed or progressive, BRCA mutated (germline and/or somatic), high-grade epithelial ovarian, fallopian tube, or primary peritoneal cancer, who have been treated with two or more prior lines of platinum based chemotherapy, and who are unable to tolerate further platinum based chemotherapy. As this is a conditional approval, it will be necessary to complete confirmatory post marketing commitments, including ensuring that sufficient partially platinum sensitive patients are enrolled in our ARIEL4 confirmatory trial to support the indication. This may require enrollment of additional patients into the study, increasing its overall size and extending the time for enrollment. In June 2018, we submitted to the EMA a variation to the marketing authorization for the maintenance treatment of adult patients with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy, for which we received EMA validation for this application in July 2018. We anticipate an opinion on this application from the CHMP of the EMA by the end of 2018.

Beyond our initial labeled indication, we have a robust Rubraca clinical development program underway in a variety of solid tumor types, also including prostate and bladder cancers, and in July 2017, we entered into a broad clinical collaboration with Bristol-Myers Squibb Company to evaluate the combination of their immunotherapy OPDIVO (nivolumab) with Rubraca in several tumor types. We hold worldwide rights for Rubraca.

In June 2011, we obtained an exclusive, worldwide license from Pfizer to develop and commercialize rucaparib. U.S. Patent 6,495,541, and its equivalent counterparts issued in dozens of countries, directed to the rucaparib composition of matter, expire in 2020 and are potentially eligible for up to five years patent term extension in various jurisdictions. We believe that patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984 (the “Hatch-Waxman Act”) could be available to extend our patent exclusivity for rucaparib to the fourth quarter of 2023 in the United States. In Europe, we believe that patent term extension under a supplementary protection certificate could be available for an additional five years for one European patent directed to Rubraca. In April 2012, we obtained an exclusive license from AstraZeneca under a family of patents and patent applications which will permit the development and commercialization of rucaparib for certain methods of treating patients with PARP inhibitors. Additionally, other patents and patent applications are directed to methods of making, methods of using, dosing regimens, various salt and polymorphic forms and formulations and have expiration dates ranging from 2020 through potentially 2035, including the camsylate salt/polymorph patent family licensed from Pfizer, which expires in 2031 and a patent family directed to high dosage strength rucaparib tablets that expires in 2035. As of May 3, 2018,

the rucaparib camsylate salt/polymorph patent was issued in 47 countries to date (including US and Europe), with applications pending in 9 countries, and the rucaparib composition of matter patent was issued in 48 countries. We are aware of a number of challenges of salt and polymorph patents. Two oppositions were filed in the granted European counterpart of the rucaparib camsylate salt/polymorph patent on June 20, 2017. European oppositions are commonly filed against patents related to pharmaceutical products. The grounds of opposition related to Rubraca were lack of novelty and lack of inventive step. The novelty and inventive step challenges are based on prior art references (or closely related disclosures) that were previously raised by the European patent examiner during prosecution of the application. The claims of the granted patent were found to be patentable over this prior art. A preliminary opinion and summons to oral proceedings were issued on April 4, 2018. The oral hearing is scheduled for December 4, 2018. The preliminary opinion provides a non-binding indication of the tribunal's view. In the preliminary opinion, the tribunal agree with some of our positions and agree with certain objections made by the opponents. As part of the proceeding, we have the opportunity to submit further argument and pursue alternative claims in the form of auxiliary requests. While the ultimate results of patent challenges can be difficult to predict, we believe a number of factors, including a constellation of unexpected properties, support the novelty and non-obviousness of our rucaparib camsylate salt/polymorph composition of matter

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patent. We believe a successful challenge of all claims relevant to Rubraca would be difficult. Our high dosage strength rucaparib tablets patent issued in the United States on June 5, 2018, with claims that cover the commercial Rubraca product, including all commercial dosage strengths expires in 2035. Additionally, in Europe, regulatory exclusivity is available for ten years, plus one year for a new indication, therefore, we have regulatory exclusivity for Rubraca in Europe until 2028, and if an additional indication is approved, until 2029.

In addition to Rubraca, we have two other product candidates.

Lucitanib is an oral, potent inhibitor of the tyrosine kinase activity of vascular endothelial growth factor receptors 1 through 3 (VEGFR1-3), platelet-derived growth factor receptors alpha and beta (PDGFR /) and fibroblast growth factor receptors 1 through 3 (FGFR1-3). Lucitanib was originally developed by Clovis and Servier with the hypothesis of activity in FGFR driven tumors; however, data in breast and lung cancer were insufficient to move the program forward. We have received notice from Servier of termination of their rights to lucitanib, resulting in the return of global rights (excluding China) for lucitanib to us later in 2018. We believe that recent data for a drug similar to lucitanib that inhibits these same pathways – when combined with a PD-1 inhibitor – provide support for development of lucitanib in combination with a PD-(L)1 inhibitor, and we intend to initiate a study of the combination. We also intend to initiate a study of lucitanib in combination with Rubraca, based on encouraging data of VEGF and PARP inhibitors in combination. Each of these studies is expected to initiate in the first quarter of 2019. We maintain certain development and commercialization rights for lucitanib. Following the termination of the Servier license agreement, we will have global development and commercialization rights (except for China) for lucitanib.

Rociletinib is an oral mutant-selective inhibitor of epidermal growth factor receptor (“EGFR”). While we have stopped enrollment in ongoing trials for rociletinib, we continue to provide drug to patients whose clinicians recommend continuing therapy. We have global development and commercialization rights for rociletinib.

We commenced operations in April 2009. To date, we have devoted substantially all of our resources to identifying and in-licensing product candidates, performing development activities with respect to those product candidates and the general and administrative support of these operations. Through June 30, 2018, we have generated \$13.6 million in license and milestone revenue related to our collaboration and license agreement with Servier and for the six months ended June 30, 2018 and 2017 have generated \$42.3 million and \$21.7 million, respectively, product revenue related to sales of Rubraca, which we began to commercialize on December 19, 2016. We have principally funded our operations using the net proceeds from the sale of convertible preferred stock, the issuance of convertible promissory notes, public offerings of our common stock and our convertible senior notes offering.

We have never been profitable and, as of June 30, 2018, we had an accumulated deficit of \$1,654.0 million. We incurred net losses of \$178.9 million and \$233.8 million for the six months ended June 30, 2018 and 2017, respectively. We had cash, cash equivalents and available-for-sale securities totaling \$682.2 million at June 30, 2018.

We expect to incur significant losses for the foreseeable future, as we incur costs related to commercial activities associated with Rubraca. In April 2018, we sold 1,837,898 shares of our common stock in a public offering at \$54.41 per share. The net proceeds from the offering were \$93.8 million, after deducting underwriting discounts and commissions and offering expenses. Concurrently, we completed the public offering of \$300.0 million aggregate principal amount of 1.25% convertible senior notes due 2025. The net proceeds from this offering were \$291.0 million, after deducting underwriting discounts and commissions and offering expenses. We intend to use the net proceeds of the offerings for general corporate purposes, including sales and marketing expenses associated with Rubraca in the United States and Europe, funding of our development programs, selling, general and administrative expenses, acquisition or licensing of additional product candidates or businesses and working capital. Based on current estimates, we believe that our existing cash, cash equivalents and available-for-sale securities will allow us to fund our operating plan through at least the next 12 months. Until we can generate a sufficient amount of revenue from Rubraca, we expect to finance our operations in part through additional public or private equity or debt offerings and may seek additional capital through arrangements with strategic partners or from other sources. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenues to achieve profitability, and we may never do so.

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Product License Agreements

Rucaparib

In June 2011, we entered into a worldwide license agreement with Pfizer, Inc. to obtain exclusive global rights to develop and commercialize rucaparib, a small molecule inhibitor of poly (ADP-ribose) polymerase (“PARP”), used for the treatment of selected solid tumors. The exclusive rights are exclusive even as to Pfizer and include the right to grant sublicenses. Pursuant to the terms of the license agreement, we made a \$7.0 million upfront payment to Pfizer and are required to make additional payments to Pfizer for the achievement of certain development and regulatory and sales milestones and royalties on sales as required by the license agreement. Prior to the FDA approval of rucaparib, discussed below, we made milestone payments of \$1.4 million, which were recognized as acquired in-process research and development expense.

On August 30, 2016, we entered into a first amendment to the worldwide license agreement with Pfizer, which amends the June 2011 existing worldwide license agreement to permit us to defer payment of the milestone payments payable upon (i) FDA approval of an NDA for 1st Indication in US and (ii) EMA approval of an MAA for 1st Indication in EU, to a date that is 18 months after the date of achievement of such milestones.

On December 19, 2016, the FDA approved Rubraca (rucaparib) tablets as monotherapy for the treatment of patients with deleterious BRCA mutation (germline and/or somatic) associated advanced ovarian cancer who have been treated with two or more chemotherapies, and selected for therapy based on an FDA-approved companion diagnostic for Rubraca. The FDA approval resulted in a \$0.75 million milestone payment to Pfizer as required by the license agreement, which was made in the first quarter of 2017. The FDA approval also resulted in the obligation to pay a \$20.0 million milestone payment, for which we exercised the option to defer payment by agreeing to pay \$23.0 million within 18 months after the date of the FDA approval. We paid the \$23.0 million milestone payment in June 2018.

On April 6, 2018, the FDA approved our sNDA for Rubraca as maintenance treatment of adult patients with recurrent epithelial ovarian, fallopian tube, or primary peritoneal cancer who are in a complete or partial response to platinum-based chemotherapy. This approval resulted in the obligation to pay a \$15.0 million milestone payment, which we paid in April 2018.

In May 2018, the European Commission granted a conditional marketing authorization for Rubraca as monotherapy treatment of adult patients with platinum sensitive, relapsed or progressive, BRCA mutated (germline and/or somatic), high-grade epithelial ovarian, fallopian tube, or primary peritoneal cancer, who have been treated with two or more prior lines of platinum based chemotherapy, and who are unable to tolerate further platinum based chemotherapy. This approval resulted in the obligation to pay a \$20.0 million milestone payment, which we paid in June 2018.

These milestone payments were recognized as intangible assets and will be amortized over the estimated remaining useful life of Rubraca.

We are obligated under the license agreement to use commercially reasonable efforts to develop and commercialize rucaparib and we are responsible for all remaining development and commercialization costs for rucaparib. We are required to make regulatory milestone payments to Pfizer of up to an additional \$31.75 million in aggregate if specified clinical study objectives and regulatory filings, acceptances and approvals are achieved. In addition, we are obligated to make sales milestone payments to Pfizer if specified annual sales targets for rucaparib are met which relate to annual sales targets of \$250.0 million and above, which, in the aggregate, could amount to total milestone payments of \$170.0 million, and tiered royalty payments at a mid-teen percentage rate on our net sales, with standard provisions for royalty offsets to the extent we need to obtain any rights from third parties to commercialize rucaparib.

In April 2012, we entered into a license agreement with AstraZeneca UK Limited to acquire exclusive rights associated with rucaparib under a family of patents and patent applications that claim methods of treating patients with PARP inhibitors in certain indications. The license enables the development and commercialization of rucaparib for the uses claimed by these patents. AstraZeneca receives royalties on any net sales of rucaparib.

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Lucitanib

In connection with our acquisition of EOS in November 2013, we gained rights to develop and commercialize lucitanib, an oral, selective tyrosine kinase inhibitor. As further described below, EOS licensed the worldwide rights, excluding China, to develop and commercialize lucitanib from Advenchen Laboratories LLC (“Advenchen”). Subsequently, rights to develop and commercialize lucitanib in markets outside the U.S. and Japan were sublicensed by EOS to Servier in exchange for upfront milestone fees, royalties on sales of lucitanib in the sublicensed territories and research and development funding commitments.

In October 2008, EOS entered into an exclusive license agreement with Advenchen to develop and commercialize lucitanib on a global basis, excluding China. We are obligated to pay Advenchen tiered royalties at percentage rates in the mid-single digits on net sales of lucitanib, based on the volume of annual net sales achieved. In addition, after giving effect to the first and second amendments to the license agreement, we are required to pay to Advenchen 25% of any consideration, excluding royalties, received pursuant to any sublicense agreements for lucitanib, including the agreement with Servier. We are obligated under the agreement to use commercially reasonable efforts to develop and commercialize at least one product candidate containing lucitanib, and we are also responsible for all remaining development and commercialization costs for lucitanib.

The license agreement with Advenchen will remain in effect until the expiration of all our royalty obligations to Advenchen, determined on a product-by-product and country-by-country basis, unless we elect to terminate the agreement earlier. If we fail to meet our obligations under the agreement and are unable to cure such failure within specified time periods, Advenchen can terminate the agreement, resulting in a loss of our rights to lucitanib.

During 2017, we completed the committed on-going development activities related to lucitanib and received full reimbursement of our development costs from Servier. Reimbursements are recorded as a reduction to research and development expense on the Consolidated Statements of Operations. Lucitanib was originally developed by Clovis and Servier with the hypothesis of activity in FGFR driven tumors; however, data in breast and lung cancer were insufficient to move the program forward. We have received notice from Servier of termination of their rights to lucitanib, resulting in the return of global rights (excluding China) for lucitanib to us later in 2018.

We are party to a product license agreement for our other drug candidate rociletinib (see our 2017 Form 10-K for additional details).

Financial Operations Overview

Revenue

Product revenue is derived from sales of our product, Rubraca, in the United States. We distribute our product in the U.S. principally through a limited number of specialty distributor and specialty pharmacy providers, collectively, our customers. Our customers subsequently sell our products to patients and healthcare providers. Separately, we have arrangements with certain payors and other third parties that provide for government-mandated and privately-negotiated rebates, chargebacks and other discounts. Revenue is recorded net of estimated rebates, chargebacks, discounts and other deductions as well as estimated product returns (collectively, “variable considerations”). Revenue from product sales are recognized when customers obtain control of our product, which occurs at a point in time, typically upon delivery to the customers. For further discussion of our revenue recognition policy, see Note 2, Summary of Significant Accounting Policies in the Revenue Recognition section.

In the three and six months ended June 30, 2018, we recorded product revenue of \$23.8 million and \$42.3 million, respectively, related to sales of Rubraca, which we began to commercialize on December 19, 2016. Our ability to generate revenue and become profitable depends upon our ability to successfully commercialize products. Any inability on our part to successfully commercialize Rubraca in the United States and any foreign territories where it may be approved, or any significant delay in such approvals, could have a material adverse impact on our ability to execute upon our business strategy and, ultimately, to generate sufficient revenues from Rubraca to reach or maintain profitability or sustain our anticipated levels of operations.

We supply commercially labeled Rubraca free of charge to eligible patients who qualify due to financial need through our patient assistance program and the majority of these patients are on Medicare. This product is distributed

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through a separate vendor who administers the program on our behalf. It is not distributed through our specialty distributor and specialty pharmacy network. This product is neither included in the transaction price nor the variable considerations to arrive at product revenue. Manufacturing costs associated with this free product is included in selling, general and administrative expenses. In the three months ended June 30, 2018, the supply of this free drug was approximately 25% of the overall commercial supply or the equivalent of \$7.9 million in commercial value. In the six months ended June 30, 2018, the supply of this free drug was approximately 24% of the overall commercial supply or the equivalent of \$13.4 million in commercial value. We expect the free product percentage to continue in the mid to high 20-percent range for the remainder of 2018.

Cost of Sales – Product

Product cost of sales consists primarily of materials, third-party manufacturing costs as well as freight and royalties owed to our licensing partners for Rubraca sales.

Cost of Sales – Intangible Asset Amortization

Cost of sales for intangible asset amortization consists of the amortization of capitalized milestone payments made to our licensing partners upon FDA approval of Rubraca. Milestone payments are amortized on a straight-line basis over the estimated remaining patent life of Rubraca.

Research and Development Expenses

Research and development expenses consist of costs incurred for the development of our product candidates and companion diagnostics, which include:

- license fees and milestone payments related to the acquisition of in-licensed products, which are reported on our Consolidated Statements of Operations as acquired in-process research and development;
- employee-related expenses, including salaries, benefits, travel and share-based compensation expense;
- expenses incurred under agreements with contract research organizations and investigative sites that conduct our clinical trials;
- the cost of acquiring, developing and manufacturing clinical trial materials;
- costs associated with non-clinical activities and regulatory operations;
- market research, disease education and other commercial product planning activities, including the hiring of a U.S. sales and marketing and medical affairs organization in preparation for the commercial launch of rucaparib; and
- activities associated with the development of companion diagnostics for our product candidates.

Research and development costs are expensed as incurred. License fees and milestone payments related to in-licensed products and technology are expensed if it is determined that they have no alternative future use. Costs for certain development activities, such as clinical trials and manufacturing of clinical supply, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations or information provided to us by our vendors. Our research and development expenses increased in the three and six months ended June 30, 2018 compared to the same period in the prior year. Our research and development expenses will continue to increase compared to last year due to higher research and development costs for rucaparib.

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The following table identifies research and development and acquired in-process research and development costs on a program-specific basis for our products under development. Personnel-related costs, depreciation and share-based compensation are not allocated to specific programs, as they are deployed across multiple projects under development and, as such, are separately classified as personnel and other expenses in the table below (in thousands):

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
	(in thousands)			
Rucaparib Expenses				
Research and development	\$ 33,049	\$ 16,980	\$ 57,556	\$ 31,490
Rucaparib Total	33,049	16,980	57,556	31,490
Lucitanib Expenses				
Research and development (a)	218	(13)	227	(99)
Lucitanib Total	218	(13)	227	(99)
Rociletinib Expenses				
Research and development	\$ 579	\$ 1,528	1,594	4,719
Rociletinib Total	579	1,528	1,594	4,719
Personnel and other expenses	18,861	14,613	36,873	29,445
Total	\$ 52,707	\$ 33,108	\$ 96,250	\$ 65,555

(a) This amount reflects actual costs incurred less amounts due from Servier for reimbursable development expenses pursuant to the collaboration and license agreement described in Note 12, License Agreements to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist principally of salaries and related costs for personnel in executive, commercial, finance, legal, investor relations, human resources, and information technology functions. Other selling, general and administrative expenses include facilities expenses, communication expenses, information technology costs, corporate insurance and professional fees for legal, consulting and accounting services. With the FDA approval of Rubraca on December 19, 2016, all sales and marketing expenses associated with Rubraca are included in selling, general and administrative expenses. Our selling, general and administrative expenses will continue to increase compared to last year in support of our commercial activities related to Rubraca in the United States and Europe.

Acquired In-Process Research and Development Expenses

Acquired in-process research and development expenses consist of upfront payments to acquire a new drug compound, as well as subsequent milestone payments. Acquired in-process research and development payments are immediately expensed provided that the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no alternative future use. Once regulatory approval is received, payments to acquire rights, and the related milestone payments, are capitalized and the amortization of such assets recorded to intangible asset amortization cost of sales.

Other Income and Expense

Other income and expense is primarily comprised of foreign currency gains and losses resulting from transactions with contract research organizations (“CROs”), investigational sites and contract manufacturers where payments are made in currencies other than the U.S. dollar. Other expense also includes interest expense recognized related to our convertible senior notes.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses and revenue and related disclosures. On an ongoing basis, we evaluate our estimates and judgments,

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including those related to revenue deductions, intangible asset impairment, clinical trial accruals and share-based compensation expense. We base our estimates on historical experience, known trends and events and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a description of our critical accounting policies, please see Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Other than the change to our revenue recognition policy discussed in Note 2, Summary of Significant Accounting Policies, there have not been any material changes to our critical accounting policies since December 31, 2017.

New Accounting Standards

From time to time, the Financial Accounting Standards Board (“FASB”) or other standards-setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification are communicated through the issuance of an Accounting Standards Update. Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our Consolidated Financial Statements upon adoption.

To understand the impact of recently issued guidance, whether adopted or to be adopted, please review the information provided in Note 2, Summary of Significant Accounting Policies, in the Notes to the Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Results of Operations

Comparison of Three Months Ended June 30, 2018 and 2017:

The following table summarizes the results of our operations for the three months ended June 30, 2018 and 2017 (in thousands):

Change

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	Three months ended June 30,		Favorable/(Unfavorable)		
	2018	2017	\$	%	
Product revenue	\$ 23,757	\$ 14,620	\$ 9,137	62	%
Operating expenses:					
Cost of sales - product	4,490	2,730	(1,760)	(64)	%
Cost of sales - intangible asset amortization	709	372	(337)	(91)	%
Research and development	52,707	33,108	(19,599)	(59)	%
Selling, general and administrative	44,864	36,149	(8,715)	(24)	%
Total expenses	102,770	72,359	(30,411)	(42)	%
Operating loss	(79,013)	(57,739)	(21,274)	(37)	%
Other income (expense):					
Interest expense	(3,581)	(2,598)	(983)	(38)	%
Foreign currency (loss) gain	(104)	76	(180)	(237)	%
Legal settlement loss	—	(117,000)	117,000	100	%
SEC settlement costs reserve	(20,000)	—	(20,000)	(100)	%
Other income	1,475	594	881	148	%
Other expense, net	(22,210)	(118,928)	96,718	81	%
Loss before income taxes	(101,223)	(176,667)	75,444	43	%
Income tax benefit	33	1,281	(1,248)	(97)	%
Net loss	\$ (101,190)	\$ (175,386)	\$ 74,196	42	%

Product Revenue. Product revenue for the three months ended June 30, 2018 increased compared to the same period in the prior year primarily due to continued growth in sales of Rubraca, which was approved for sale in the United States markets and we began shipping on December 19, 2016. Product revenue is recorded net of variable considerations

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comprised of rebates, chargebacks and other discounts. Variable considerations represented approximately 9.9% and 7.9% of the transaction price recognized in the three months ended June 30, 2018 and 2017, respectively, and are summarized as follows:

	Three months ended June 30, 2018		Three months ended June 30, 2017	
	\$	% of Gross Sales	\$	% of Gross Sales
	(in thousands)		(in thousands)	
Transaction price	\$ 26,390	100.0%	\$ 15,876	100.0%
Variable considerations:				
Government rebates and chargebacks	1,583	5.9%	635	4.0%
Discounts and fees	1,050	4.0%	621	3.9%
Total variable considerations	2,633	9.9%	1,256	7.9%
Product revenue	\$ 23,757	90.1%	\$ 14,620	92.1%

Cost of Sales – Product. Product cost of sales for the three months ended June 30, 2018 increased compared to the same period in the prior year primarily due to the increase in product revenue. Product cost of sales primarily relate to manufacturing, freight and royalties costs associated with Rubraca sales in the period. Manufacturing costs associated with sales in the three months ended June 30, 2017 were expensed as incurred based on our policy to expense costs associated with the manufacture of our products prior to regulatory approval, and therefore, a minimal amount is included as product cost of sales. These costs increased in the three months ended June 30, 2018, as we depleted these inventories as of the fourth quarter 2017.

Cost of Sales – Intangible Asset Amortization. In the three months ended June 30, 2018 and 2017, we recognized cost of sales of \$0.7 million and \$0.4 million, respectively, associated with the amortization of capitalized milestone payments related to the approvals of Rubraca by the FDA in December 2016 and April 2018 and by the European Commission in May 2018.

Research and Development Expenses. Research and development expenses increased during the three months ended June 30, 2018 compared to the same period in the prior year primarily due to higher research and development costs for rucaparib. Clinical trial costs for rucaparib were higher compared to the same quarter a year ago due to increased enrollment in our TRITON2 and TRITON3 studies for prostate cancer. We have increased costs related to our new ATLAS study for bladder cancer and our ATHENA combination study with Bristol-Myers Squibb Company's immunotherapy OPDIVO for ovarian cancer. In addition, personnel costs increased during the three months ended June 30, 2018 due to higher headcount.

Clinical trial costs for rociletinib were \$0.9 million lower than the second quarter of 2017 primarily due to the completion of patient enrollment for all of the TIGER studies in non-small cell lung cancer.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased during the three months ended June 30, 2018 compared to the same period in the prior year primarily due to \$3.3 million higher legal expense and \$3.6 million higher stock compensation expense.

Interest Expense. Interest expense increased during the three months ended June 30, 2018 compared to the same period in the prior year primarily due to the issuance of the 2025 Notes on April 19, 2018.

Legal Settlement Loss. During the second quarter of 2017, we recorded a one-time charge of \$117.0 million related to an agreement to resolve a litigation claim against us and certain of our officers.

SEC Settlement Costs Reserve. During the second quarter of 2018, we recorded a one-time charge of \$20.0 million related to a preliminary agreement reached with the SEC that, if approved by the SEC and the U.S. District Court where the settlement is filed, would resolve the SEC's pending investigation. See Note 14, Commitments and Contingencies for further information regarding this investigation and other legal proceedings.

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Comparison of Six Months Ended June 30, 2018 and 2017:

The following table summarizes the results of our operations for the six months ended June 30, 2018 and 2017 (in thousands):

	Six months ended		Change		
	June 30, 2018	2017	Favorable/(Unfavorable) \$	%	
Product revenue	\$ 42,279	\$ 21,665	\$ 20,614	95	%
Operating expenses:					
Cost of sales - product	8,495	3,893	(4,602)	(118)	%
Cost of sales - intangible asset amortization	1,080	743	(337)	(45)	%
Research and development	96,250				