Engaging the Body’s Natural Defense Against Cancer
To Our Shareholders

When I look back on 2017, I see it as a breakthrough year for Aileron Therapeutics, positioning us to bring transformation to drug development and the cancer patients who have been our focus since our founding. In 2017, Aileron made great strides in the clinic, our finances and our operations.

Our mission is quite simply to enable sick patients to get better. We started Aileron to pursue this mission by pioneering a new platform and a resulting novel class of therapeutics, stapled peptides, that may be able to address historically undruggable targets and diseases with high unmet needs. We chose to target p53—the guardian of the genome—as our first clinical program, as it is one of the most studied, implicated and clinically elusive targets in cancer. These ambitions are not without challenges, but I am proud to report that we made great progress in 2017: advancing our lead product candidate, ALRN-6924, in multiple clinical trials, as well as advancing the work necessary to support expansion of our lead compound into new monotherapy and combination clinical studies.

**ALRN-6924 CLINICAL PROGRAM**

ALRN-6924 is a first-in-class stapled peptide designed to reactivate wild-type (WT) p53 tumor suppression in solid and liquid tumors. We are pursuing a broad registration-oriented clinical development program in multiple cancer indications. P53 is important to patients because approximately half of all cancer patients have a p53 gene that is functionally suppressed through the activation or overexpression of regulatory proteins, including, primarily, the MDMX and MDM2 proteins. We believe that ALRN-6924 is the first and only product candidate in clinical development that can equipotently bind and disrupt the interaction of MDMX and MDM2 with p53. It is our goal to show that this unique mechanism of action can improve the efficacy and durability of responses, and provide an improved safety profile, over existing small molecule drugs that have attempted to target p53.

2017 was an exceptional year for Aileron and ALRN-6924 in terms of peer-reviewed scientific recognition. Our oral presentation at the American Society of Clinical Oncology Annual Meeting in June was selected for the “Best of ASCO” program; our presentation at the International Society of Experimental Hematology Annual Meeting in August received a young investigators Gold Medal; and two ALRN-6924 abstracts were selected for oral presentations at the American Society of Hematology (ASH) Annual Meeting in December.

We are well underway in a Phase 2a clinical trial of ALRN-6924 as a monotherapy to treat patients with relapsed or refractory peripheral T-cell lymphoma (PTCL) with WT p53. Lymphoma, the most common blood cancer, occurs primarily when lymphocytes, a type of white blood cell, grow abnormally and accumulate in one or more lymph nodes. PTCL comprises a group of rare and aggressive non-Hodgkin lymphomas (NHL) that develop from mature T-cells. According to the Leukemia and Lymphoma Society, PTCL accounts for approximately 10% to 15% of all NHL cases in the United States, suggesting that 7,200 to 10,800 new cases of PTCL are diagnosed in the United States annually. In an interim review of our data, we were encouraged to see that the preliminary overall response rate observed in our trial as of February 26, 2018 is generally in line with the reported overall response rates for Romidepsin, the 2nd line PTCL market share leader.

We believe that this preliminary data is noteworthy not just from a competitive standpoint, but also because it is in line with a market leading drug in the first patient population we chose to target.

We are also working to expand ALRN-6924 into larger patient populations with high unmet need. We have continued to make progress in our Phase 1 open label, multi-center clinical trial of ALRN-6924 as a monotherapy treatment of acute myeloid leukemia (AML) and advanced myelodysplastic syndrome (MDS) patients and a Phase 1b open label, multi-center clinical trial of ALRN-6924 in combination with cytosine arabinoside (Ara-C) to treat AML or MDS patients. AML is a cancer of the myeloid line of blood cells, characterized primarily by the rapid growth of abnormal white blood cells that accumulate in the bone marrow and interfere with the production of normal blood cells. The American Cancer Society (ACS) estimates for 2018 that there will be 19,500 new cases of AML. According to the U.S. National Cancer Institute, in the United States, while the five-year relative survival for AML patients age 20 to 49 years is 58%, it is only 6% for patients who are 65 years or older. MDS is a group of diverse bone marrow disorders in which the bone marrow does not produce enough healthy blood cells. The ACS estimates that there are 13,000 new MDS cases each year in the United States. We believe, given the observed safety profile of ALRN-6924 to date, that it may be able to provide a new treatment option for elderly AML and MDS patients who are often too frail for many existing standard treatments.

**NON-ClinICAL RESEARCH**

As the role of p53 is increasingly understood to be a key player in the function of many approved and experimental cancer treatments, our team believes the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of therapies. We are particularly excited about this insight, and have expanded our non-clinical research to test a variety of approved drugs in combination with ALRN-6924, including immuno-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We currently expect to provide an update on our non-clinical data and development plans for our ALRN-6924 combination studies during the second half of 2018.

Finally, we believe that stapled peptides have the potential to play a broad role in addition to p53 and cancer. We plan to continue to work, alone and in conjunction with partners, to expand our pipeline to build new and exciting growth avenues for investors.

Our initial public offering on the Nasdaq Global Market yielded gross proceeds of $56 million. We believe that our existing cash, cash equivalents and investments will enable us to fund our operating expenses and capital expenditure requirements into the second half of 2019. During this period, we aim to achieve multiple clinical milestones with ALRN-6924 and to make progress on our additional ALRN-6924 combination trials and other stapled peptide pipeline programs.

We would like to thank the patients and their families, and the clinicians for the progress made in the last year. On behalf of the entire Aileron team, I would like to thank you for your continued support. We will continue to provide updates on our progress throughout 2018.

Best regards,

Joseph A. Yanchik III
(Mark One)
✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

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

Commission File Number 001-38130

Aileron Therapeutics, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of incorporation or organization) 13-4196017
(I.R.S. Employer Identification No.)

281 Albany Street
Cambridge, MA 02139
(Address of principal executive offices)

Registarn’s telephone number, including area code: (617) 995-0900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered
Common Stock, $0.001 par value The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO ✓

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO ✓

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. YES ✓ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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. YES ✓ NO

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ✓ NO

As of June 30, 2017, the last day of the Registrant’s most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the last reported sale price of the shares of common stock on The Nasdaq Global Market was $61,589,199.

As of March 26, 2018, the Registrant has 14,734,383 shares of Common Stock, $0.001 par value per share, outstanding.

Portions of the Registrant’s definitive proxy statement for its 2018 Annual Meeting of Stockholders, which the Registrant intends to file pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after the end of the Registrant’s fiscal year ended December 31, 2017, are incorporated by reference into Part III of this Annual Report on Form 10-K.
# Table of Contents

## PART I
- Item 1. Business ........................................... 2
- Item 1A. Risk Factors ................................... 56
- Item 1B. Unresolved Staff Comments ................. 99
- Item 2. Properties ......................................... 99
- Item 3. Legal Proceedings ............................... 99
- Item 4. Mine Safety Disclosures ...................... 99

## PART II
- Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ................. 99
- Item 6. Selected Financial Data ...................... 101
- Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .......................... 102
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk .................. 114
- Item 8. Financial Statements and Supplementary Data ............................................. 114
- Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure ........................................ 114
- Item 9A. Controls and Procedures .................... 115
- Item 9B. Other Information .............................. 115

## PART III
- Item 10. Directors, Executive Officers and Corporate Governance ......................... 116
- Item 11. Executive Compensation ..................... 116
- Item 13. Certain Relationships and Related Transactions, and Director Independence ............. 116
- Item 14. Principal Accounting Fees and Services .................................................... 116

## PART IV
- Item 15. Exhibits, Financial Statement Schedules ................................................. 117
This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Annual Report on Form 10-K, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management and expected market growth are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

These forward-looking statements include, among other things, statements about:

- our plans to develop and commercialize ALRN-6924 and other product candidates, including the potential benefits thereof;
- our ongoing and future clinical trials for ALRN-6924, whether conducted by us or by any future collaborators, including the timing of initiation of these trials and of the anticipated results;
- the timing of and our ability to obtain and maintain marketing approvals for our product candidates;
- our expectations regarding our ability to fund out operating expenses and capital expenditure requirements with our cash, cash equivalents and investments;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- the rate and degree of market acceptance and clinical utility of any products for which we receive marketing approval;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our intellectual property position and strategy;
- our ability to identify additional product candidates with significant commercial potential;
- our plans to enter into collaborations for the development and commercialization of product candidates;
- potential benefits of any future collaboration;
- developments relating to our competitors and our industry; and
- the impact of government laws and regulations.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements in this Annual Report on Form 10-K, particularly in the “Risk Factors” section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, collaborations, joint ventures or investments that we may make or enter into.

You should read this Annual Report on Form 10-K and the documents that we reference herein and have filed or incorporated by reference hereto completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

This Annual Report on Form 10-K includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information.
PART I

Item 1. Business.

Overview

We are a clinical-stage biopharmaceutical company that is focused on developing and commercializing a novel class of therapeutics called stapled peptides. Our lead product candidate, ALRN-6924, targets the tumor suppressor p53 for the treatment of a wide variety of cancers. ALRN-6924, which is currently being tested in multiple clinical trials, reactivates p53-mediated tumor suppression by targeting the two primary p53 suppressor proteins, MDMX and MDM2. Our ongoing clinical trials of ALRN-6924 consist of a Phase 1 trial for the treatment of advanced solid tumors or lymphomas, a Phase 2a trial for the treatment of peripheral T-cell lymphoma, or PTCL, a Phase 1 trial for the treatment of acute myeloid leukemia, or AML, and advanced myelodysplastic syndrome, or MDS, as a monotherapy and a Phase 1b trial for the treatment of AML/MDS in combination with cytosine arabinoside, or Ara-C.

As of February 26, 2018, we had administered ALRN-6924 to 118 cancer patients in our clinical trials, and we believe it has been generally well tolerated in these patients. Of the 63 evaluable patients in our Phase 1 trial for the treatment of advanced solid tumors or lymphomas, as of February 26, 2018, 30 patients (or 48%) demonstrated disease control, consisting of two patients who achieved complete responses, two patients who achieved partial responses and 26 patients who achieved stable disease, with 42% of stable disease patients experiencing shrinkage of the tumor. Five patients remained on treatment in the trial as of February 26, 2018, with an average time on treatment of 685 days, including three of the four patients who achieved complete or partial responses. In addition, as of February 26, 2018, in a subset of 41 patients whose cells did not contain mutant p53 and who received doses of at least 0.8 mg/kg per administration, which we believe to be the minimal clinically relevant dose in this trial, 24 patients (or 59%) demonstrated disease control, consisting of two patients who achieved complete responses, two patients who achieved partial responses and 20 patients who achieved stable disease, with 55% of the patients with stable disease experiencing shrinkage of the tumor. In the 24 patients who demonstrated disease control, as of February 26, 2018, the median time on drug was 120 days, with an average of 243 days and a maximum for one patient of 981 days. We believe that, based on preclinical data and preliminary evidence of safety and anti-tumor activity in our ongoing clinical trials, there may be a significant opportunity to develop ALRN-6924 as a monotherapy or combination therapy for a wide variety of solid and liquid tumors.

We believe that by using our proprietary stapled peptide drug platform, we can develop first-in-class molecules, like ALRN-6924, that contain a novel set of properties. As such, our stapled peptide drugs may be able to address historically undruggable targets and complex mechanisms, such as intracellular protein-protein interactions like p53, that underlie many diseases with high unmet medical need. We believe that stapled peptide therapeutics have the potential to become a major class of drugs, like small molecules and monoclonal antibodies, for oncology and other therapeutic areas, and may significantly improve treatment paradigms and clinical outcomes for patients.

P53 has been a focus of researchers and the pharmaceutical industry due to its central role in preventing the initiation and progression of most solid and liquid tumors, and has long been referred to as “the guardian of the genome” because it is the body’s first line of cellular defense against cancers. P53 is activated when DNA damage is detected and, among other functions, is capable of regulating a variety of tumor suppression responses, including cell cycle arrest, DNA repair, apoptosis, or senescence. The effect of p53 activation is to facilitate the repair of the cell, or trigger killing of the damaged cell, a process known as apoptosis, before it can become cancerous and replicate. P53 function is believed to be primarily regulated by the suppressor proteins MDMX and MDM2, which bind to p53 to either reduce its levels through degradation or to control its activity, including the suppression of its cell repair and apoptotic activities, so that normal cells are able to function as expected. Approximately half of all cancer patients at initial diagnosis have cancers that prevent this tumor suppression response by mutation of the p53 gene. The remaining cancer patients have a p53 gene that is not mutated and is otherwise known as wild type, but that is functionally suppressed through the activation or overexpression of regulatory proteins, including, MDMX and MDM2. ALRN-6924 reactivates non-mutant or wild type, or WT, p53 by disrupting the interactions between p53 and these two suppressor proteins, thereby freeing p53 to transit to its DNA target in the nucleus and initiate cell cycle arrest, DNA repair, apoptosis, or senescence in damaged cells. Although p53 and its tumor suppression responses have been well characterized in the scientific literature, no product that directly engages the p53 pathway and its function has been approved. Moreover, we believe that the only product candidates in clinical development...
targeted at p53 activation, including one product candidate that is in Phase 3 testing, are small molecule inhibitors that are designed to engage only the p53-MDM2 interaction and not the p53-MDMX interaction, which we believe, based on published data and our clinical results, is equally important. We believe that ALRN-6924 is the first and only product candidate in clinical development that can bind to and disrupt the interaction of MDMX and MDM2 with p53 with equivalent effectiveness, or equipotently. As such, we believe that ALRN-6924’s ability to bind to both MDMX and MDM2 may enable it to have an effect in a broader range of tumors, to have an improved safety profile and to be less prone to resistance as a result of different levels of MDMX and MDM2 in tumor cells.

We are currently conducting multiple clinical trials of ALRN-6924 in various cancer indications. Most of the patients in these trials have undergone multiple procedures and received a number of approved and experimental treatments. In our clinical trials we have observed preliminary evidence of anti-tumor activity across a broad spectrum of cancer patients, durable effect by trial responders and, to date, a favorable safety profile. We are conducting a Phase 1 trial of ALRN-6924 in adult patients with advanced solid tumors or lymphomas expressing WT p53 that are refractory to or intolerant of standard therapy, or for which no standard therapy exists. We refer to this trial as our Phase 1 All-comers trial. We designed our Phase 1 All-comers trial to evaluate safety, to determine a recommended Phase 2 dose and dosing schedule and to evaluate the preliminary anti-tumor activity of ALRN-6924. We completed enrollment of this trial in January 2017 with a total of 71 patients enrolled. We treated patients with 24 different tumor types in this trial.

In addition to the Phase 1 All-comers trial, we are conducting clinical trials of ALRN-6924 in PTCL and AML/MDS. We are conducting a Phase 2a trial in relapsed and/or refractory PTCL patients whose cells contain WT p53 and who have failed at least one prior line of therapy. Patients in the first cohort of the Phase 2a PTCL trial are receiving a 3.1 mg/kg dose of ALRN-6924 on days 1, 8 and 15 of each 28-day cycle, with scans being performed after every two cycles. As of February 26, 2018, we had administered ALRN-6924 to 16 patients in accordance with this dosing regimen, including one PTCL patient enrolled in the Phase 1 All-comers trial who received ALRN-6924 using the same dosing regimen, and 14 of these patients were evaluable. Of the evaluable patients, six patients (or 43%) demonstrated disease control, consisting of two patients who achieved complete responses, one patient who achieved a partial response and three patients who achieved stable disease, with all of the stable disease patients experiencing tumor shrinkage. As of February 26, 2018, two patients remained on treatment with this dosing regimen. These patients were the two patients who achieved complete responses. The average time on treatment for these two patients as of February 26, 2018 was 594 days. Of the two non-evaluable patients, one was not evaluable due to non-measurable disease and one was not evaluable because the patient had cells that contained mutant p53.

In the trial, the patients’ tumors were assessed for purposes of the primary endpoint by the investigator using positron emission tomography/computed tomography, or PET/CT, scans per International Working Group (Cheson 2014), or IWG 2014, criteria. In reviewing the data, we identified a number of instances where the assessment using PET/CT scans per IWG 2014 criteria differed from the assessments using computed tomography, or CT, scans alone. Accordingly, we conducted an independent evaluation of each of the evaluable patients using an independent radiologist who applied a modified Cheson 2007 set of criteria, which are the response criteria used during the pivotal trials of certain other drugs that were approved by the U.S. Food and Drug Administration, or FDA, for the second-line treatment of PTCL prior to the adoption of the IWG 2014 criteria. Using the modified Cheson 2007 criteria, 15 of the patients were evaluable, of whom seven patients (or 47%) demonstrated disease control, consisting of one patient who achieved a complete response, three patients who achieved partial responses and three patients who achieved stable disease with all of the stable disease patients experiencing tumor shrinkage. Three patients who would otherwise have been removed from the study based on a PET/CT-determined disease progression, continued on treatment per their treating physician, and two of these patients achieved partial responses and one achieved stable disease based on the modified Cheson 2007 criteria. The one non-evaluable patient was not evaluable because the patient had cells that contained mutant p53.

We plan to continue to assess patients in the trial using both the IWG 2014 and the modified Cheson 2007 evaluation criteria and, prior to commencing future trials of ALRN-6924, to discuss with the FDA the appropriate evaluation criteria to be used in the trials. We believe, however, that whether assessed using either criteria, the preliminary response rate (21% or 27%) that we have observed in the trial at this point is generally in line with the overall response rates reported for romidepsin (Istodax). Romidepsin is a product marketed by Celgene, Inc. and had the highest worldwide net sales in 2017 of any product approved for second line treatment of PTCL. To date,
ALRN-6924 has been well-tolerated by patients in the Phase 2 trial and its safety profile remains consistent with the profile observed in our Phase 1 All-comers trial.

We are also exploring a new dosing regimen in our Phase 2a PTCL trial under which patients in the trial receive three doses of 3.1 mg/kg per week, followed by two weeks off in a 21-day cycle. We are evaluating this new dosing regimen to assess whether a more frequent dosing regimen could improve the response rate of ALRN-6924 while still maintaining a favorable safety profile. We based our determination to explore this dosing regimen on our ongoing non-clinical research as well the tolerability of ALRN-6924 observed in our clinical trials. We enrolled our first patient under this dosing regimen in February 2018 and enrollment is ongoing. We expect to report additional interim data from the trial, including from patients in the second cohort who receive the three doses per week, in the second half of 2018. Based on the anticipated timing of our Phase 2a PTCL trial, and subject to the data from the trial, we may seek discussions with the FDA regarding the possibility of an expedited clinical development and registration pathway for ALRN-6924 in PTCL patients and the design of a single agent pivotal clinical trial as early as the fourth quarter of 2018.

We are also conducting a Phase 1 trial of ALRN-6924 as a monotherapy and a Phase 1b trial of ALRN-6924 in combination with Ara-C, each in AML or MDS patients whose cells contain WT p53. We are conducting these dose escalation trials to establish the recommended Phase 2 dose of ALRN-6924 in patients with AML or MDS, to evaluate the safety, tolerability and pharmacokinetics of ALRN-6924 in patients with AML or MDS and to provide a preliminary assessment of anti-leukemic activity. In the Phase 1 monotherapy trial, we have tested three doses of ALRN-6924, 3.1 mg/kg, 4.4 mg/kg and 5.8 mg/kg, and in our Phase 1b combination trial, we have tested ALRN-6924, 3.1 mg/kg in combination with two different low doses (100 or 200 mg/m^2) of Ara-C and we have tested ALRN-6924, 4.4 mg/kg in combination with (200 mg/m^2) of Ara-C. As of February 26, 2018, we had enrolled a total of 33 patients in the trials, of whom 26 were evaluable consisting of 11 patients in the Phase 1 monotherapy trial and 15 patients in the Phase 1b combination trial. As of February 26, 2018, six of the patients in the trials remain on treatment. Of the 26 evaluable patients, two MDS patients achieved marrow complete responses, including one patient who proceeded to receive a stem cell transplant, and five MDS patients achieved stable disease. Three of the 26 evaluable AML/MDS patients experienced a reduction of bone marrow blasts ranging from 40% to 50%. Each of the patients with the marrow complete responses participated in the 4.4 mg/kg of ALRN-6924 plus 200 mg/m^2 of Ara-C cohort. Five patients received treatment in this cohort as of February 26, 2018. We are currently seeking to enroll one or more additional patients in the ALRN-6924 4.4 mg/kg plus 200 m/m^2 Ara-C cohort. We expect to complete enrollment into this cohort in the second quarter of 2018. To date, we have observed a safety profile in these trials that is similar to the safety profile of ALRN-6924 seen in our other clinical trials.

In addition to meeting our initial AML/MDS Phase 1 and Phase 1b enrollment targets, we are currently exploring a new three times per week dosing regimen in the Phase 1 trial. Under the new dosing regimen, patients receive ALRN-6924 (starting at 2.7 mg/kg) three times a week for two consecutive weeks, followed by one week off, for a 21-day cycle. We are evaluating this new dosing regimen to assess whether more frequent dosing could improve the response rate of ALRN-6924 while still maintaining a favorable safety profile. We based our determination to explore this dosing regimen on our ongoing non-clinical research as well the tolerability of ALRN-6924 observed in our clinical trials. We expect to report interim data from our AML/MDS trials, our dosing strategy, and our plans for a Phase 2 trial in the second half of 2018. In April 2017, the FDA granted orphan drug designation to ALRN-6924 for use in the treatment of AML.

We plan to conduct, alone or in collaboration with third parties, additional clinical trials of ALRN-6924, as warranted by the clinical data. The goal of these clinical trials will be to broaden the application of ALRN-6924 by studying safety and potential anti-tumor activity in additional distinct subgroups of patients with specific solid tumors or hematological malignancies that commonly present with WT p53, such as certain leukemias, breast cancers and melanomas. In addition, because many approved drugs and drug candidates for cancer require a functioning p53 pathway, we have expanded and advanced our non-clinical research to test a variety of approved drugs in combination with ALRN-6924, including immuno-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of conventional and novel therapies. We currently expect to provide an update on our non-clinical research and development plans for our ALRN-6924 combination studies during the second half of 2018. Subject to the results of our ongoing research and
obtaining additional funding, we expect to conduct one or more additional clinical trials of ALRN-6924 in combination with other anti-cancer agents as early as the first half of 2019.

We believe that our ability to target and activate or inhibit key intrinsic cellular functions, such as p53 and apoptosis, using our proprietary stapled peptide platform and our scientific expertise in the design, application and development of stabilized alpha-helical peptides has the potential to significantly impact patients’ lives and treatment strategies for a wide variety of cancers. Our belief is based on the scientific evidence that these cellular functions play a key role in cancer formation, maintenance and resistance. As such, we believe the ability to directly impact these key intrinsic cellular functions, as we are striving to achieve with ALRN-6924 and p53, may have potential advantages over approved drugs and drug candidates that work upstream at the cell surface or systemically by stimulating immune responses. By targeting a downstream pathway like p53 that is critical and preserved across a multitude of different cancers, our approach may allow for utility in a broader set of cancer patients. In addition, we believe that our approach may circumvent resistance mechanisms that characterize many of the most virulent cancers.

Our integrated understanding of peptide chemistry and molecular biology as it relates to the physiological functions of stabilized and cell-penetrating peptides forms the basis of our ability to generate novel product candidates. We seek to rationally design sequences of amino acids and “staple” them with hydrocarbon bonds that maintain their natural alpha-helical shape. The broad potential of maintaining the alpha helix is derived from the fact that it is the most common protein structure at the interface of protein-protein interactions and, as exploited by our stapled alpha-helical peptides, is a necessary shape to retain the intended biological activity of the therapeutic molecule. Our approach is to target high value and historically undruggable intracellular and extracellular targets with this novel class of molecules. In the case of cancer, pathways that incorporate protein-protein interactions with an alpha helix, and that, therefore, may be amenable to our approach and the focus of our future research, include p53 and may include other transcription factors and signaling proteins such as Ras, Myc, β-Catenin, the Bcl family of proteins and HIF-1α. Importantly, while the critical role of these targets in biological processes has been known for decades, there are no approved therapeutics that directly engage these targets other than one therapeutic that inhibits Bcl-2. While the conventional approaches to modulate these significant targets have been based on small molecules, we believe that our ability to target and activate or inhibit key intrinsic cellular proteins and their functions, including p53 and apoptosis, using our proprietary stapled peptides represents an important opportunity for developing novel drugs and addressing unmet medical need. In addition to oncology, we are currently exploring research and business development strategies to develop certain non-cancer applications.

Since our inception, we have created over 10,000 stapled peptides against multiple targets in a variety of therapeutic areas. We believe that a number of these molecules and targets warrant further study and development and could, in the future, contribute to a pipeline of novel therapeutics. We have recently expanded our internal research capability and support of research against other therapeutic targets, subject to our resources, it is our intention to continue to make selective investments into early research programs as part of our ongoing research. Where we believe it will be beneficial to the success of the program, we also expect to seek academic and industry collaborations to advance this work.

We strive to protect the proprietary product candidates and technologies that we believe are important to our business, including seeking and maintaining patent protection intended to cover the composition of matter of our product candidates, including ALRN-6924, their methods of use, related platform technology and other inventions. As of January 31, 2018, we owned or had an exclusive license to over 240 patents and over 190 provisional or non-provisional patent applications throughout the world directed toward various aspects of our product candidates and research programs. We own worldwide rights to ALRN-6924.

Our Strategy

Our goal is to be a leader in the discovery, development and commercialization of novel therapeutics for the treatment of cancer by targeting high value and historically undruggable targets through our proprietary stapled peptide technology. Key elements of our strategy to achieve this goal include the following:
Pursue a broad development strategy for our lead product candidate, ALRN-6924, as a monotherapy and combination therapy across multiple oncology indications. We plan to advance our lead product candidate, ALRN-6924, in a broad range of solid and liquid tumors, focusing on areas in which we believe ALRN-6924 may have anti-tumor activity and in which there are significant unmet medical needs. We are initially focusing our development efforts on solid and liquid tumors that commonly present with WT p53. One of the key benefits of targeting p53 is that the MDMX/MDM2-dependent mechanism by which cancers overcome p53 is found in a broad range of solid and liquid tumors. We have observed preliminary evidence of anti-tumor activity in our Phase 1 All-comers trial in which we have treated patients with 24 different tumor types as well as in our ongoing Phase 2a PTCL trial and our Phase 1/1b AML/MDS trials. We plan to conduct, alone or in collaboration with third parties, additional clinical trials of ALRN-6924, as warranted by the clinical data. The goal of these clinical trials will be to broaden the application of ALRN-6924 by studying safety and potential anti-tumor activity in additional distinct subgroups of patients with specific solid tumors or hematological malignancies that commonly present with WT p53, such as certain leukemias, breast cancers and melanomas. In addition, because many approved drugs and drug candidates for cancer require a functioning p53 pathway, we have expanded and advanced our non-clinical research to test a variety of approved drugs in combination with ALRN-6924 including immuno-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of conventional and novel therapies. We currently expect to provide an update on our non-clinical research and development plans for our ALRN-6924 combination studies during the second half of 2018. Subject to the results of our ongoing research and obtaining additional funding, we expect to conduct one or more additional clinical trials of ALRN-6924 in combination with other anti-cancer agents as early as the first half of 2019.

Rapidly advance ALRN-6924 through clinical development and regulatory approval. We are currently conducting a Phase 2a trial of ALRN-6924 in relapsed and/or refractory PTCL patients whose PTCL cells contain WT p53 and who have failed at least one prior line of therapy. We are initially conducting the trial in approximately 25 PTCL patients to provide preliminary insight into the responsiveness of this patient population to treatment with ALRN-6924 and to evaluate its safety and confirm the optimal dosing regimen. We expect to report additional interim data from the trial, including from patients in the second cohort who receive the three doses per week, in the second half of 2018. Based on the anticipated timing of our Phase 2a PTCL trial, and subject to the data from the trial, we may seek discussions with the FDA regarding the possibility of an expedited clinical development and registration pathway for ALRN-6924 in PTCL patients and the design of a single agent pivotal clinical trial as early as the fourth quarter of 2018. Similarly, if we see sufficient evidence of a therapeutic effect in any of our future Phase 2 trials of ALRN-6924, we would also plan to meet with regulatory authorities to discuss the possibility of an expedited clinical development and regulatory pathway for ALRN-6924 in any such indications, including the scope and timing of a single agent pivotal trial.

Maximize the global commercial value of ALRN-6924 and other product candidates. We have retained all commercial rights to ALRN-6924 and plan to retain all commercial rights to any other product candidates we develop. As we further develop ALRN-6924, we may build a commercial infrastructure with the capability to directly market in a variety of indications and geographies. Although we currently plan to retain all commercial rights to ALRN-6924 and any other product candidates we develop, we may seek to enter into strategic collaborations for the development, marketing and commercialization of ALRN-6924 and these other product candidates, particularly those directed towards complex indications with larger patient populations and in certain geographies where we believe a collaboration could bring additional resources and expertise to maximize the value of our product candidates.

Leverage our proprietary stapled peptide technology to develop additional product candidates across oncology and other diseases with unmet medical need. Over 3,000 known protein-protein interactions are mediated by a helical peptide interface. Based on our data related to stapled peptides, as well as the growing body of third-party publications that support the utility of stapled peptides against a wide variety of targets, we believe that our stapled peptides have the potential for therapeutic benefits across a broad range of oncology indications and other diseases with unmet medical need. Subject to available resources, we plan to invest in and conduct research on those product candidates for which our prior work or published literature suggests a stapled peptide may confer advantages over small molecule or biologic therapeutics in delivering therapeutic benefits. We may also seek to develop additional stapled peptides to target p53 as changes in the chemical structures of our stapled peptides may engender these stapled peptides with varying affinities to MDMX and MDM2. Additionally, we may seek to...
selectively form collaborations to expand our capabilities and potentially accelerate research and development activities for certain of these oncology indications and other diseases.

**Maintain our leading position in stapled peptides by continuing to develop our proprietary platform.**

We are developing novel computational chemistry, screening technology, purification and manufacturing processes to continually improve our technology platform as we advance our stapled peptide drug development program. We also support our scientific efforts with a strong patent estate that may provide a competitive advantage and position us as scientific leaders in the emerging field of stapled peptides. We intend to continue to strengthen our platform by developing and filing for patents on various aspects of our technology and product candidates and, when applicable, through in-licensing activities with research institutions and other biopharmaceutical companies.

**Our Development Pipeline**

The following table summarizes key information about our programs:

<table>
<thead>
<tr>
<th>Programs</th>
<th>Indication</th>
<th>Stage of Development</th>
<th>Status/Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-comers solid tumors &amp; lymphomas</td>
<td>Preclinical</td>
<td></td>
<td>enrolment completed in 1Q2017 Patients ongoing</td>
</tr>
<tr>
<td>ALRN-6924</td>
<td>Acute myeloid leukemia &amp; myelodysplastic syndrome (Monotherapy)</td>
<td></td>
<td>enrolment completion expected 2H 2018</td>
</tr>
<tr>
<td>Targeting p53 through MDM2 / MDM2 antagonism</td>
<td>Phase 1</td>
<td></td>
<td>enrolment completion expected 2H 2018</td>
</tr>
<tr>
<td>p53 Next generation</td>
<td>Solid &amp; liquid tumors</td>
<td></td>
<td>Potential Clinical Trial Enrollment 1H 2019</td>
</tr>
<tr>
<td>Pipeline</td>
<td>Undisclosed Targets</td>
<td></td>
<td>Lead compounds identified</td>
</tr>
</tbody>
</table>

**Cancer and the Need for Novel and Improved Treatment Options**

Cancer is a major public health problem in the United States and worldwide. The U.S. National Cancer Institute estimated that approximately 40% of all men and women in the United States will be diagnosed with cancer during their lifetime. According to the U.S. Centers for Disease Control, cancer is currently the second leading cause of death in the United States, and is expected to surpass heart disease as the leading cause of death in the next several years. Although progress has been made in the diagnosis and treatment of cancer, the American Cancer Society estimates that over 1.7 million new cancer cases will be diagnosed in the United States and approximately 609,640 people will die from cancer in 2018. Thus, there remains a significant need for novel and improved treatment options for cancer patients.

Most cancers begin as a result of DNA damage or the mutation of certain important genes that alters or inhibits the cell’s mechanism for making the proteins it needs to function, survive and grow. When DNA becomes damaged or mutated, either as a result of natural processes, inherited traits or other exogenous factors such as radiation or exposure to chemicals in the environment, abnormal cells begin to replicate and spread into surrounding tissue, interfere with the body’s normal function and eventually invade and destroy the body’s healthy tissue.

Surgery, radiation and drug therapy, which are currently the most common methods used in treating patients with cancer, whether individually or in combination, can be effective in specific situations. Surgery and radiation are particularly effective for patients in whom the disease is localized, but are unable to address the needs of a patient with metastasized tumors. For these patients, or for patients where surgery or radiation is ineffective, physicians
typically prescribe a treatment program using systemic drug therapies. The goal of drug therapy is to kill cancer cells or to damage cellular components required for the proliferation of cancer cells. Drug therapy often is administered with a combination of several different drugs. Drug therapy has been evolving from non-specific drugs that kill both healthy and cancer cells, to drugs that target specific molecular pathways to selectively kill only cancer cells. While heightened vigilance, new diagnostic tests, combination regimens and targeted therapies have resulted in improvements in overall survival for some cancer patients, we believe that continued innovation in the treatment of cancer is necessary.

The conventional approaches to oncology drug development, which are based primarily on small molecules and antibodies, have limitations that restrict their ability to fully treat the disease. Small molecule drugs can target proteins inside the cell, but are often limited to a subset of proteins with accessible functional domains or, in most cases, a single intended target protein, while antibodies are unable to directly bind to intracellular targets and are thereby limited to targeting circulating proteins or those expressed on the cell surface. We believe that the ability to target and activate or inhibit key intrinsic cellular proteins and their functions, such as p53 and apoptosis, using our proprietary stapled peptide platform, has the potential to significantly impact patients’ lives and treatment strategies for a wide variety of cancers. Our belief is based on the mounting scientific evidence that these cellular functions play a key role in cancer formation, maintenance and resistance. As such, the ability to directly impact these key intrinsic cellular functions, as we are striving to achieve with ALRN-6924, may have potential advantages over approved drugs and drug candidates that work upstream at the cell surface or systemically by stimulating immune responses. By targeting a downstream pathway like p53 that is critical and preserved across a multitude of different cancers, our approach may allow for utility in a broader set of cancer patients. In addition, we believe that our approach may circumvent resistance mechanisms that characterize many of the most virulent cancers.

P53 and its Interaction with MDMX and MDM2

P53 is considered to be one of the most important tumor suppressor proteins due to its central role in preventing the initiation and progression of most solid and liquid tumors. The role of p53 in cancer was first described in 1979. Since then, it has become clear that inactivation of p53’s tumor suppression activity is an almost universal step in the development and progression of virtually all human cancers. Research on the function and role of the p53 mechanism has been the subject of over 75,000 scientific publications, and targeting p53 has been tested clinically in at least 18 prior and ongoing clinical trials that were sponsored by six of the world’s largest pharmaceutical companies. The magnitude and persistence of this effort demonstrates the importance of the mechanism and the enormous challenge that drugging this mechanism presents. Recent clinical data from certain of these p53 development efforts has shown encouraging progress, possibly an indication that the field is maturing to a point where these efforts may start to yield valuable cancer treatments. We believe, however, that clinical progress against this target has been slowed due in part to the complex biology and limitations of traditional drug technologies, such as small molecules. We believe that a stapled peptide, such as ALRN-6924, is better suited to address this mechanism due to the inherent molecular properties of the stapled peptide.

The main function of p53 is to activate genes that will interrupt the cell cycle when DNA damage is first detected. The effect of this process is to ensure that damaged, or cancerous, cells do not continue to grow and propagate. This is why functional p53 is critical to human health and the main reason it has been called the “guardian of the genome.” P53 normally protects cells by monitoring and controlling how quickly cells divide into new cells, repairing DNA mutations and controlling when a cell dies. When p53 itself is mutated or pathologically inhibited by its natural regulators, cells grow uncontrollably and may eventually form a cancerous tumor. Approximately half of all cancer patients at initial diagnosis have cancers that circumvent the p53 mechanism by activating or overexpressing the natural suppressor proteins of p53, including, MDMX and MDM2, making them an ideal target for novel cancer therapies. In the remaining cancer patients, the p53 mechanism is circumvented by deactivating mutations in p53 itself, commonly referred to as mutant p53.

In recent years there have been numerous publications that describe the relationship between p53-activation and the immune response to cancer, in addition to its effects on cell cycle, DNA repair and cell death. P53 regulates the expression of various chemokines, interferons and related receptors, as well as other elements of the adaptive and innate immune response.
As depicted in the figures below, p53 is regulated by MDMX and MDM2, which are two proteins known to bind to p53 and play non-redundant roles in modulating p53 protein activity. In normal cells, MDMX generally acts to sequester p53, whereas MDM2 primarily acts to shuttle p53 out of the nucleus and target it for degradation. By playing these roles, MDMX and MDM2 collectively act to suppress p53’s apoptotic activity so that cells can function as expected. In the event of DNA damage, these two suppressor proteins detach from p53 so that it is activated to respond to DNA damage. Once activated, p53 either enables the repair of the DNA damage or triggers apoptosis. This is the body’s natural response against cancer and a defense mechanism for dealing with DNA damage and maintaining normal cellular function. However, activation and overexpression of MDMX and MDM2 are found in a significant number of solid and liquid tumors that commonly present with WT p53. In these cancers, cancer cells co-opt and over-activate some of the mechanisms used by normal cells to restrain p53 function, thereby nullifying the tumor suppression capabilities of WT p53. In this environment, the cancer cell growth is left unchecked.

Despite the structural similarity between MDMX and MDM2, there is important diversity in the p53 binding sites of these proteins that make the development of therapeutic antagonists that can bind to both MDMX and MDM2 challenging. MDM2 has a deep binding pocket that offers potential for small molecule selectivity. MDMX, in comparison, has a structural difference in its p53 binding cleft, making it larger and shallower and less accessible to small molecules. We are not aware of any small molecules in clinical development that are capable of binding to MDMX in a therapeutically meaningful way. We are aware of selective small molecule inhibitors that are designed to target only the p53-MDM2 interaction. Certain of these small molecule inhibitors have been publicly reported to shrink tumors in certain cancers and have thereby provided clinical proof of concept that restoration of p53 activity can lead to the killing of cancer cells and tumor shrinkage in select cancers. However, these MDM2-only small
molecule inhibitors have also been publicly reported to have caused meaningful levels of neutropenia of grade 3 or worse and thrombocytopenia of grade 3 or worse in patients. For instance, in Phase 1 dose escalation trials of these small molecule inhibitors that are currently in active development for the treatment of solid tumors and lymphomas, approximately 20% to 26% of patients in the trials experienced neutropenia of grade 3 or grade 4 and 15% to 44% of patients experienced thrombocytopenia of grade 3 or grade 4.

As tumor cells can have different levels of, and differential reliance on, MDMX and MDM2, the current data suggests that there is a limited set of tumors that are highly sensitive to MDM2 inhibition, while a broader set of tumors may be sensitive to both MDMX and MDM2 inhibition. We believe that ALRN-6924 is the first and only product candidate in clinical development that can equipotently bind to and disrupt the interaction of MDMX and MDM2 with p53. As such, we believe that ALRN-6924 may have an effect in a broad range of tumors and may be less prone to resistance as a result of different levels of MDMX and MDM2 in tumor cells. We believe ALRN-6924 should also be less prone to resistance from the likely compensatory mechanisms, such as activation or overexpression of MDMX, that may result from selective pressure on MDM2 alone.

Our Platform – Stapled Peptides

Our goal is to create a broad range of first-in-class therapeutics through our proprietary stapled peptide technology. Our platform enables us to chemically stabilize and improve the performance and activity of a broad range of alpha-helical peptides that we believe may have benefit in oncology and other diseases. We believe that our stapled peptides can potentially activate and inhibit key cellular functions that underlie disease and that are otherwise difficult to target with existing drug technologies, including small molecules and monoclonal antibodies. Our strategy is to target high value and historically undruggable targets with stabilized peptides.

The Value and Intrinsic Limitations of Peptide Drugs

Nature’s evolutionarily optimized molecular template to control cellular functions via protein-protein interactions is the peptide. Peptides are functional subunits of proteins that act as nature’s locks and keys and enable two proteins to interact. The alpha-helical structure is the most common peptide structure found at these protein interfaces.

There are presently more than 60 approved peptide drugs, including insulin, liraglutide (Victoza), exenatide (Byetta), teriparatide (Forteo) and Linaclotide (Linzess), that have benefitted patients and improved their quality of life. Attractive attributes of peptide drugs include high specificity and low off-target toxicity, high potency, wide systemic distribution with limited accumulation in specific organs, ready synthesis and rational optimization. Despite these advantages, and the information regarding over 3,000 known alpha-helical protein structures contained in publicly available protein data banks, small molecules remain the primary approach by which drug developers attempt to modulate protein functionality. Drug developers have tended to avoid developing peptide drugs in favor of small molecule drugs because peptide drugs, while highly effective in certain applications, have intrinsic liabilities that limit their applications as therapeutics, including poor biological stability (due to protein degradation), poor chemical stability (due to loss of helical configuration when removed from their natural protein scaffold), short plasma half-lives and the inability to effectively penetrate cell membranes to access desirable intracellular targets.
Small molecules currently represent the dominant therapeutic modality underlying the majority of approved drugs and are the only modality that can directly engage protein targets and protein-protein interactions that are contained inside our cells. However, protein-protein interactions are still viewed as difficult targets for small molecule drugs due to the fact that these protein targets often present relatively large and flat interacting surfaces that are not readily addressed by small molecule drugs. In addition, many of the emerging therapeutically important pathways have been found to require engagement of multiple proteins, like MDMX and MDM2, or multiple binding sites in order to fully engage the mechanism and drive the desired biological activity. Multiple binding sites and complex mechanisms have to date proven to be challenging to small molecules due to their small size and physiochemical properties. We believe that limitations of existing drug technologies like small molecules will become increasingly apparent as the scientific and medical fields continue to understand and reveal the complexity of protein interactions, cellular pathways and disease etiology.

Our Solution

We believe our platform addresses and solves many of the inherent limitations of peptides and can potentially enable us to uniquely pursue high value targets that are currently undruggable by existing drug technologies. Because peptides lose their shape by unwinding when removed from their natural protein scaffold, developing chemical interventions to stabilize peptides into their bioactive structure has been and remains an active area of research. Although there have been several published examples of peptide stabilization strategies, these strategies have not translated into clinically relevant drugs for intracellular targets. Our all-hydrocarbon staple, or linker, has emerged as a solution that stabilizes the alpha-helical structure, improves protease resistance, enables cellular penetration and maintains biological activity.

We stabilize peptides by “stapling” them with hydrocarbon bonds into their natural alpha-helical conformation. We achieve this by inserting two or more non-natural amino acids that, when catalyzed by a chemical reaction, form a bridge that often provides comparable stability to the endogenous protein structure and maintains the biological activity of the peptide. We believe that this chemical strategy may allow us to improve on many of the intrinsic limitations of peptides and to develop molecules that interact with high value targets that may not be amenable to small molecules or monoclonal antibodies.
Unlike large proteins, such as monoclonal antibodies or other naturally occurring proteins, that do not penetrate cell membranes due to their size and biophysical properties, stabilized alpha-helical peptides can in many circumstances penetrate cells and still maintain high affinity to their large protein surface targets. Our stapled peptides typically retain the molecular target specificity of their underlying native protein structure. As depicted below, we believe that the larger protein structure provides multiple surface contact points accessible to the stapled peptide, while the small molecule drugs have difficulty binding to the larger, shallower contact points. In addition, as has been demonstrated in recent third-party publications, the multiple surface contact points mean that the binding may be less likely to be disrupted by single point mutation in the underlying genetic code.

Our Lead Product Candidate – ALRN-6924

ALRN-6924 is a stapled peptide designed to reactivate WT p53 by inhibiting both MDMX and MDM2. We believe that ALRN-6924, by inhibiting both MDMX and MDM2, may enable p53 to perform its natural function of responding to DNA damage and repairing the DNA damage or triggering apoptosis. In so doing, ALRN-6924 may help to restore the body’s natural defense against its existing cancer. The figure below shows ALRN-6924 inhibiting both MDMX and MDM2 and reactivating WT p53. ALRN-6924 enters the cell and mimics p53 and in so doing acts as a higher-affinity decoy that attracts and binds to MDMX and MDM2, thereby causing the release of the bound p53.

We believe that, based on preclinical data and preliminary evidence of safety and anti-tumor activity in our ongoing clinical trials, there is significant opportunity to develop ALRN-6924 as a monotherapy or a combination therapy for a wide variety of solid and liquid tumors. We are focusing our development efforts on solid and liquid tumors that commonly present with WT p53. Approximately half of all cancer patients at initial diagnosis are characterized as WT p53. Cancer indications in which WT p53 is believed to be prevalent include certain leukemias, breast cancers, melanomas, sarcomas, non-Hodgkin lymphomas, renal cell cancers, hepatocellular carcinoma, epithelial ovarian cancers and thymomas.
We are pursuing a broad registration-oriented clinical development program for ALRN-6924 in multiple solid tumor and hematological cancer indications that commonly present with WT p53. Based on preliminary evidence of safety, tolerability and anti-tumor activity that we observed in our Phase 1 All-comers trial, we commenced tumor-specific trials in PTCL and in AML/MDS. In determining to evaluate ALRN-6924 in PTCL, we considered our preclinical data, data from our Phase 1 All-comers trial, and published literature regarding the role of p53 in T-cell related malignancies. In determining to evaluate ALRN-6924 in AML/MDS, we considered our preclinical data, published literature regarding the role of p53 and MDMX and MDM2 in AML and MDS, that AML has recently been reported to respond to single agent therapy with MDM2 inhibitors in clinical trials conducted by third parties, and data from our first compassionate use patient.

We plan to conduct, alone or in collaboration with third parties, additional clinical trials of ALRN-6924, as warranted by the clinical data. The goal of these clinical trials will be to broaden the application of ALRN-6924 by studying safety and potential anti-tumor activity in additional distinct subgroups of patients with specific solid tumors or hematological malignancies that commonly present with WT p53, such as certain leukemias, breast cancers and melanomas. In addition, because many approved drugs and drug candidates for cancer require a functioning p53 pathway, we have expanded and advanced our non-clinical research to test a variety of approved drugs in combination with ALRN-6924 including immune-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of conventional and novel therapies. We currently expect to provide an update on our non-clinical research and development plans for our ALRN-6924 combination studies during the second half of 2018. Subject to the results of our ongoing research and obtaining additional funding, we expect to conduct one or more additional clinical trials of ALRN-6924 in combination with other anti-cancer agents as early as the first half of 2019.

In June 2014, we submitted an investigational new drug application, or IND, to the FDA for ALRN-6924 for the treatment of patients with advanced solid tumors or lymphoma expressing WT p53, and in the fourth quarter of 2014, we initiated our ongoing Phase 1 All-comers trial of ALRN-6924 in adult patients with advanced solid tumors or lymphomas expressing WT p53 that are refractory to or intolerant of standard therapy, or for which no standard therapy exists, as a part of a planned Phase 1/2a clinical trial program. In the third quarter of 2016, we initiated a Phase 2a trial of ALRN-6924 in patients with relapsed and/or refractory PTCL whose cells contain WT p53, who have failed at least one prior line of therapy. In November 2015, we submitted an IND for ALRN-6924 for the treatment of AML or MDS patients whose cells contain WT p53, and we initiated our Phase 1 and Phase 1b trials in AML/MDS in the second half of 2016 as part of a planned Phase 1/1b clinical trial program. In addition, compassionate use access to ALRN-6924 has been granted in the form of three single-patient INDs.

If we see sufficient evidence of a therapeutic effect in our Phase 2a PTCL trial or any future Phase 2 clinical trials of ALRN-6924, we plan to seek to meet with regulatory authorities to discuss the possibility of an expedited clinical development and regulatory pathway for ALRN-6924, including for PTCL the scope and timing of a single agent pivotal trial that may include between 80 and 120 patients. Based on the anticipated timing of our Phase 2a PTCL trial, and subject to the data from the trial, we may seek discussions with the FDA regarding the registration pathway for PTCL and the design of a single agent pivotal clinical trial as early as the fourth quarter of 2018.

Depending on the timing of the completion of and the results of our Phase 1 AML/MDS trial as a monotherapy and our Phase 1b AML/MDS trial as a combination therapy with Ara-C, we may determine to initiate a Phase 2a clinical trial of ALRN-6924 for AML/MDS as a monotherapy and of ALRN-6924 as a combination therapy with Ara-C, in each case, as early as the fourth quarter of 2018.

Clinical Development of ALRN-6924

We are currently conducting multiple clinical trials of ALRN-6924: our Phase 1 All-comers trial, our Phase 2a PTCL trial, our Phase 1 AML/MDS trial as a monotherapy and our Phase 1b AML/MDS trial as a combination therapy with Ara-C. Most of the patients in these trials have undergone multiple procedures and/or received a number of approved and experimental treatments.
In our Phase 1 All-comers trial and our Phase 2a PTCL trial, we are conducting preliminary assessments of anti-tumor activity or response to ALRN-6924 using standard tumor assessment methods including PET scans and computed tomography, or CT, imaging. We are measuring anti-tumor activity using Response Evaluation Criteria in Solid Tumors 1.1, or RECIST 1.1 criteria, for patients with solid tumors and IWG 2014 criteria for patients with lymphomas, as a means to objectively evaluate whether a tumor has progressed, stabilized or shrunk. Patients in our Phase 2a PTCL trial are also being evaluated using the modified Cheson 2007 criteria, which are the response criteria used during the pivotal trials of other drugs that were approved by the FDA for the second-line treatment of PTCL prior to the adoption of the IWG 2014 criteria.

RECIST 1.1 criteria define disease progression and tumor response based on the sum of the longest diameters of a set of target tumor lesions identified when the patient enters the trial. Potential responses include complete responses, partial responses, stable disease or progressive disease. The IWG 2014 criteria provide clinicians guidelines to cover the use of a non-invasive imaging technique to measure and image lesions for assessing all types of lymphoma. Potential responses include complete responses, partial responses, stable disease and progressive disease.

In our Phase 1/1b AML/MDS trials, we are conducting preliminary assessments of anti-leukemic activity or response to ALRN-6924 using standard bone marrow assessment methods. We are measuring anti-leukemic activity using the modified IWG response criteria for patients with AML (Dohner 2010) and IWG criteria for patients with MDS (Cheson 2006), as a means to objectively evaluate whether the disease has progressed, stabilized or improved.

**Phase 1 Clinical Trial in Advanced Solid Tumors or Lymphomas**

We are conducting a Phase 1 open-label, multi-center, two-arm trial of ALRN-6924 administered by intravenous infusion in patients with advanced solid tumors or lymphomas that are refractory to or intolerant of standard therapy or for which no standard therapy exists. We initiated the trial in October 2014 and completed enrollment of the trial in January 2017 with a total of 71 patients enrolled. These patients have 24 different tumor types. Most of the patients have undergone multiple procedures and/or received a number of approved and experimental treatments. The trial was designed to determine the recommended Phase 2 dose, to evaluate the safety, tolerability and pharmacokinetics, or PK, of ALRN-6924 and provide a preliminary assessment of anti-tumor activity. Treatment of patients in the trial will continue until documentation of progressive disease, unacceptable toxicity or patient or physician decision to discontinue study medication. As of February 26, 2018, five patients continued to receive treatment in the trial with an average and median time on treatment of 685 and 651 days, respectively.

The trial uses a “3+3” dose escalation design. For the first two dose levels, patients received ALRN-6924 once a week for three consecutive weeks over a 28-day cycle. After the first two dose levels, patients were included in one of two arms. In Arm A, patients receive ALRN-6924 once a week for three consecutive weeks over a 28-day cycle (days 1, 8 and 15), with doses ranging from 0.64 mg/kg to 4.4 mg/kg. Patients in Arm B receive a lower dose level twice a week for two consecutive weeks over a 21-day cycle (days 1, 4, 8 and 11), with doses ranging from 0.32 mg/kg to 2.7 mg/kg. Arm A, with its less frequent dosing and higher peak levels of ALRN-6924, and Arm B, with its more frequent dosing and more continuous exposure to ALRN-6924, provided us with PK information, safety profiles and preliminary clinical activity data that informed the dose selection for our Phase 2a trial. Of the 71 patients in the trial, 41 patients received treatment in the first two dose levels and Arm A, and 30 patients received treatment in Arm B. Of the five patients who remained on trial as of February 26, 2018, three patients are receiving treatment in Arm A and two are receiving treatment in Arm B.

Starting with the fourth dose level (1.25 mg/kg in Arm A and 0.53 mg/kg in Arm B), patients were required to test positive for WT p53 through next-generation sequencing in order to participate in the trial and patients who had cancers with known human papilloma virus, or HPV, association were excluded from enrollment because HPV is known to destroy WT p53. Because we started dosing at relatively low dose levels, the protocol did not require patients in the first three dose levels to have WT p53 or have cancers that are not associated with HPV.
To identify WT p53 patients in this trial, we relied upon commercially available third-party assays and also employed a central laboratory to conduct next generation sequencing on archived tumor tissue samples or fresh biopsy samples from patients taken prior to enrollment. Even though we did not require confirmation of WT p53 in patients prior to enrollment for the initial three dose levels (dose groups 1, 2, 3a and 3b), we attempted to establish WT p53 status through testing after enrollment. Five of the 13 patients enrolled in those three dose levels who completed at least one cycle were confirmed to have WT p53 status.

In the trial, we are seeking a preliminary assessment of anti-tumor activity or response to ALRN-6924 through the use of standard imaging assessments methods. Imaging is performed at the end of the second cycle and every two cycles thereafter in Arm A, or approximately within 56 days following initial dosing. Patients in Arm B are measured at the end of the third cycle and every three cycles thereafter, or approximately within 63 days following initial dosing. We are measuring anti-tumor activity using RECIST 1.1 criteria for patients with solid tumors and the IWG criteria (Cheson 2014) for patients with lymphomas, as a means to objectively evaluate whether a tumor has progressed, stabilized or shrunk.

In the trial, we are also seeking a preliminary assessment of the effect of ALRN-6924 on biomarkers. Biomarkers provide us with information as to on-target activity, specific patient type response and early insight as to effect on tumor. We are assessing the effect of ALRN-6924 on potential biomarkers in different sources of biological samples, such as tumor biopsies, circulating tumor cells where detectable, mononuclear blood cells and blood samples. Dependent on the sample type, those biomarkers may include measures of MDMX, MDM2, p21, p53, apoptosis and macrophage inhibitory cytokine-1, or MIC-1 as well as other genetic features of tumor cells. We believe that by evaluating these biomarkers, we may be able to develop a better understanding of the on-target effect, as well as support our understanding of potential future trial designs for ALRN-6924.

Based on the results of the trial, we concluded that the recommended Phase 2 dose and dosing schedule for ALRN-6924 was administration of a 3.1 mg/kg infusion once per week.

Clinical Activity

We enrolled 71 patients in the trial, 63 of whom are evaluable. As of February 26, 2018, of the 63 evaluable patients, 30 patients (or 48%) demonstrated disease control consisting of two patients who achieved complete responses, two patients who achieved partial responses and 26 patients who achieved stable disease, with 46% of the stable disease patients experiencing shrinkage of the tumor. We are also aware of a third patient who, approximately 11 months after discontinuing ALRN-6924 and leaving the trial, was determined to have a response that may have qualified as a complete response if observed within the trial. The investigator for such patient has advised us that the patient did not receive any other anti-cancer therapy following discontinuation of ALRN-6924 and attributed the response to ALRN-6924. For patients to be evaluable, they had to have received at least one dose of study medication and have undergone at least one tumor imaging with CT per protocol post-baseline or have experienced clinical progression as determined by the investigator without formal imaging. Of the 71 enrolled patients, eight patients were not evaluable because they had discontinued treatment without an efficacy assessment, including two patients who discontinued treatment due to adverse events, three patients who discontinued treatment due to noncompliance, and three patients who withdrew their informed consent.
The anti-tumor activity for patients in our Phase 1 All-comers trial is shown in the “waterfall” plot below. In this figure, the percent change in tumor volume for each evaluable patient is plotted from highest to lowest value, or worst to best response, and each bar of the histogram colored by the best overall response measured for that patient per RECIST 1.1 or IWG criteria. The “waterfall” plot only shows the results for 60 of the 63 evaluable patients as of February 26, 2018. Two patients did not have RECIST-compliant data and one patient had a brain lesion, which cannot be shown on the plot below.
We also evaluated the anti-tumor activity in our Phase 1 All-comers trial in a subset of WT p53 patients who were treated at doses of at least 0.8 mg/kg per administration, which we believe to be the minimal clinically relevant dose in this trial. For this purpose, we excluded patients who were mutant p53 patients and patients who received doses at one of the three lowest dose levels in the trial of ALRN-6924, as we do not believe that these doses are relevant to the future clinical development of ALRN-6924. In this subset of 41 evaluable patients as of February 26, 2018, 39 are represented in the “waterfall” plot below as two patients with clinical or objective evidence of disease progression did not receive a scan. Of these 41 evaluable patients, 24 (or 59%) demonstrated disease control in at least one scan following the start of ALRN-6924 treatment, including two patients who achieved complete responses, two patients who achieved partial responses and 20 patients who achieved stable disease, with 55% of the patients with stable disease experiencing shrinkage of the tumor.
As of February 26, 2018, the median time on drug for all patients, including patients with mutant p53 status and patients dosed below the minimal clinically relevant level, was 53 days, with an average of 114 days, and a maximum for one patient of 981 days. In the figure below, the time-on-drug is shown for evaluable WT p53 patients in the clinically relevant subset who achieved a complete response, a partial response or stable disease as of February 26, 2018. In these 24 patients, as of February 26, 2018, the median time on drug was 120 days, with an average of 243 days, and a maximum for one patient of 981 days. As of February 26, 2018, six patients have been on drug for more than one year, five of them remain on ALRN-6924. Three of the four patients who have achieved a complete response or partial response since trial inception remain on ALRN-6924.

Safety Results

Based on safety data in our ongoing Phase 1 All-comers trial, we consider ALRN-6924 to be well tolerated by patients in that trial. Across all dose levels as of February 26, 2018, treatment-related adverse events were seen in 69 patients (97%). Of these 69 patients, 54 (78%) reported maximum treatment-related adverse events of grade 1 or 2, 13 (16%) reported maximum treatment-related adverse events of grade 3 and two (3%) reported maximum treatment-related adverse events of grade 4. Fewer than 5% of patients experienced a treatment-related serious adverse event. The most frequent treatment-related adverse events were gastrointestinal side effects, fatigue, anemia and headache. Dose limiting toxicities, or DLTs, were grade 3 fatigue at 3.1 mg/kg, and grade 3 hypotension, grade 3 alkaline phosphatase elevation, grade 3 anemia and grade 4 neutropenia at 4.4 mg/kg, all in five patients in Arm A. All DLTs resolved following dose interruption, dose reduction or treatment discontinuation. Infusion-related reactions were seen in six patients, with two treatment discontinuations.
The table below shows the number of patients and percent of the 71 total patients across all dose levels of our Phase 1 All-comers trial experiencing a hematological abnormality as of February 26, 2018. Notably, only three patients (less than 5% in total) have experienced neutropenia of grade 3 or worse, and no patients have experienced thrombocytopenia of grade 3 or worse.

<table>
<thead>
<tr>
<th></th>
<th>Anemia, Grade*</th>
<th>Lymphocytopenia, Grade*</th>
<th>Neutropenia, Grade*</th>
<th>Thrombocytopenia, Grade*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1</td>
<td>31</td>
<td>26</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(43.7%)</td>
<td>(36.6%)</td>
<td>(7.0%)</td>
<td>0</td>
</tr>
</tbody>
</table>

* Number (%) of patients in our Phase 1 All-comers trial with hematological abnormalities

**Pharmacokinetic Profile**

We chose to deliver ALRN-6924 systemically in an intravenous administration given potential advantages of avoiding metabolic impact from hepatic and gastrointestinal enzymes as well as reproducible systemic bioavailability. In our Phase 1 All-comers trial, we measured drug concentrations in patient plasma as we increased the dose. As shown in the figure below (for the once-weekly arm), ALRN-6924 produced a dose-related increase in maximum drug plasma concentration in patients, as well as a longer corresponding half-life, up to 5.5 hours at the recommended Phase 2 dose of 3.1 mg/kg.

![Graph showing ALRN-6924 pharmacokinetic profile](image.png)

**Clinical Development Plan**

Based on the preliminary clinical data from the Phase 1 All-comers trial, we determined to pursue a broad registration-oriented clinical development program for ALRN-6924 in multiple solid tumor and hematological cancer indications that commonly present WT p53. We have chosen to initially evaluate ALRN-6924 as a monotherapy in relapsed and/or refractory PTCL patients whose cells contain WT p53 and in AML or MDS patients whose cells contain WT p53 both as a monotherapy and in combination with Ara-C. We plan to conduct, alone or in collaboration with third parties, additional clinical trials of ALRN-6924, as warranted by the clinical data. The goal
of these clinical trials will be to broaden the application of ALRN-6924 by studying safety and potential anti-tumor activity in additional distinct subgroups of patients with specific solid tumors or hematological malignancies that commonly present with WT p53, such as certain leukemias, breast cancers and melanomas. In addition, because many approved drugs and drug candidates for cancer require a functioning p53 pathway, we have expanded and advanced our non-clinical research to test a variety of approved drugs in combination with ALRN-6924 including immune-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of conventional and novel therapies. We currently expect to provide an update on our non-clinical research and development plans for our ALRN-6924 combination studies during the second half of 2018. Subject to the results of our ongoing research and obtaining additional funding, we expect to conduct one or more additional clinical trials of ALRN-6924 in combination with our anti-cancer agents as early as the first half of 2019.

Peripheral T-Cell Lymphoma

We are conducting a Phase 2a open label, multi-center clinical trial of ALRN-6924 in WT p53 patients who have relapsed/refractory PTCL after at least one prior systemic chemotherapy. In determining to evaluate ALRN-6924 in PTCL, we considered our preclinical results, data from our Phase 1 All-comers trial, and published literature regarding the role of p53 in T-cell related malignancies.

Lymphoma is the most common blood cancer and it primarily occurs when lymphocytes, a type of white blood cell, grow abnormally and accumulate in one or more lymph nodes. The body has two main types of lymphocytes that can develop into lymphomas: B-lymphocytes, or B-cells, and T-lymphocytes, or T-cells. PTCL comprises a group of rare and aggressive non-Hodgkin lymphomas, or NHL, that develop from mature T-cells. According to the Leukemia and Lymphoma Society, PTCL accounts for approximately 10% to 15% of all NHL cases in the United States, which suggests that 7,200 to 10,800 new cases of PTCL are diagnosed in the United States annually. In a study by the International T-cell Lymphoma Project, overall survival in the most common subtypes of PTCL, PTCL not otherwise specified (NOS) and angioimmunoblastic T-cell lymphoma, at five years was only 32%.

For most subtypes of PTCL, the front-line treatment is typically a combination chemotherapy regimen, such as CHOP (cyclophosphamide, doxorubicin, vincristine, prednisone), EPOCH (etoposide, prednisone, vincristine, cyclophosphamide, doxorubicin), or other multi-drug chemotherapeutic regimens. While over 50% of patients initially respond to these chemotherapeutic regimens, many patients with PTCL do not respond to these regimens or, after initially responding, later relapse. For second-line treatment, some oncologists recommend treating relapsed patients with a variety of intensive combination chemotherapy therapies, such as ICE (ifosfamide, carboplatin, etoposide), followed by an autologous stem cell transplant. Alternatively, patients with relapsed/refractory PTCL may be treated with the chemotherapeutic antifolate pralatrexate (Folotyn), the anti-CD30 antibody-drug conjugate brentuximab vedotin (Adcetris) or the histone deacetylase, or HDAC, inhibitors romidepsin (Istodax) and belinostat (Beleodaq) or a combination of a chemotherapy and one of the HDAC inhibitors. However, these treatments also have demonstrated limited efficacy and tolerability. We are also aware of additional product candidates that are in clinical development for the treatment of PTCL.

We enrolled the first patient in the Phase 2a PTCL trial in August 2016 and plan to enroll approximately 25 patients in the trial. We are conducting the Phase 2a PTCL trial to provide preliminary insight into the responsiveness of this patient population to ALRN-6924, to evaluate its safety and confirm the optimal dosing regimen. The primary endpoint of this trial is overall response rate as well as the safety and tolerability of ALRN-6924 in relapsed/refractory PTCL patients. Important secondary endpoints are the duration of response, progression-free and overall survival as well as time-to-response. Treatment of patients will continue until documentation of unacceptable toxicity or patient or physician decision to discontinue therapy, or disease progression that is either symptomatic, rapidly progressive, required urgent intervention, or associated with a decline in performance status.

In the first cohort of the Phase 2a PTCL trial, patients received a 3.1 mg/kg dose of ALRN-6924 on days 1, 8 and 15 of each 28-day cycle, with scans being performed after every two cycles. As of February 26, 2018, we had administered ALRN-6924 to 16 patients in accordance with this dosing regimen including one PTCL patient enrolled in the Phase 1 All-comers trial who received ALRN-6924 using the same dosing regimen, and 14 of these
patients were evaluable. Of the evaluable patients, six patients (or 43%) demonstrated disease control, consisting of two patients who achieved complete responses, one patient who achieved a partial response and three patients who achieved stable disease, with all of the stable disease patients experiencing tumor shrinkage. As of February 26, 2018, two patients remained on treatment with this dosing regimen. These patients were the two patients who achieved complete responses. The average time on treatment for these two patients as of February 26, 2018 was 594 days. Of the two non-evaluable patients, one was not evaluable due to non-measurable disease and one was not evaluable because the patient had cells that contained mutant p53.

In the trial, the patients’ tumors were assessed for purposes of the primary endpoint by the investigator using PET/CT scans per IWG 2014, criteria. In reviewing the data, we identified a number of instances where the assessment using PET/CT scans per IWG 2014 criteria differed from the assessments using CT scans alone. Accordingly, we conducted an independent evaluation of each of the evaluable patients using an independent radiologist who applied the modified Cheson 2007 set of criteria, which are the response criteria used during the pivotal trials of certain other drugs that were approved by the FDA for the second-line treatment of PTCL prior to the adoption of the IWG 2014 criteria. Using the modified Cheson 2007 criteria, 15 of the patients were evaluable, of whom seven patients (or 47%) demonstrated disease control, consisting of one patient who achieved a complete response, three patients who achieved partial responses and three patients who achieved stable disease with all of the stable disease patients experiencing tumor shrinkage. Three patients who otherwise would have been removed from the study based on a PET/CT-determined disease progression, continued on treatment per their treating physician, and two of these patients achieved partial responses and one achieved stable disease based on the modified Cheson 2007 criteria. The one non-evaluable patient was not evaluable because the patient had cells that contained mutant p53.

We plan to continue to assess patients in the trial using both the IWG 2014 and the modified Cheson 2007 evaluation criteria and, prior to commencing future trials of ALRN-6924, to discuss with the FDA the appropriate evaluation criteria to be used in the trials. We believe, however, that whether assessed using either criteria, the preliminary response rate (21% or 27%) that we have observed in the trial at this point is generally in line with the overall response rates reported for romidepsin (Istodax). To date, ALRN-6924 has been well-tolerated by patients in the Phase 2 trial and its safety profile remains consistent with the profile observed in our Phase 1 All-comers trial.

We are also exploring a new dosing regimen in our Phase 2a PTCL trial under which patients in the trial receive three doses of 3.1 mg/kg per week, followed by two weeks off in a 21-day cycle. We are evaluating this new dosing regimen to assess whether a more frequent dosing regimen could improve the response rate of ALRN-6924 while still maintaining a favorable safety profile. We based our determination to explore this dosing regimen on our ongoing non-clinical research as well as the tolerability of ALRN-6924 observed in our clinical trials. We enrolled our first patient under this dosing regimen in February 2018 and enrollment is ongoing. We expect to report additional interim data from the trial, including from patients in the second cohort who receive the three doses per week, in the second half of 2018. Based on the anticipated timing of our Phase 2a PTCL trial, and subject to the data from the trial as well as other strategic considerations, we may seek discussions with the FDA regarding the possibility of an expedited clinical development and registration pathway for ALRN-6924 in PTCL patients and the design of a single agent pivotal clinical trial as early as the fourth quarter of 2018.

**AML/MDS**

We are conducting a Phase 1 open label, multi-center clinical trial of ALRN-6924 as a monotherapy for the treatment of AML or MDS patients whose cells contain WT p53 and a Phase 1b open label, multi-center clinical trial of ALRN-6924 in combination with Ara-C for the treatment of AML or MDS patients whose cells contain WT p53. In determining to evaluate ALRN-6924 in AML/MDS, we considered our preclinical results, published literature regarding the role of p53 in AML and MDS, that AML has recently been reported to respond to single agent therapy with MDM2 inhibitors in clinical trials conducted by third parties, and data from our first compassionate use patient.
AML is a cancer of the myeloid line of blood cells, characterized primarily by the rapid growth of abnormal white blood cells that build up in the bone marrow and interfere with the production of normal blood cells. The American Cancer Society, or ACS, estimates for 2018 that there will be 19,500 new cases of AML and 10,700 deaths from AML in the United States. Survival is age-dependent and survival rates are extremely poor for the elderly. According to the U.S. National Cancer Institute, in the United States, while the five-year relative survival for AML patients age 20 to 49 years is 55%, it is only 6% for patients that are 65 years or older. MDS is a group of diverse bone marrow disorders in which the bone marrow does not produce enough healthy blood cells. MDS is often referred to as a “bone marrow failure disorder”. The ACS estimates that there are 13,000 new MDS cases each year in the United States. AML and MDS are often treated similarly in clinical practice because both disorders can originate from the same cell type and have numerous other features in common. As a result, it is difficult to distinguish between AML and MDS. Irrespective of diagnostic challenges, about one third of MDS patients progress to AML.

The front-line treatment for patients with AML has typically been a combination chemotherapy, consisting of intensive Ara-C-based induction chemotherapy followed by Ara-C-based consolidation therapy. Because Ara-C-based induction chemotherapies have significant toxicities, elderly patients with AML typically do not qualify for standard Ara-C-based induction chemotherapy. However, in 2017, the FDA approved a liposomal formulation of a fixed-dose combination of Ara-C and daunorubicin (Vyxeos) which showed superior overall survival in elderly AML patients. Still, the primary treatment for the majority of elderly patients remains palliative and as such elderly patients are treated with palliative measures encompassing best supportive care, low-dose Ara-C, or hypomethylating agents such as decitabine (Dacogen) or azacitidine (Vidaza), or they are referred to clinical trials with investigational agents. Once elderly patients experience disease progression following their initial treatment, they have a very poor expected survival rate and treatment represents a significant medical challenge. Many elderly patients go untreated after failure of these treatment options. In 2017, four products were approved specifically for AML (daunorubicin and cytarabine (Vyxeos), midostaurin (Rydapt), enasidenib (Idhifa), and gemtuzumab ozogamicin (Mylotarg)). Vyxeos, Rydapt and Mylotarg were approved for first-line treatment, and Idhifa and Mylotarg are approved for second-line treatment. To date, the majority of elderly patients still proceed to go on to palliative care after exhausting these newly approved agents.

We are conducting a Phase 1 open label, multi-center clinical dose-escalation trial of ALRN-6924 as a monotherapy for the treatment of AML or MDS patients whose cells contain WT p53. We enrolled the first patient in the fourth quarter of 2016 and had enrolled a total of 14 patients into the 1x/week dose-escalation part of the trial as of February 26, 2018. The trial is intended to establish the recommended Phase 2 dose of ALRN-6924 in patients with AML or MDS. The trial is also designed to evaluate the safety, tolerability and PK of ALRN-6924 in patients with AML or MDS and provide a preliminary assessment of anti-leukemic activity. The trial uses a 3+3 dose escalation design. In the one-time per week dose escalation part of the trial patients have received ALRN-6924 once a week for three consecutive weeks over a 28-day cycle. We treated the first cohort of patients with a dose of 3.1 mg/kg per infusion of ALRN-6924, and subsequently increased the dose up to 5.8 mg/kg per infusion without recording any DLTs.

We are also conducting a Phase 1b open label, multi-center clinical dose-escalation trial of ALRN-6924 in combination with Ara-C for the treatment of AML or MDS patients whose cells contain WT p53. We enrolled the first patient in the fourth quarter of 2016 and completed the original enrollment plan. The trial is designed to evaluate the safety, tolerability and PK of ALRN-6924 in combination with Ara-C in patients with AML or MDS and provide a preliminary assessment of anti-leukemic activity. The trial uses a 3+3 dose escalation design. Patients receive ALRN-6924 in combination with Ara-C once a week for three consecutive weeks over a 28-day cycle. We treated the first cohort of patients in the trial with an initial dose of 3.1 mg/kg plus 100 mg/m² of Ara-C and subsequently increased the dose up to 4.4 mg/kg per infusion of ALRN-6924 plus 200 mg/m² of Ara-C. We are currently seeking to enroll one or more additional patients in the ALRN-6924 4.4 mg/kg plus 200 mg/m² Ara-C cohort. We expect to complete enrollment of this cohort in the second quarter of 2018.

As of February 26, 2018, we had enrolled a total of 33 patients in the trials, of whom 26 were evaluable consisting of 11 patients in the Phase 1 monotherapy trial and 15 patients in the Phase 1b combination trial. As of February 26, 2018, six of the patients in the trials remained on treatment. Of the 26 evaluable patients, two MDS patients achieved marrow complete responses, including one patient who proceeded to receive a stem cell transplant, and five MDS patients achieved stable disease. Three of the 26 evaluable AML/MDS patients experienced a reduction of bone marrow blasts ranging from 40% to 50%. Each of the patients with the marrow complete responses participated in the 4.4 mg/kg of ALRN-6924 plus 200 mg/m² of Ara-C cohort. Five patients received
treatment in this cohort as of February 26, 2018. To date, we have observed a safety profile in this patient population in this trial that is similar to the safety profile of ALRN-6924 seen in our other clinical trials.

In addition to meeting our initial AML/MDS Phase 1 and Phase 1b enrollment targets, we are currently exploring a new three times per week dosing regimen in the Phase 1 trial. Under the new dosing regimen, patients receive ALRN-6924 (starting at 2.7 mg/kg) three times a week for two consecutive weeks, followed by one week off, for a 21-day cycle. We are evaluating this new dosing regimen to assess whether more frequent dosing could improve the response rate of ALRN-6924 while still maintaining a favorable safety profile. We based our determination to explore this dosing regimen on our ongoing non-clinical research including research conducted by us and our collaborators that was presented at the annual meeting of the American Society of Hematology or ASH in December 2017 as well the tolerability of ALRN-6924 observed in our clinical trials. In February 2018, we enrolled our first patient in this new dosing regimen and expect to complete enrollment in the second half of 2018. Depending on the timing of the completion of and the results of our Phase 1 AML/MDS trial as a monotherapy and our Phase 1b AML/MDS trial as a combination therapy with Ara-C, we may determine to initiate a Phase 2a clinical trial of ALRN-6924 for AML/MDS as a monotherapy and of ALRN-6924 as a combination therapy with Ara-C, in each case, as early as the fourth quarter of 2018. In April 2017, the FDA granted orphan drug designation to ALRN-6924 for use in the treatment of AML.

In both trials, treatment of patients continues until documentation of progressive disease, unacceptable toxicity or patient or physician decision to discontinue study medication. Bone marrow assessments for hematologic response are performed at the end of every second cycle for AML patients, at the end of every third cycle (once a week dosing regimens) or second cycle (three times a week dosing regimen) for MDS patients, and at the end of study or at relapse for both AML and MDS patients. If peripheral blood counts change in a manner suggestive of change in the underlying disease, a bone marrow assessment may be conducted outside the scheduled visits at the discretion of the investigator.

Additional Combination Trials

A standard treatment practice in oncology is the use of multiple agents in combination regimens to improve patient outcomes. Since many approved drugs and drug candidates for cancer require a functioning p53 pathway, we have expanded and advanced our non-clinical research to test a variety of approved drugs in combination with ALRN-6924 including immune-oncology agents, cyclin-dependent kinase inhibitors and traditional chemotherapeutic agents for solid and liquid tumors. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with a wide variety of conventional and novel therapies. We currently expect to provide an update on our non-clinical research and development plans for our ALRN-6924 combination studies during the second half of 2018. Subject to the results of our ongoing research and obtaining additional funding, we expect to conduct one or more additional clinical trials of ALRN-6924 in combination with other anti-cancer agents as early as the first half of 2019.

Our preclinical in-vitro data and recent published data indicate that there may be synergy between p53-reactivating therapy and different anti-cancer agents, such as targeted therapies and chemotherapy. In addition to our AML/MDS combination study, we may also conduct additional clinical trials of ALRN-6924 in combination with other anti-cancer agents. We believe the mechanism of action and safety profile of ALRN-6924 may provide the potential for its combination with conventional and novel therapies. Prior to commencing these trials, we are conducting preclinical studies of ALRN-6924 in combination with these other anti-cancer agents in in vitro studies and, where appropriate, subsequently in in vivo xenograft studies to evaluate activity and tolerability of individual combinations with ALRN-6924.
Some of our studies combining ALRN-6924 with other anti-cancer agents have shown the potential benefits of combination therapy. In in vitro testing, we have investigated the combination of more than 20 drugs with ALRN-6924, including drugs that target a variety of pathways mediated by p53, including MAPK, mTOR and CDK4/6 inhibitors, and traditional chemotherapeutic agents, including demethylating agents, such as rituximab (Rituxan®), obinutuzumab (Gazyva®), palbociclib (Ibrance®), everolimus (Afinitor®), dabrafenib (Tafinlar®), vemurafenib (Zelboraf®), capecitabine (Xeloda®) and trifluridine/tipiracil (Lonsurf®). The results indicate that almost all of the selected drugs are additive or synergistic with ALRN-6924 in vitro, with the exception of dexamethasone, which was expected to have no effect on ALRN-6924 activity. To date, no antagonism of any tested drugs with ALRN-6924 was found.

**Companion Diagnostic**

If we decide to seek marketing approval of ALRN-6924 with a label limited to WT p53 cancer patients, we would be required to have a companion in vitro diagnostic approved for use with ALRN-6924. We would also expect that we would be required to obtain similar approvals from comparable foreign regulatory authorities. In such cases, we will need to contract with a third party for the supply of a commercially available diagnostic to identify patients with WT p53 status, or develop such a diagnostic ourselves or in collaboration with a third party, in each case requiring approval of the diagnostic by regulatory authorities. We are currently evaluating the risks and benefits of each approach. We currently rely upon commercially available third-party assays and employ a central laboratory to test both archived tumor tissue samples and fresh biopsy samples from patients taken prior to enrollment in our clinical trials to identify WT p53 status.

**Preclinical Studies**

We conducted several in vivo and in vitro studies of ALRN-6924 that informed our approach to the design of our clinical trials and provided safety information needed to initiate patient selection and dosing in our trials. In these preclinical studies, ALRN-6924 bound to both MDMX and MDM2 with nanomolar affinities, indicating a high level of binding between ALRN-6924 and these proteins, and demonstrated evidence of specific on-target engagement in vitro by gene expression profiling. In addition, ALRN-6924 demonstrated tumor growth suppression, p53-dependent cell cycle arrest, apoptosis and anti-tumor activity in an MDMX/MDM2-overexpressing xenograft cancer model with clear correlation to on-target PK and pharmacodynamic activity.

ALRN-6924 has also been studied in a patient with Li-Fraumeni Syndrome who was suffering from MDS who was transforming into AML, and who was concurrently suffering from breast cancer, under a single-patient emergency IND, or compassionate use. With respect to this patient, after harvesting leukemic cells as well as healthy control lymphocytes, the investigator measured intracellular protein levels of p53 and its downstream effector p21, in the patient’s cells. Treatment with ALRN-6924 resulted in a 10-fold increase of intracellular levels of p53 and p21 within 12 hours in the leukemic stem cell compartment, whereas control healthy lymphocytes did not show any meaningful increase in p53 or p21 protein levels.

**In Vitro**

We conducted a p53 signal activation preclinical study to determine if ALRN-6924 has a differential effect on cancer cell lines with mutant p53 compared to WT p53. In the study, we measured the effect of ALRN-6924 in 312 cell lines across a variety of different cancers to compare the effect of ALRN-6924 in cell lines with mutant p53 and cell lines with WT p53. In all but two of the 207 mutant p53 cell lines, ALRN-6924 had no discernable effect, but 98 of the 105 WT p53 cell lines showed tumor cell death and seven of the 105 WT p53 cell lines did not show tumor cell death. Five of the seven WT p53 cell lines that did not show tumor cell death were derived from HPV-related cancers. We believe these HPV-derived cell lines were not responsive due to the presence of HPV-generated protein that destroys p53. By concentrating on WT p53 and responsive tumors, we believe we are better able to enrich for patient populations that may have a better chance of response to ALRN-6924. We used the results from this preclinical study to inform entry criteria in our ongoing Phase 1 All-comers trial. The figure below shows the results from this study.
In another preclinical study, we measured the binding affinity of ALRN-6924 for MDMX and MDM2 relative to the binding affinity for MDMX and MDM2 of WT p53 and of a small molecule MDM2 inhibitor. The affinity of a drug to a receptor is the measure of how effectively that drug binds to its target and can provide insight on the potential for on-target effect and off-target toxicity. We have designed ALRN-6924 to bind to both MDMX and MDM2 with higher affinity than WT p53. As a result, ALRN-6924 is able to displace MDMX and MDM2, and thereby enable bound p53 to be released to reactivate p53 function. In this study, the MDM2 inhibitor displayed strong binding affinity to MDM2 and non-measurable binding affinity to MDMX. The table below shows ALRN-6924’s ability to bind to MDMX and MDM2 relative to WT p53 and the small molecule MDM2 inhibitor. Lower nanomolar concentrations (nM) in the table reflect a stronger binding affinity (K_d) with MDMX or MDM2.

\[
\text{EC}_{50} = \text{Drug conc. at which 50% of tumor cells are killed}
\]

\[
\text{EC}_{50} \geq 30 \mu M \text{ are shown as 30} \mu M
\]

<table>
<thead>
<tr>
<th></th>
<th>WT p53</th>
<th>ALRN-6924</th>
<th>MDM2 Inhibitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDM2</td>
<td>770</td>
<td>13.7</td>
<td>9.8</td>
</tr>
<tr>
<td>MDMX</td>
<td>480</td>
<td>8.9</td>
<td>&gt;3,000</td>
</tr>
</tbody>
</table>

*In Vivo*

In our *in vivo* preclinical studies of ALRN-6924, we have studied the effects of ALRN-6924 in both solid and liquid tumors. In this study, we evaluated the effect of ALRN-6924 administered by an intravenous injection in an MDMX-driven MCF-7 breast cancer xenograft model in mice. We further evaluated doses ranging from 1.25 mg/kg to 20 mg/kg, dosed twice weekly (BIW) over four weeks, to determine effect on tumor volume growth as measured by physical examination. ALRN-6924 showed statistically significant tumor growth inhibition at doses ranging from 5 mg/kg to 20 mg/kg 28 days after initiation of treatment. At 5, 10 and 20 mg/kg in this model, when measured against the control, we observed 55%, 84% and 102% tumor growth inhibition in each dose group, with 10%, 20% and 60% of individual mice demonstrating tumor shrinkage, respectively.
P-value is a conventional statistical method for measuring the statistical significance of scientific results. A p-value of 0.05 or less represents statistical significance, meaning that there is a 1-in-20 or less statistical probability that the observed results occurred by chance.

In a preclinical study, one of our academic collaborations assessed the activity of ALRN-6924 in eight TP53 wild-type patient-derived tumor models representing six different T-cell lymphoma subtypes and compared the efficacy of ALRN 6924 to the maximum tolerated dose of romidepsin. Mice were xenografted with tumor, allowed to develop significant disease burden and then randomized to treatment with vehicle, romidepsin or ALRN-6924 on Days 1, 4, and 7. As shown in the figure below, ALRN-6924 was broadly active across compartments in all eight models. The activity of ALRN 6924 was generally superior or similar to romidepsin.
In another preclinical study, immune compromised NSG mice were xenotransplanted with the MOLM13 AML cell line and then treated with either vehicle (Group 1), 20 mg/kg ALRN-6924 twice per week (Group 2), or 20 mg/kg ALRN-6924 three times per week (Group 3) for 5 weeks after tumor engraftment. Median survival for Group 1 and Group 2 was 34 days and 83 days, respectively (p<0.0001). Long term survival was assessed at 130 days post treatment initiation, with 22% of mice in Group 2 and 60% of mice in Group 3 still alive. These data show that ALRN-6924 has strong leukemia-inhibitory activity in an in vivo AML cell xenotransplantation model. Furthermore, these data suggest that more frequent dosing may be more efficacious.

In another preclinical study, we used an MV(4;11) human leukemia xenograft model in mice to assess the ability of ALRN-6924 to inhibit tumor growth and improve overall survival in AML. In this study, we administered a 25 mg/kg dose of ALRN-6924 in six twice weekly doses and compared the results to mice treated with only cyclophosphamide, the control group. Mice were monitored individually for an endpoint of survival due to progression of leukemia. Because all ten mice that received the control exited the study between days 21 and 28, we believe that this study offered a sensitive assay for drug activity. Treatment with ALRN-6924 resulted in median overall survival of 40 days as compared to 22 days for untreated mice, an 82% increase for those receiving ALRN-6924. In our view, these results, among others, supported our belief that ALRN-6924 may potentially have an effect in liquid tumors with WT p53. The figure below shows the results of the preclinical study.
**Next Generation WT p53 Reactivators**

We intend to leverage the knowledge we have obtained from our ALRN-6924 development program to develop next generation p53 reactivating stapled peptides. We believe that specific changes in the chemical structures of our stapled peptides may engender our stapled peptides with varying affinities to MDMX and MDM2, enabling better targeting of cancers that are more dependent on one p53 suppressor protein or the other. In addition to novel chemical and anti-tumor properties, our next generation p53 program may also yield new chemical entities, or NCEs, with differential PK and safety profiles relative to ALRN-6924.

**Other Targets**

Based on our preclinical research, along with third-party scientific publications, we believe that stapled peptides may be effective against a variety of cancer targets, as well as targets in other therapeutic areas, such as infectious disease, metabolic disease and immunology. Pathways that incorporate protein-protein interactions with an alpha helix, and that, therefore, may be amenable to our approach and the focus of our future research, include p53 and may include other transcriptional factors and signaling proteins, such as Ras, which is implicated in colorectal cancer, lung cancer and pancreatic cancer, Myc, which is implicated in breast cancer and colorectal cancer, B-Catenin, which is implicated in colorectal cancer, gastric cancer, hepatocellular carcinoma, cholangiocarcinoma, melanoma and breast cancer, among others, the Bcl family of proteins, which are implicated in hematologic cancers such as AML, MDS, NHL as well as melanoma, lung cancer and breast cancer, among others and HIF-1α, which is implicated in diabetes and metabolic disease.

Since our inception, we have created over 10,000 stapled peptides against multiple targets in a variety of therapeutic areas. We believe that a number of these molecules and targets warrant further study and development and could, in the future, contribute to a pipeline of novel therapeutics. We recently expanded our internal research capability and support of research against other therapeutic targets. Subject to our resources, it is our intention to continue to make selective investments into early research programs as part of our ongoing research. Where we believe it will be beneficial to the success of the program, we also expect to seek academic and industry collaborations to advance this work.

**Manufacturing**

We currently manufacture our research-scale peptides in-house. We contract with third parties for the GMP manufacture of our product candidates for certain preclinical studies and clinical trial materials, including raw materials and consumables necessary for their manufacture. We intend to continue to contract for these materials in the future, including commercial manufacture if our product candidates receive marketing approval. We do not own or operate GMP manufacturing facilities, nor do we currently plan to build our own GMP manufacturing capabilities for the production of our product candidates for clinical or commercial use. Although we rely upon contract manufacturers for the manufacture of our product candidates for IND-enabling studies and clinical trials, we have personnel with extensive manufacturing experience who oversee our contract manufacturers. In the future, we may also rely upon collaboration partners, in addition to contract manufacturers, for the manufacture of our product candidates or any products for which we obtain marketing approval.

The active pharmaceutical ingredient, or API, for ALRN-6924 is currently manufactured by a single contract manufacturer. Although we may do so in the future, we do not currently have arrangements in place for redundant supply of the API for ALRN-6924. We contract with a different manufacturer to conduct fill-and-finish and labeling services, as well as for the storage and distribution of ALRN-6924 to clinical sites. We believe that these third parties have sufficient capacity to meet our current demand and, in the event they fail to meet our demand, we believe that adequate alternative sources for the supply of materials for ALRN-6924 exist. We intend to identify and qualify additional manufacturers to provide the API and fill-and-finish services for ALRN-6924 prior to seeking marketing approval for ALRN-6924.

We believe that, because ALRN-6924 is a peptide, it can be manufactured through reliable and reproducible synthetic processes from readily available raw materials and then purified and packaged for clinical use. We believe that the chemistry process is amenable to scale-up and does not require unusual equipment in the manufacturing process.
We have agreed to purchase all of our olefin metathesis catalyst compositions, which are used in the manufacturing process to cross-link, or “staple,” our API precursors into the final stapled peptides, under a license agreement with Materia. If Materia is unable to meet our requirements for such olefin metathesis catalyst compositions in terms of amount or delivery date, then under the license agreement, we are permitted to procure such olefin metathesis catalyst compositions from a third party until such time that Materia can meet our requirements. In February 2017, we were advised that the license agreement had been assigned to Umicore, and Umicore agreed to continue to supply us under the agreement.

Manufacturing clinical products is subject to extensive regulations that impose various procedural and documentation requirements, which govern record keeping, manufacturing processes and controls, personnel, quality control and quality assurance. Our contract manufacturers are required to comply with current good manufacturing practice regulations, which are regulatory requirements for the production of pharmaceuticals that will be used in humans.

Competition

The pharmaceutical and biotechnology industries generally, and the cancer drug sector specifically, are highly competitive and characterized by rapidly advancing technologies, evolving understanding of disease etiology and a strong emphasis on proprietary drugs. While we believe that our product candidates, development capabilities, experience and scientific knowledge provide us with competitive advantages, we face significant potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical and biotechnology companies, academic institutions, governmental agencies and public and private research institutions. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

There are a large number of companies developing or marketing treatments for cancer, including the indications for which we may develop product candidates. Many of the companies that we compete or may compete against in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved drugs than we do. Small or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or that may be necessary for, our programs.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize drugs that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any drugs that we may develop. Our competitors also may obtain FDA or other regulatory approval for their drugs more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. The key competitive factors affecting the success of all of our product candidates, if approved, are likely to be their efficacy, safety, convenience, price, the effectiveness of companion diagnostics in guiding the use of related therapeutics, the level of generic competition and the availability of reimbursement from government and other third-party payors.

The most common methods of treating patients with cancer are surgery, radiation and drug therapy. There are a variety of available drug therapies marketed for cancer. In many cases, these drugs are administered in combination to enhance efficacy. Some of the currently approved drug therapies are branded and subject to patent protection and may be established as standard of care for the treatment of indications for which we may choose to seek regulatory approvals. Many of these approved drugs are well-established therapies and are widely accepted by physicians, patients and third-party payors, and even if our drug candidates were to be approved, there can be no assurance that our drugs would displace existing treatments. In addition to currently marketed therapies, there are also a number of drugs in late-stage clinical development to treat cancer, including for the treatment of the indications for which we are developing product candidates. These clinical-stage drug candidates may provide efficacy, safety, convenience and other benefits that are not provided by currently marketed therapies. As a result, they may provide significant competition for any of our product candidates for which we obtain regulatory approval.
We designed ALRN-6924, our lead product candidate, to act as a reactivator of p53 for the treatment of various cancers. We are aware of other product candidates that are in clinical development for the treatment of various cancers through the reactivation of p53. Although there is a subset of drugs that directly target the p53 pathway, there are many cancer drugs that claim to affect the p53 pathway by upstream or other complementary pathways. We are aware of selective small molecule inhibitors that are designed to target the p53-MDM2 interaction in various stages of clinical development being tested by F-Hoffman La Roche Ltd and Hoffman La Roche Inc., or collectively Roche, Amgen Inc., Novartis AG and Daiichi Sankyo Co., Ltd., including testing MDM2 inhibitors in combination with a variety of other anti-cancer agents. Roche is currently conducting Phase 3 testing of its MDM2 agent in combination with high-dose Ara-C in AML patients between the ages of 18 and 60.

If ALRN-6924 was approved for the indications for which we currently have ongoing clinical trials, it will compete with currently-marketed drugs and will likely compete with other drugs that are currently in clinical development, each as discussed below.

**PTCL**

For most subtypes of PTCL, the front-line treatment is typically a combination chemotherapy regimen, such as CHOP (cyclophosphamide, doxorubicin, vincristine, prednisone), EPOCH (etoposide, prednisone, vincristine, cyclophosphamide, doxorubicin), or other multi-drug chemotherapeutic regimens. While over 50% of patients initially respond to these chemotherapeutic regimens, many patients with PTCL do not respond to these regimens or, after initially responding, later relapse. For second-line treatment, some oncologists recommend treating relapsed patients with a variety of intensive combination chemotherapy therapies, such as ICE (ifosfamide, carboplatin, etoposide), followed by an autologous stem cell transplant.

In addition, although treatment practices vary, some oncologists recommend treating relapsed patients with a variety of intensive combination chemotherapy therapies such as ICE (ifosfamide, carboplatin, etoposide), followed by an autologous stem cell transplant. Alternatively, patients with relapsed/refractory PTCL may be treated with pralatrexate (Folotyn), an antifolate chemotherapy marketed by Spectrum Pharmaceuticals, Inc.; belinostat (Beleodaq), an HDAC inhibitor marketed by Spectrum Pharmaceuticals, Inc.; romidepsin (Istodax), an HDAC inhibitor marketed by Celgene Corporation; brentuximab vedotin (Adcetris), an anti-CD30 antibody-drug conjugate marketed by Seattle Genetics, Inc.; or a combination of a chemotherapy and one of the HDAC inhibitors. However, these treatments also have demonstrated limited efficacy and tolerability. The approved drugs are being clinically tested in combination with a wide variety of agents. We are aware of multiple investigational agents in clinical development for PTCL, including product candidates from AstraZeneca PLC, Bristol-Myers Squibb Company, Celgene Corporation, Eisai Co., Ltd., Kura Oncology, Inc. Merck & Co., Inc. and Verastem, Inc. If approved, these new product candidates may compete with currently-approved therapies.

**AML/MDS**

The front-line treatment for patients with AML has typically been a combination chemotherapy, such as intensive Ara-C-based induction chemotherapy followed by Ara-C-based consolidation therapy. Because Ara-C-based induction chemotherapies have significant toxicities, elderly patients with AML typically do not qualify for standard Ara-C-based induction chemotherapy. However, in 2017, the FDA approved a liposomal formulation of a fixed-dose combination of Ara-C and daunorubicin (Vyxeos), which showed superior overall survival in elderly AML patients. Still, the treatment for the vast majority of elderly patients continues to be palliative and, as such, elderly patients are treated with measures encompassing best supportive care, low-dose Ara-C, or hypomethylating agents such as decitabine (Dacogen) or azacitidine (Vidaza), or they are referred to clinical trials with investigational agents. Once elderly patients experience disease progression following their initial treatment, they have a very poor expected survival rate and treatment represents a significant medical challenge. Many elderly patients go untreated after failure of these treatment options.

In 2017, the FDA approved four new drugs for AML. In addition to Vyxeos, FDA approved midostaurin (Rydapt), an inhibitor of the fms-like tyrosine kinase 3 (FLT3), which was approved in combination with Ara-C-based induction and consolidation therapy for the first-line treatment of adult patients with FLT3-mutant AML. Enasidenib (Idhifa), an isocitrate dehydrogenase-2 (IDH2) inhibitor, was approved as a mono-therapy for the treatment of adult patients with relapsed or refractory AML with an IDH2 mutation. Gemtuzumab ozogamicin (Mylotarg), a CD33-directed antibody-drug conjugate, was re-approved in combination with Ara-C-based induction
and consolidation chemotherapy for the first-line treatment of adult patients with CD33-positive AML. In addition, Mylotarg is also indicated as single agent for induction and continuation treatment in first-line treatment for adult patients with CD33-positive AML as well as for adult or pediatric patients ≥2 years with relapsed or refractory AML.

We are aware of a number of product candidates in late-stage clinical development being developed by Daiichi Sankyo Co., Ltd., Astex Pharmaceuticals, Inc., Agios Pharmaceuticals, Inc., AbbVie Inc., Seattle Genetics, Inc. and earlier-stage product candidates being developed by Astellas Pharma Inc., Boehringer Ingelheim GmbH, Janssen Research & Development, LLC, Karyopharm Therapeutics Inc. and Pfizer Inc.

AML and MDS are often treated similarly in clinical practice. The front-line treatment for patients with higher-risk MDS in the United States are combination chemotherapy or hypomethylating agents such as decitabine (Dacogen) or azacitidine (Vidaza). We are aware of several ongoing clinical trials aimed at expanding the use of approved chemotherapy and immunomodulatory agents in higher-risk MDS, as well as several new clinical programs testing novel technologies in this area, including product candidates from Astex Pharmaceuticals, Inc., Celgene Corporation, CTI BioPharma Corp., Cyclacel Pharmaceuticals, Inc., Eisai Co., Ltd., Karyopharm Therapeutics Inc., Onconova Therapeutics, Inc., and Takeda Pharmaceutical Company Limited.

Intellectual Property

We strive to protect the proprietary technologies that we believe are important to our business, including seeking and maintaining patent protection intended to cover the composition of matter of our product candidates, including ALRN-6924, their methods of use, related technology, and other inventions that are important to our business. In addition to patent protection, we rely on trade secrets and confidentiality agreements to protect our technology, know-how and other aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

Our success will depend significantly on our ability to obtain and maintain patent and other proprietary protection for commercially important technology, inventions, and knowledge related to our business, defend and enforce our patents, maintain our licenses to use intellectual property owned by third parties, preserve the confidentiality of our trade secrets, and operate without infringing the valid and enforceable patents and other proprietary rights of third parties.

A third party may hold intellectual property, including patent rights, which are important or necessary to the development or commercialization of our product candidates. If it becomes necessary for us to use patented or proprietary technology of third parties to develop or commercialize our product candidates, we may need to seek a license from such third parties. Our business could be harmed, possibly materially, if we are unable to obtain such a license on terms that are commercially reasonable, or at all.

We may seek to expand our intellectual property estate by filing patent applications directed to dosage forms, methods of treatment, diagnostics, and additional compounds and their derivatives. Specifically, we have sought and continue to seek patent protection in the United States and internationally for novel compositions of matter covering the compounds, the chemistries and processes for manufacturing these compounds, and the use of these compounds in a variety of therapies.

The patent positions of biopharmaceutical companies like us are generally uncertain and involve complex legal, scientific and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Consequently, we do not know whether any of our product candidates will be protectable or remain protected by enforceable patents. We cannot predict whether the patent applications we are currently pursuing will issue as patents in any particular jurisdiction or whether the claims of any issued patents will provide sufficient proprietary protection from competitors. Any patents that we hold may be challenged, circumvented or invalidated by third parties.

Because patent applications in the United States and certain other jurisdictions are maintained in secrecy for 18 months, and since publication of discoveries in the scientific or patent literature often lags actual discoveries, we cannot be certain of the priority of inventions covered by pending patent applications. Moreover, we may have to
participate in interference proceedings declared by the United States Patent and Trademark Office, or USPTO, to determine priority of invention or in post-grant challenge proceedings at the USPTO or at a foreign patent office, such as inter partes review and post grant review proceedings at the USPTO and opposition proceedings at the European Patent Office, that challenge priority of invention or other features of patentability. Such proceedings could result in substantial cost, even if the eventual outcome is favorable to us.

We generally file a provisional patent application with the USPTO first and then subsequently file a corresponding non-provisional patent application, which enables us to establish an earlier effective filing date in the subsequently filed non-provisional patent application. In order to benefit from the earlier effective filing date, we must file a corresponding non-provisional patent application, such as a utility application in the United States or an international application under the Patent Cooperation Treaty, or PCT, within 12 months of the date of the provisional patent application filing. Based on a PCT filing, we may file national and regional patent applications in the United States or foreign jurisdictions, such as the European Union, China, Japan, Australia, Canada, Brazil, India, Indonesia, Israel, Mexico, New Zealand, South Korea, Singapore, South Africa or the Eurasian Patent Organization. To date, we have not filed for patent protection in all national and regional jurisdictions where such protection may be available, and we may decide to abandon national and regional patent applications before a patent is granted. In addition, the patent grant proceeding for each national or regional patent application that we file is an independent proceeding. As a result, it is possible for a patent application to be granted in one jurisdiction and denied in another jurisdiction, and depending on the jurisdiction, the scope of patent protection may vary.

**Patent Portfolio**

As of January 31, 2018, we owned or had an exclusive license to at least 47 U.S. patents, at least 44 pending U.S. provisional or non-provisional patent applications, at least 195 foreign patents and at least 150 pending foreign applications. The claims of these owned or in-licensed patents and patent applications are directed toward various aspects of our product candidates and research programs. Specifically, the claims of these patents and patent applications include compositions of matter, methods of use, drug product formulations, diagnostics, methods of manufacture and methods of identifying active compounds. Such owned and in-licensed patents and patent applications, if issued, are expected to expire on various dates from 2020 through 2037, without taking into account any possible patent term adjustments or extensions. In addition, within our patent portfolio, as of January 31, 2018, we owned or had an exclusive license to at least 21 U.S. patents, at least 14 pending U.S. provisional or non-provisional patent applications, at least 87 foreign patents and at least 82 pending foreign applications that include claims covering ALRN-6924, such as its composition of matter, formulations, manufacturing processes, manufacturing precursors or uses thereof. Such owned and in-licensed patents and patent applications, if issued, are expected to expire on various dates from 2020 through 2037, with the owned patents and patent applications, if issued, expiring on various dates from 2029 to 2037, in each case without taking into account any possible patent term adjustment or extensions. More specifically, such owned and in-licensed patents claiming compositions of matter covering ALRN-6924 are expected to expire on various dates from 2020 through 2033, with the owned patents and patent applications, if issued, expiring on various dates from 2029 to 2033, in each case without taking into account any possible patent term adjustments or extensions. Lastly, within our patent portfolio, as of January 31, 2018, at least 14 U.S. patents, at least 4 pending U.S. non-provisional patent applications, at least 105 foreign patents and at least 20 foreign patent applications are licensed to us by President and Fellows of Harvard College, or Harvard, and Dana-Farber Cancer Institute, or DFCI, pursuant to our license agreement with such parties, which patents and patent applications, if issued, are expected to expire on various dates from 2020 through 2028, without taking into account any possible patent term adjustments or extensions. We also have rights to certain patents and pending patent applications throughout the world licensed on a non-exclusive basis to us by Materia and other third parties pursuant to our license agreements with such parties.

The term of individual patents depends upon the legal term of the patents in the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the earliest date of filing a non-provisional patent application.

In the United States, the Hatch-Waxman Act permits a patent holder to apply for patent term extension of a patent that covers an FDA-approved drug, which, if granted, can extend the patent term of such patent to compensate for the patent term lost during the FDA regulatory review process. This extension can be for up to five years beyond the original expiration date of the patent. The length of the patent term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent.
beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other non-United States jurisdictions to extend the term of a patent that covers an approved drug. In the future, if and when our product candidates receive FDA approval, we expect to apply for patent term extensions on patents covering those product candidates. While we intend to seek patent term extensions to any of our patents in any jurisdiction where such extensions are available, there is no guarantee that the applicable authorities, including the FDA in the United States, will agree with our assessment of whether such extensions should be granted, and even if granted, the length of such extensions.

In addition to our reliance on patent protection for our inventions, product candidates and research programs, we also rely on trade secret protection for our confidential and proprietary information. Although we take steps to protect our proprietary information and trade secrets, including through contractual means with our employees and consultants, third parties may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose our technology. Thus, we may not be able to meaningfully protect our trade secrets. It is our policy to require our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information concerning our business or financial affairs developed or made known to the individual or entity during the course of the party’s relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees, the agreements provide that all inventions conceived by the individual, and which are related to our current or planned business or research and development or made during normal working hours, on our premises or using our equipment or proprietary information, are our exclusive property.

License Agreements

Harvard and Dana-Farber License Agreement

In August 2006, we entered into a license agreement with Harvard and DFCI. This agreement was amended and restated in February 2010. Pursuant to the amended and restated agreement, Harvard and DFCI granted us an exclusive worldwide license, with the right to sublicense, under certain patents and patent applications to develop, make, have made, market, use, sell, offer for sale, and import products covered by the patents and patent rights. The licensed patents cover ALRN-6924. We also generally have the first right to enforce the licensed patents against third-party infringers.
Under the terms of the amended and restated agreement, we are obligated to use commercially reasonable efforts to develop licensed products in accordance with a development plan and to develop and commercialize licensed products. We are also required to achieve specified milestone events by specified dates. Depending on the failure, Harvard may terminate the agreement either in its entirety or as to categories of licensed patent rights if we fail to achieve such milestone events and do not cure such failure within a specified termination notice period.

In addition, under the license agreement, if a third party makes a proposal to Harvard or DFCI to develop a licensed product that does not contain a peptide that is substantially similar to a peptide in a licensed product we are developing, that would be developed for an indication for which we are not interested in developing a licensed product and that would not present a material risk of competing through off-label use with a licensed product we are developing or plan to develop, and Harvard is interested in having such product developed and commercialized, Harvard is to notify us of the proposal. Following such notification, we then have the right to decide to develop such product ourselves, subject to agreement with Harvard upon a development plan and milestones, to directly negotiate a sublicense with such third party of the licensed intellectual property only or to give Harvard the right to negotiate such a sublicense with the third party in which case we will be entitled to a portion of the income to Harvard from the sublicense. Harvard may also terminate the agreement upon our breach of our payment obligations by us under the agreement if we do not cure such breach within a specified period. Harvard and DFCI may terminate the agreement upon any breach by Harvard or DFCI if not cured within a specified notice period or at any time for any reason upon written notice to Harvard and DFCI. If not earlier terminated, the agreement will remain in force on a licensed product-by-licensed product and country-by-country basis until the expiration of the last-to-expire applicable licensed patent.

As of December 31, 2017, we have paid non-refundable fees, consisting of license and maintenance fees, milestone payments and sublicense fees, of $4.4 million. We are obligated to pay annual maintenance fees totaling $145,000, which on an annual basis are creditable against royalties due for commercial sales of licensed products. We are obligated to make additional milestone payments of up to a maximum of $7.5 million upon our achievement of certain specified clinical, regulatory and sales milestones with respect to ALRN-6924. In the future, we may be obligated to pay up to a maximum of $7.7 million per additional licensed therapeutic product upon our achievement of certain specified clinical, regulatory and sales milestones with respect to such product with the first milestone being payable upon initiation of clinical development of the product. We may also be obligated to pay up to a maximum of $700,000 per licensed diagnostic product upon our achievement of certain specified regulatory and sales milestones with respect to such product. We also have agreed to pay low single-digit percentage royalties on aggregate worldwide net sales of licensed products, including sales by our sublicensees, on a licensed product-by-licensed product and country-by-country basis until the expiration of the last-to-expire applicable licensed patent. Our royalty obligations are subject to specified reductions in the event that we are required to obtain additional licenses from third parties and to make payments to such third parties under such licenses. We must also pay a percentage, up to the mid-twenties, of all sublicense income received from sublicensees, less certain costs, such as research and development costs and, in the event our patent rights are licensed to the sublicensee as part of the same transaction, less the portion of sublicense income allocated to our licensed patent rights. Under specified circumstances, portions of our sublicense payments may be creditable against royalty payments payable for sales of a licensed product. Finally, we must also reimburse all future patent expenses related to the prosecution and maintenance of the licensed patents and applications in-licensed.

Materia License Agreement

In December 2006, we entered into a license agreement with Materia. Pursuant to the agreement, Materia granted us a non-exclusive worldwide license, with the right to sublicense, under certain of its patents and patent applications covering olefin metathesis catalyst compositions, to develop, make, have made, use, sell, offer for sale, import and export certain conformationally restricted peptides, which are crosslinked, or “stapled,” peptides, for the prevention, diagnosis, treatment or control of any human or animal disease, disorder or condition.
During the term of the agreement, we have agreed to purchase all of our olefin metathesis catalyst compositions from Materia at agreed prices, subject to potential cost-based increases over time. If Materia is unable or unwilling to meet our requirements for such olefin metathesis catalyst compositions in terms of amount or delivery date, then a process is provided by which we can procure such olefin metathesis catalyst compositions from a third party until such time that Materia can meet our requirements and notifies us in writing.

As of December 31, 2017, we paid non-refundable fees, consisting of an up-front technology access fee and annual maintenance payments and milestone payments, to Materia of $850,000. We are obligated to pay Materia an annual maintenance fee of $50,000. We are obligated to make additional milestone payments up to a maximum of $6.25 million upon our achievement of certain specified clinical, regulatory and sales milestones with respect to ALRN-6924. In the future, we may be obligated to pay to Materia up to a maximum of $6.25 million per additional licensed product upon our achievement of certain specified clinical, regulatory and sales milestones with respect to such licensed product. We must also pay Materia tiered royalties ranging in the low single-digit percentages on aggregate worldwide net sales of licensed products, including sales by our sublicensees, on a licensed product-by-licensed product and country-by-country basis until the expiration of the last-to-expire applicable licensed patent. Our royalty obligations are subject to specified reductions in the event that we are required to obtain additional licenses from third parties and to make payments to such third parties under such licenses.

Either party may terminate the agreement upon material breach by the other party under the agreement if the breaching party does not cure such breach within a specified notice period. We may also terminate the agreement at any time with specified prior notice to Materia. In February 2017, we were advised that the license agreement had been assigned to Umicore, and Umicore agreed to continue to supply us under the agreement.

**Government Regulation and Product Approvals**

Government authorities in the United States, at the federal, state and local level, and in other countries and jurisdictions, including the European Union, extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, pricing, marketing, post-approval monitoring and reporting, and import and export of pharmaceutical products. The processes for obtaining marketing approvals in the United States and in foreign countries and jurisdictions, along with subsequent compliance with applicable statutes and regulations and other regulatory authorities, require the expenditure of substantial time and financial resources.

**Approval and Regulation of Drugs in the United States**

In the United States, the FDA approves drug products under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations. Biological products, on the other hand, are licensed by the FDA under the Public Health Service Act, or PHSA. With passage of the Biologics Price Competition and Innovation Act of 2009, Congress amended the definition of “biological product” in the PHSA so as to exclude a chemically synthesized polypeptide from licensure under the PHSA. Rather, the Act provided that such products would be treated as drugs under the FDCA. Through companion guidance issued in April 2015, FDA considers any polymer composed of 40 or fewer amino acids to be a peptide and not a protein. Therefore, unless a peptide otherwise meets the statutory definition of a “biological product” (e.g., a peptide vaccine), it will be regulated as a drug under the FD&C Act. Accordingly, based on this FDA guidance, we believe that our products will not be treated as biologics subject to approval of a biologics license application, or BLA, by the FDA, and rather will be treated as drug products subject to approval of a new drug application, or NDA, by the FDA pursuant to the FDCA.
The failure to comply with applicable requirements under the FDCA and other applicable laws at any time during the product development process, approval process or after approval may subject an applicant and/or sponsor to a variety of administrative or judicial sanctions, including refusal by the FDA to approve pending applications, withdrawal of an approval, imposition of a clinical hold, issuance of warning letters and other types of letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement of profits, or civil or criminal investigations and penalties brought by the FDA and the Department of Justice or other governmental entities.

An applicant seeking approval to market and distribute a new drug product in the United States must typically undertake the following:

- completion of preclinical laboratory tests, animal studies and formulation studies in compliance with the FDA’s good laboratory practice, or GLP, regulations;
- submission to the FDA of an IND, which must take effect before human clinical trials may begin;
- approval by an independent institutional review board, or IRB, representing each clinical site before each clinical trial may be initiated;
- performance of adequate and well-controlled human clinical trials in accordance with good clinical practices, or GCP, to establish the safety and efficacy of the proposed drug product for each proposed indication;
- preparation and submission to the FDA of an NDA requesting marketing for one or more proposed indications;
- review by an FDA advisory committee, where appropriate or if applicable;
- satisfactory completion of one or more FDA inspections of the manufacturing facility or facilities at which the product, or components thereof, are produced to assess compliance with current Good Manufacturing Practices, or cGMP, requirements and to assure that the facilities, methods and controls are adequate to preserve the product’s identity, strength, quality and purity;
- satisfactory completion of FDA audits of clinical trial sites to assure compliance with GCPs and the integrity of the clinical data;
- payment of user fees and securing FDA approval of the NDA; and
- compliance with any post-approval requirements, including the potential requirement to implement a Risk Evaluation and Mitigation Strategy, or REMS, and the potential requirement to conduct post-approval studies.

Preclinical Studies

Before an applicant begins testing a compound with potential therapeutic value in humans, the drug candidate enters the preclinical testing stage. Preclinical studies include in vitro laboratory evaluation of product chemistry, toxicity and formulation, as well as animal studies to assess the potential safety and activity of the drug for initial testing in humans and to establish a rationale for therapeutic use. The conduct of preclinical studies is subject to federal regulations and requirements, including GLP regulations. The results of the preclinical tests, together with manufacturing information, analytical data, any available clinical data or literature and plans for clinical trials, among other things, are submitted to the FDA as part of an IND. Some long-term preclinical testing, such as animal tests of reproductive adverse events and carcinogenicity, may continue or may be conducted after the IND is submitted.

The IND and IRB Processes

An IND is a request for an exemption from restrictions under the FDCA that allows an unapproved drug to be shipped in interstate commerce for use in an investigational clinical trial, and also a request for FDA authorization to administer an investigational drug to humans. Such authorization must be secured prior to interstate shipment and administration of any new drug that is not the subject of an approved NDA. In support of a request for an IND,
applicants must submit a protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. In addition, the results of the preclinical tests, together with manufacturing information, analytical data, any available clinical data or literature and plans for clinical trials, among other things, are submitted to the FDA as part of an IND. The FDA requires a 30-day waiting period after the filing of each IND before clinical trials may begin. This waiting period is designed to allow the FDA to review the IND to determine whether human research subjects will be exposed to unreasonable health risks. At any time during this 30-day period, the FDA may raise concerns or questions about the conduct of the trials as outlined in the IND and impose a clinical hold. In this case, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can begin.

Following commencement of a clinical trial under an IND, based upon reported safety-related information, the FDA may also place a clinical hold or partial clinical hold on that trial. A clinical hold is an order issued by the FDA to the sponsor to delay a proposed clinical investigation or to suspend an ongoing investigation. A partial clinical hold is a delay or suspension of only part of the clinical work requested under the IND. For example, a specific protocol or part of a protocol is not allowed to proceed, while other protocols may do so. No more than 30 days after imposition of a clinical hold or partial clinical hold, the FDA will provide the sponsor a written explanation of the basis for the hold. Following issuance of a clinical hold or partial clinical hold, an investigation may only resume after the FDA has notified the sponsor that the investigation may proceed. The FDA will base that determination on additional information provided by the sponsor correcting deficiencies or addressing safety concerns, thereby satisfying the FDA that the investigation can proceed.

A sponsor may choose, but is not required, to conduct a foreign clinical study under an IND. When a foreign clinical study is conducted under an IND, all IND requirements must be met unless waived. When the foreign clinical study is not conducted under an IND, the sponsor must ensure that the study complies with certain FDA regulatory requirements in order to use the study as support for an IND or application for marketing approval. Specifically, FDA has promulgated regulations governing the acceptance of foreign clinical studies not conducted under an IND, establishing that such studies will be accepted as support for an IND or application for marketing approval if the study was conducted in accordance with GCP including review and approval by an independent ethics committee, or IEC, and informed consent from subjects, and the FDA is able to validate the data from the study through an on-site inspection if FDA deems such inspection necessary. The GCP requirements encompass both ethical and data integrity standards for clinical studies. The FDA’s regulations are intended to help ensure the protection of human subjects enrolled in non-IND foreign clinical studies, as well as the quality and integrity of the resulting data. They further help ensure that non-IND foreign studies are conducted in a manner comparable to that required for IND studies. If a marketing application is based solely on foreign clinical data, the FDA requires that the foreign data be applicable to the U.S. population and U.S. medical practice; the studies must have been performed by clinical investigators of recognized competence; and the FDA must be able to validate the data through an on-site inspection or other appropriate means, if the FDA deems such an inspection to be necessary.

In addition to the foregoing IND requirements, an IRB representing each institution participating in the clinical trial must review and approve the plan for any clinical trial before it commences at that institution, and the IRB must conduct continuing review and reapprove the study at least annually. The IRB must review and approve, among other things, the study protocol and informed consent information to be provided to study subjects. An IRB must operate in compliance with FDA regulations. An IRB can suspend or terminate approval of a clinical trial at its institution, or an institution it represents, if the clinical trial is not being conducted in accordance with the IRB’s requirements or if the product candidate has been associated with unexpected serious harm to patients.

Additionally, some trials are overseen by an independent group of qualified experts organized by the trial sponsor, known as a data safety monitoring board, or DSMB, or committee. This group provides authorization for whether or not a trial may move forward at designated check points based on access that only the group maintains to available data from the study. Suspension or termination of development during any phase of clinical trials can occur if it is determined that the participants or patients are being exposed to an unacceptable health risk. Suspension or termination decisions, for reasons unrelated to patient safety, may be made by us based on evolving business objectives and/or competitive climate.

Information about certain clinical trials must be submitted within specific timeframes to the National Institutes of Health, or NIH, for public dissemination on its ClinicalTrials.gov website.
**Human Clinical Studies in Support of an NDA**

Clinical trials involve the administration of the investigational product to human subjects under the supervision of qualified investigators in accordance with GCP requirements, which include, among other things, the requirement that all research subjects provide their informed consent in writing before their participation in any clinical trial. Clinical trials are conducted under written study protocols detailing, among other things, the inclusion and exclusion criteria, the objectives of the study, the parameters to be used in monitoring safety and the effectiveness criteria to be evaluated.

Human clinical trials are typically conducted in the following sequential phases, which may overlap or be combined:

- **Phase 1:** The drug is initially introduced into healthy human subjects or, in certain indications such as cancer, patients with the target disease or condition and tested for safety, dosage tolerance, absorption, metabolism, distribution, excretion and, if possible, to gain an early indication of its effectiveness and to determine optimal dosage.

- **Phase 2:** The drug is administered to a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

- **Phase 3:** The drug is administered to an expanded patient population, generally at geographically dispersed clinical trial sites, in well-controlled clinical trials to generate enough data to statistically evaluate the efficacy and safety of the product for approval, to establish the overall risk-benefit profile of the product, and to provide adequate information for the labeling of the product.

- **Phase 4:** Post-approval studies, which are conducted following initial approval, are typically conducted to gain additional experience and data from treatment of patients in the intended therapeutic indication.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and more frequently if unexpected serious adverse events suspected of being related to the drug occur. IND safety reports must be submitted to the FDA for serious and unexpected suspected adverse reactions, or SUSARs, occurring during the trial; and any clinically important increase in the number or severity of serious suspected adverse reactions over that listed in the protocol or investigator brochure. In addition, findings from other clinical studies or animal or *in vitro* testing that suggest a significant risk in humans exposed to the drug should also be reported. Phase 1, Phase 2 and Phase 3 clinical trials may not be completed successfully within any specified period, or at all. Furthermore, the FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution, or an institution it represents, if the clinical trial is not being conducted in accordance with the IRB’s requirements or if the drug has been associated with unexpected serious harm to patients. The FDA will typically inspect one or more clinical sites to assure compliance with GCP and the integrity of the clinical data submitted.

Concurrent with clinical trials, companies often complete additional animal studies and must also develop additional information about the chemistry and physical characteristics of the drug as well as finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the drug candidate and, among other things, must develop methods for testing the identity, strength, quality, and purity of the final drug. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the drug candidate does not undergo unacceptable deterioration over its shelf life.

**Submission of an NDA to the FDA**

Assuming successful completion of required clinical testing and other requirements, the results of the preclinical studies and clinical trials, together with detailed information relating to the product’s chemistry, manufacture, controls and proposed labeling, among other things, are submitted to the FDA as part of an NDA requesting approval to market the drug product for one or more indications. Under federal law, the submission of most NDAs is additionally subject to an application user fee, which for federal fiscal year 2018 is $2,421,495, unless
a partial or full fee waiver is granted as may occur for the first NDA of a small business or an NDA for drug intended to treat a rare, or “orphan” disease. The sponsor of an approved NDA may also be subject to an annual program fee, which for fiscal year 2018 is $304,162 per product, per approved indication up to 5 indications.

The FDA conducts a preliminary review of an NDA within 60 days of its receipt and informs the sponsor by the 74th day after the FDA’s receipt of the submission to determine whether the application is sufficiently complete to permit substantive review. The FDA may request additional information rather than accept an NDA for filing. In this event, the application must be resubmitted with the additional information. The resubmitted application is also subject to review before the FDA accepts it for filing. Once the submission is accepted for filing, the FDA begins an in-depth substantive review. The FDA has agreed to specified performance goals in the review process of NDAs. Most such applications are meant to be reviewed within ten months from the filing date, and most applications for “priority review” products are meant to be reviewed within six months of the filing date. The review process and the Prescription Drug User Fee Act goal date may be extended by the FDA for three additional months to consider new information or clarification provided by the applicant to address an outstanding deficiency identified by the FDA following the original submission.

Before approving an NDA, the FDA typically will inspect the facility or facilities where the product is or will be manufactured. These pre-approval inspections may cover all facilities associated with an NDA submission, including drug component manufacturing (such as active pharmaceutical ingredients), finished drug product manufacturing, and control testing laboratories. The FDA will not approve an application unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. Under the FDA Reauthorization Act of 2017, the FDA must implement a protocol to expedite review of responses to inspection reports pertaining to certain applications, including applications for products in shortage or those for which approval is dependent on remediation of conditions identified in the inspection report.

In addition, as a condition of approval, the FDA may require an applicant to develop a REMS. REMS use risk minimization strategies beyond the professional labeling to ensure that the benefits of the product outweigh the potential risks. To determine whether a REMS is needed, the FDA will consider the size of the population likely to use the product, seriousness of the disease, expected benefit of the product, expected duration of treatment, seriousness of known or potential adverse events, and whether the product is a new molecular entity. REMS can include medication guides, physician communication plans for healthcare professionals, and elements to assure safe use, or ETASU. ETASU may include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The FDA may require a REMS before approval or post-approval if it becomes aware of a serious risk associated with use of the product. The requirement for a REMS can materially affect the potential market and profitability of a product.

The FDA is required to refer an application for a novel drug to an advisory committee or explain why such referral was not made. Typically, an advisory committee is a panel of independent experts, including clinicians and other scientific experts, that reviews, evaluates and provides a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

**Fast Track, Breakthrough Therapy and Priority Review Designations and Regenerative Advanced Therapy Designations**

The FDA is authorized to designate certain products for expedited review if they are intended to address an unmet medical need in the treatment of a serious or life-threatening disease or condition. These programs are referred to as fast track designation, breakthrough therapy designation, priority review designation and regenerative advanced therapy designation.

Specifically, the FDA may designate a product for Fast Track review if it is intended, whether alone or in combination with one or more other products, for the treatment of a serious or life-threatening disease or condition, and it demonstrates the potential to address unmet medical needs for such a disease or condition. For Fast Track products, sponsors may have greater interactions with the FDA and the FDA may initiate review of sections of a Fast Track product’s application before the application is complete. This rolling review may be available if the FDA
determines, after preliminary evaluation of clinical data submitted by the sponsor, that a Fast Track product may be effective. The sponsor must also provide, and the FDA must approve, a schedule for the submission of the remaining information and the sponsor must pay applicable user fees. However, the FDA’s time period goal for reviewing a Fast Track application does not begin until the last section of the application is submitted. In addition, the Fast Track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

Second, a product may be designated as a Breakthrough Therapy if it is intended, either alone or in combination with one or more other products, to treat a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the product may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. The FDA may take certain actions with respect to Breakthrough Therapies, including holding meetings with the sponsor throughout the development process; providing timely advice to the product sponsor regarding development and approval; involving more senior staff in the review process; assigning a cross-disciplinary project lead for the review team; and taking other steps to design the clinical trials in an efficient manner.

Third, the FDA may designate a product for priority review if it is a product that treats a serious condition and, if approved, would provide a significant improvement in safety or effectiveness. The FDA determines, on a case-by-case basis, whether the proposed product represents a significant improvement when compared with other available therapies. Significant improvement may be illustrated by evidence of increased effectiveness in the treatment of a condition, elimination or substantial reduction of a treatment-limiting product reaction, documented enhancement of patient compliance that may lead to improvement in serious outcomes, and evidence of safety and effectiveness in a new subpopulation. A priority designation is intended to direct overall attention and resources to the evaluation of such applications, and to shorten the FDA’s goal for taking action on a marketing application from ten months to six months.

With passage of the 21st Century Cures Act, or the Cures Act, in December 2016, Congress authorized the FDA to accelerate review and approval of products designated as regenerative advanced therapies. A product is eligible for this designation if it is a regenerative medicine therapy that is intended to treat, modify, reverse or cure a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the product has the potential to address unmet medical needs for such disease or condition. The benefits of a regenerative advanced therapy designation include early interactions with FDA to expedite development and review, benefits available to breakthrough therapies, potential eligibility for priority review and accelerated approval based on surrogate or intermediate endpoints.

*Accelerated Approval Pathway*

The FDA may grant accelerated approval to a drug for a serious or life-threatening condition that provides meaningful therapeutic advantage to patients over existing treatments based upon a determination that the drug has an effect on a surrogate endpoint that is reasonably likely to predict clinical benefit. The FDA may also grant accelerated approval for such a condition when the product has an effect on an intermediate clinical endpoint that can be measured earlier than an effect on irreversible morbidity or mortality, or IMM, and that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity or prevalence of the condition and the availability or lack of alternative treatments. Drugs granted accelerated approval must meet the same statutory standards for safety and effectiveness as those granted traditional approval.

For the purposes of accelerated approval, a surrogate endpoint is a marker, such as a laboratory measurement, radiographic image, physical sign or other measure that is thought to predict clinical benefit, but is not itself a measure of clinical benefit. Surrogate endpoints can often be measured more easily or more rapidly than clinical endpoints. An intermediate clinical endpoint is a measurement of a therapeutic effect that is considered reasonably likely to predict the clinical benefit of a drug, such as an effect on IMM. The FDA has limited experience with accelerated approvals based on intermediate clinical endpoints, but has indicated that such endpoints generally may support accelerated approval where the therapeutic effect measured by the endpoint is not itself a clinical benefit and basis for traditional approval, if there is a basis for concluding that the therapeutic effect is reasonably likely to predict the ultimate clinical benefit of a drug.
The accelerated approval pathway is most often used in settings in which the course of a disease is long and an extended period of time is required to measure the intended clinical benefit of a drug, even if the effect on the surrogate or intermediate clinical endpoint occurs rapidly. Thus, accelerated approval has been used extensively in the development and approval of drugs for treatment of a variety of cancers in which the goal of therapy is generally to improve survival or decrease morbidity and the duration of the typical disease course requires lengthy and sometimes large trials to demonstrate a clinical or survival benefit.

The accelerated approval pathway is usually contingent on a sponsor’s agreement to conduct, in a diligent manner, additional post-approval confirmatory studies to verify and describe the drug’s clinical benefit. As a result, a drug candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase 4 or post-approval clinical trials to confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies, or confirm a clinical benefit during post-marketing studies, would allow the FDA to withdraw the drug from the market on an expedited basis. All promotional materials for drug candidates approved under accelerated regulations are subject to prior review by the FDA.

The FDA’s Decision on an NDA

On the basis of the FDA’s evaluation of the NDA and accompanying information, including the results of the inspection of the manufacturing facilities, the FDA may issue an approval letter or a complete response letter. An approval letter authorizes commercial marketing of the product with specific prescribing information for specific indications. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing or information in order for the FDA to reconsider the application. If and when those deficiencies have been addressed to the FDA’s satisfaction in a resubmission of the NDA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included. Even with submission of this additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval.

If the FDA approves a product, it may limit the approved indications for use for the product, require that contraindications, warnings or precautions be included in the product labeling, require that post-approval studies, including Phase 4 clinical trials, be conducted to further assess the drug’s safety after approval, require testing and surveillance programs to monitor the product after commercialization, or impose other conditions, including distribution restrictions or other risk management mechanisms, including REMS, which can materially affect the potential market and profitability of the product. The FDA may prevent or limit further marketing of a product based on the results of post-market studies or surveillance programs. After approval, many types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further testing requirements and FDA review and approval.

Post-Approval Requirements

Drugs manufactured or distributed pursuant to FDA approvals are subject to pervasive and continuing regulation by the FDA, including, among other things, requirements relating to recordkeeping, periodic reporting, product sampling and distribution, advertising and promotion and reporting of adverse experiences with the product. After approval, most changes to the approved product, such as adding new indications or other labeling claims, are subject to prior FDA review and approval. There also are continuing, annual user fee requirements for any marketed products and the establishments at which such products are manufactured, as well as new application fees for supplemental applications with clinical data.

In addition, drug manufacturers and other entities involved in the manufacture and distribution of approved drugs are required to register their establishments with the FDA and state agencies, and are subject to periodic unannounced inspections by the FDA and these state agencies for compliance with cGMP requirements. Changes to the manufacturing process are strictly regulated and often require prior FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon the sponsor and any third-party manufacturers that the sponsor may decide to use. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain cGMP compliance.
Once an approval is granted, the FDA may withdraw the approval if compliance with regulatory requirements and standards is not maintained or if problems occur after the product reaches the market. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with manufacturing processes, or failure to comply with regulatory requirements, may result in revisions to the approved labeling to add new safety information; imposition of post-market studies or clinical trials to assess new safety risks; or imposition of distribution or other restrictions under a REMS program. Other potential consequences include, among other things:

- restrictions on the marketing or manufacturing of the product, complete withdrawal of the product from the market or product recalls;
- fines, warning letters or holds on post-approval clinical trials;
- refusal of the FDA to approve pending NDAs or supplements to approved NDAs, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; or
- injunctions or the imposition of civil or criminal penalties.

The FDA strictly regulates marketing, labeling, advertising and promotion of products that are placed on the market. Drugs may be promoted only for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant liability. In the United States, health care professionals are generally permitted to prescribe drugs for such uses not described in the drug’s labeling, known as off-label uses, because the FDA does not regulate the practice of medicine. However, FDA regulations impose rigorous restrictions on manufacturers’ communications, prohibiting the promotion of off-label uses. It may be permissible, under very specific, narrow conditions, for a manufacturer to engage in nonpromotional, non-misleading communication regarding off-label information, such as distributing scientific or medical journal information.

In addition, the distribution of prescription pharmaceutical products is subject to the Prescription Drug Marketing Act, or PDMA, and its implementing regulations, as well as the Drug Supply Chain Security Act, or DSCA, which regulate the distribution and tracing of prescription drug samples at the federal level, and set minimum standards for the regulation of distributors by the states. The PDMA, its implementing regulations and state laws limit the distribution of prescription pharmaceutical product samples and impose requirements to ensure accountability in distribution and to identify and remove counterfeit and other illegitimate products from the market.

**Abbreviated New Drug Applications for Generic Drugs**

In 1984, with passage of the Hatch-Waxman Amendments to the FDCA, Congress established an abbreviated regulatory scheme allowing the FDA to approve generic drugs that are shown to contain the same active ingredients as, and to be bioequivalent to, drugs previously approved by the FDA pursuant to NDAs. To obtain approval of a generic drug, an applicant must submit an abbreviated new drug application, or ANDA, to the agency. An ANDA is a comprehensive submission that contains, among other things, data and information pertaining to the active pharmaceutical ingredient, bioequivalence, drug product formulation, specifications and stability of the generic drug, as well as analytical methods, manufacturing process validation data and quality control procedures. ANDAs are “abbreviated” because they generally do not include preclinical and clinical data to demonstrate safety and effectiveness. Instead, in support of such applications, a generic manufacturer may rely on the preclinical and clinical testing previously conducted for a drug product previously approved under an NDA, known as the reference-listed drug, or RLD.

Specifically, in order for an ANDA to be approved, the FDA must find that the generic version is identical to the RLD with respect to the active ingredients, the route of administration, the dosage form, and the strength of the drug. At the same time, the FDA must also determine that the generic drug is “bioequivalent” to the innovator drug. Under the statute, a generic drug is bioequivalent to a RLD if “the rate and extent of absorption of the drug do not show a significant difference from the rate and extent of absorption of the listed drug.
Upon approval of an ANDA, the FDA indicates whether the generic product is “therapeutically equivalent” to the RLD in its publication “Approved Drug Products with Therapeutic Equivalence Evaluations,” also referred to as the “Orange Book.” Physicians and pharmacists consider a therapeutic equivalent generic drug to be fully substitutable for the RLD. In addition, by operation of certain state laws and numerous health insurance programs, the FDA’s designation of therapeutic equivalence often results in substitution of the generic drug without the knowledge or consent of either the prescribing physician or patient.

Under the Hatch-Waxman Amendments, the FDA may not approve an ANDA until any applicable period of non-patent exclusivity for the RLD has expired. The FDCA provides a period of five years of non-patent data exclusivity for a new drug containing a new chemical entity. For the purposes of this provision, an NCE is a drug that contains no active moiety that has previously been approved by the FDA in any other NDA. An active moiety is the molecule or ion responsible for the physiological or pharmacological action of the drug substance. In cases where such NCE exclusivity has been granted, an ANDA may not be filed with the FDA until the expiration of five years unless the submission is accompanied by a Paragraph IV certification, in which case the applicant may submit its application four years following the original product approval. The FDCA also provides for a period of three years of exclusivity if the NDA includes reports of one or more new clinical investigations, other than bioavailability or bioequivalence studies, that were conducted by or for the applicant and are essential to the approval of the application.

The FDCA also provides for a period of three years of exclusivity if the NDA includes reports of one or more new clinical investigations, other than bioavailability or bioequivalence studies, that were conducted by or for the applicant and are essential to the approval of the application. This three-year exclusivity period often protects changes to a previously approved drug product, such as a new dosage form, route of administration, combination or indication. Three-year exclusivity would be available for a drug product that contains a previously approved active moiety, provided the statutory requirement for a new clinical investigation is satisfied. Unlike five-year NCE exclusivity, an award of three-year exclusivity does not block the FDA from accepting ANDAs seeking approval for generic versions of the drug as of the date of approval of the original drug product. The FDA typically makes decisions about awards of data exclusivity shortly before a product is approved.

The FDA must establish a priority review track for certain generic drugs, requiring the FDA to review a drug application within eight (8) months for a drug that has three (3) or fewer approved drugs listed in the Orange Book and is no longer protected by any patent or regulatory exclusivities, or is on the FDA’s drug shortage list. The new legislation also authorizes FDA to expedite review of “competitor generic therapies” or drugs with inadequate generic competition, including holding meetings with or providing advice to the drug sponsor prior to submission of the application.

505(b)(2) NDAs

As an alternative path to FDA approval for modifications to formulations or uses of products previously approved by the FDA pursuant to an NDA, an applicant may submit an NDA under Section 505(b)(2) of the FDCA. Section 505(b)(2) was enacted as part of the Hatch-Waxman Amendments and permits the filing of an NDA where at least some of the information required for approval comes from studies not conducted by, or for, the applicant. If the 505(b)(2) applicant can establish that reliance on FDA’s previous findings of safety and effectiveness is scientifically and legally appropriate, it may eliminate the need to conduct certain preclinical or clinical studies of the new product. The FDA may also require companies to perform additional studies or measurements, including clinical trials, to support the change from the previously approved reference drug. The FDA may then approve the new product candidate for all, or some, of the label indications for which the reference drug has been approved, as well as for any new indication sought by the 505(b)(2) applicant.

Hatch-Waxman Patent Certification and the 30-Month Stay

Upon approval of an NDA or a supplement thereto, NDA sponsors are required to list with the FDA each patent with claims that cover the applicant’s product or an approved method of using the product. Each of the patents listed by the NDA sponsor is published in the Orange Book. When an ANDA applicant files its application with the FDA, the applicant is required to certify to the FDA concerning any patents listed for the reference product.
in the Orange Book, except for patents covering methods of use for which the ANDA applicant is not seeking approval. To the extent that the Section 505(b)(2) applicant is relying on studies conducted for an already approved product, the applicant is required to certify to the FDA concerning any patents listed for the approved product in the Orange Book to the same extent that an ANDA applicant would.

Specifically, the applicant must certify with respect to each patent that:

- the required patent information has not been filed;
- the listed patent has expired;
- the listed patent has not expired, but will expire on a particular date and approval is sought after patent expiration; or
- the listed patent is invalid, unenforceable or will not be infringed by the new product.

A certification that the new product will not infringe the already approved product’s listed patents or that such patents are invalid or unenforceable is called a Paragraph IV certification. If the applicant does not challenge the listed patents or indicates that it is not seeking approval of a patented method of use, the application will not be approved until all the listed patents claiming the referenced product have expired (other than method of use patents involving indications for which the applicant is not seeking approval).

If the ANDA or 505(b)(2) applicant has provided a Paragraph IV certification to the FDA, the applicant must also send notice of the Paragraph IV certification to the NDA and patent holders once the ANDA or 505(b)(2) application has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement lawsuit in response to the notice of the Paragraph IV certification. The filing of a patent infringement lawsuit within 45 days after the receipt of a Paragraph IV certification automatically prevents the FDA from approving the application until the earlier of 30 months after the receipt of the Paragraph IV notice, expiration of the patent, or a decision in the infringement case that is favorable to the applicant. The ANDA or 505(b)(2) application also will not be approved until any applicable non-patent exclusivity listed in the Orange Book for the branded reference drug has expired.

Pediatric Studies and Exclusivity

Under the Pediatric Research Equity Act of 2003, an NDA or supplement thereto must contain data that are adequate to assess the safety and effectiveness of the drug product for the claimed indications in all relevant pediatric subpopulations, and to support dosing and administration for each pediatric subpopulation for which the product is safe and effective. With enactment of the FDASIA in 2012, sponsors must also submit pediatric study plans prior to the assessment data. Those plans must contain an outline of the proposed pediatric study or studies the applicant plans to conduct, including study objectives and design, any deferral or waiver requests, and other information required by regulation. The applicant, the FDA, and the FDA’s internal review committee must then review the information submitted, consult with each other, and agree upon a final plan. The FDA or the applicant may request an amendment to the plan at any time.

For drugs intended to treat a serious or life-threatening disease or condition, the FDA must, upon the request of an applicant, meet to discuss preparation of the initial pediatric study plan or to discuss deferral or waiver of pediatric assessments. In addition, FDA will meet early in the development process to discuss pediatric study plans with sponsors and FDA must meet with sponsors by no later than the end-of-phase 1 meeting for serious or life-threatening diseases and by no later than ninety (90) days after FDA’s receipt of the study plan.

The FDA may, on its own initiative or at the request of the applicant, grant deferrals for submission of some or all pediatric data until after approval of the product for use in adults, or full or partial waivers from the pediatric data requirements. Additional requirements and procedures relating to deferral requests and requests for extension of deferrals are contained in FDASIA. Unless otherwise required by regulation, the pediatric data requirements do not apply to products with orphan designation.
The FDA Reauthorization Act of 2017 established new requirements to govern certain molecularly targeted cancer indications. Any company that submits an NDA three years after the date of enactment of that statute must submit pediatric assessments with the NDA if the drug is intended for the treatment of an adult cancer and is directed at a molecular target that FDA determines to be substantially relevant to the growth or progression of a pediatric cancer. The investigation must be designed to yield clinically meaningful pediatric study data regarding the dosing, safety and preliminary efficacy to inform pediatric labeling for the product.

Pediatric exclusivity is another type of non-patent marketing exclusivity in the United States and, if granted, provides for the attachment of an additional six months of marketing protection to the term of any existing regulatory exclusivity, including the non-patent and orphan exclusivity. This six-month exclusivity may be granted if an NDA sponsor submits pediatric data that fairly respond to a written request from the FDA for such data. The data do not need to show the product to be effective in the pediatric population studied; rather, if the clinical trial is deemed to fairly respond to the FDA’s request, the additional protection is granted. If reports of requested pediatric studies are submitted to and accepted by the FDA within the statutory time limits, whatever statutory or regulatory periods of exclusivity or patent protection cover the product are extended by six months. This is not a patent term extension, but it effectively extends the regulatory period during which the FDA cannot approve another application.

**Orphan Drug Designation and Exclusivity**

Under the Orphan Drug Act, the FDA may designate a drug product as an “orphan drug” if it is intended to treat a rare disease or condition (generally meaning that it affects fewer than 200,000 individuals in the United States, or more in cases in which there is no reasonable expectation that the cost of developing and making a drug product available in the United States for treatment of the disease or condition will be recovered from sales of the product). A company must request orphan product designation before submitting an NDA. If the request is granted, the FDA will disclose the identity of the therapeutically agent and its potential use. Orphan product designation does not convey any advantage in or shorten the duration of the regulatory review and approval process, although it does convey certain advantages such as tax benefits and exemption from PDUFA application fee.

If a product with orphan status receives the first FDA approval for the disease or condition for which it has such designation or for a select indication or use within the rare disease or condition for which it was designated, the product generally will be receiving orphan product exclusivity. Orphan product exclusivity means that the FDA may not approve any other applications for the same product for the same indication for seven years, except in certain limited circumstances. If a drug or drug product designated as an orphan product ultimately receives marketing approval for an indication broader than what was designated in its orphan product application, it may not be entitled to exclusivity. Orphan exclusivity will not bar approval of another product under certain circumstances, including if a subsequent product with the same active ingredient for the same indication is shown to be clinically superior to the approved product on the basis of greater efficacy or safety, or providing a major contribution to patient care, or if the company with orphan drug exclusivity is not able to meet market demand. This is the case despite an earlier court opinion holding that the Orphan Drug Act unambiguously required the FDA to recognize orphan exclusivity regardless of a showing of clinical superiority.

Further, the FDA may approve more than one product for the same orphan indication or disease as long as the products contain different active ingredients. Moreover, competitors may receive approval of different products for the indication for which the orphan product has exclusivity or obtain approval for the same product but for a different indication for which the orphan product has exclusivity.

**Patent Term Restoration and Extension**

A patent claiming a new drug product may be eligible for a limited patent term extension under the Hatch-Waxman Act, which permits a patent restoration of up to five years for patent term lost during product development and the FDA regulatory review. The restoration period granted is typically one-half the time between the effective date of an IND and the submission date of an NDA, plus the time between the submission date of an NDA and the ultimate approval date. Patent term restoration cannot be used to extend the remaining term of a patent past a total of 14 years from the product’s approval date. Only one patent applicable to an approved drug product is eligible for the extension, and the application for the extension must be submitted prior to the expiration of the patent in question. A patent that covers multiple drugs for which approval is sought can only be extended in connection with one of the approvals. The USPTO reviews and approves the application for any patent term extension or restoration in consultation with the FDA.
FDA Approval and Regulation of Companion Diagnostics

We believe that it is the FDA’s current view that, in the event that we decide to seek marketing approval of ALRN-6924 with a label limited to WT p53 cancer patients, we may be required to have a companion *in vitro* diagnostic approved for use with ALRN-6924. If safe and effective use of a therapeutic depends on an *in vitro* diagnostic, then the FDA generally will require approval or clearance of that diagnostic, known as a companion diagnostic, at the same time that the FDA approves the therapeutic product. In August 2014, the FDA issued final guidance clarifying the requirements that will apply to approval of therapeutic products and *in vitro* companion diagnostics. According to the guidance, for novel drugs, a companion diagnostic device and its corresponding therapeutic should be approved or cleared contemporaneously by the FDA for the use indicated in the therapeutic product’s labeling. In July 2016, the FDA issued a draft guidance intended to assist sponsors of the drug therapeutic and *in vitro* companion diagnostic device on issues related to co-development of the products.

If FDA determines that a companion diagnostic device is essential to the safe and effective use of a novel therapeutic product or indication, FDA generally will not approve the therapeutic product or new therapeutic product indication if the companion diagnostic device is not approved or cleared for that indication. Approval or clearance of the companion diagnostic device will ensure that the device has been adequately evaluated and has adequate performance characteristics in the intended population. The review of *in vitro* companion diagnostics in conjunction with the review of our therapeutic treatments for cancer will, therefore, likely involve coordination of review by the FDA’s Center for Drug Evaluation and Research and the FDA’s Center for Devices and Radiological Health Office of In Vitro Diagnostics Device Evaluation and Safety.

Under the FDCA, *in vitro* diagnostics, including companion diagnostics, are regulated as medical devices. In the United States, the FDCA and its implementing regulations, and other federal and state statutes and regulations govern, among other things, medical device design and development, preclinical and clinical testing, premarket clearance or approval, registration and listing, manufacturing, labeling, storage, advertising and promotion, sales and distribution, export and import, and post-market surveillance. Unless an exemption applies, diagnostic tests require marketing clearance or approval from the FDA prior to commercial distribution. The two primary types of FDA marketing authorization applicable to a medical device are premarket notification, also called 510(k) clearance, and premarket approval, or PMA approval. The FDA has generally required *in vitro* companion diagnostics intended to select the patients who will respond to cancer treatment to obtain a PMA, for that diagnostic simultaneously with approval of the drug. We expect that any companion diagnostic developed for use with ALRN-6924 will utilize the PMA pathway.

The PMA process, including the gathering of clinical and preclinical data and the submission to and review by the FDA, can take several years or longer. It involves a rigorous premarket review during which the applicant must prepare and provide the FDA with reasonable assurance of the device’s safety and effectiveness and information about the device and its components regarding, among other things, device design, manufacturing and labeling. PMA applications are subject to fees for medical device product review; for federal fiscal year 2018, the standard fee for review of a PMA is $310,764 and the small business fee is $77,691.

In addition, PMAs for certain devices must generally include the results from extensive preclinical and adequate and well-controlled clinical trials to establish the safety and effectiveness of the device for each indication for which FDA approval is sought. In particular, for a diagnostic, a PMA application typically requires data regarding analytical and clinical validation studies. As part of the PMA review, the FDA will typically inspect the manufacturer’s facilities for compliance with the Quality System Regulation, or QSR, which imposes elaborate testing, control, documentation and other quality assurance requirements.

PMA approval is not guaranteed, and the FDA may ultimately respond to a PMA submission with a not approvable determination based on deficiencies in the application and require additional clinical trial or other data that may be expensive and time-consuming to generate and that can substantially delay approval. If the FDA’s evaluation of the PMA application is favorable, the FDA typically issues an approvable letter requiring the applicant’s agreement to specific conditions, such as changes in labeling, or specific additional information, such as submission of final labeling, in order to secure final approval of the PMA. If the FDA’s evaluation of the PMA or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not approvable letter. A not approvable letter will outline the deficiencies in the application and, where practical, will identify what is
necessary to make the PMA approvable. The FDA may also determine that additional clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and then the data submitted in an amendment to the PMA. If the FDA concludes that the applicable criteria have been met, the FDA will issue a PMA for the approved indications, which can be more limited than those originally sought by the applicant. The PMA can include post-approval conditions that the FDA believes necessary to ensure the safety and effectiveness of the device, including, among other things, restrictions on labeling, promotion, sale and distribution. Once granted, PMA approval may be withdrawn by the FDA if compliance with post approval requirements, conditions of approval or other regulatory standards are not maintained or problems are identified following initial marketing.

After a device is placed on the market, it remains subject to significant regulatory requirements. Medical devices may be marketed only for the uses and indications for which they are cleared or approved. Device manufacturers must also establish registration and device listings with the FDA. A medical device manufacturer’s manufacturing processes and those of its suppliers are required to comply with the applicable portions of the QSR, which cover the methods and documentation of the design, testing, production, processes, controls, quality assurance, labeling, packaging and shipping of medical devices. Domestic facility records and manufacturing processes are subject to periodic unscheduled inspections by the FDA. The FDA also may inspect foreign facilities that export products to the U.S.

The 21st Century Cures Act

On December 13, 2016, the 21st Century Cures Act, or the Cures Act, was signed into law. The Cures Act is designed to modernize and personalize healthcare, spur innovation and research, and streamline the discovery and development of new therapies through increased federal funding of particular programs. It authorizes increased funding for the FDA to spend on innovation projects. The new law also amends the PHS Act to reauthorize and expand funding for the NIH. The Cures Act establishes the NIH Innovation Fund to pay for the cost of development and implementation of a strategic plan, early stage investigators and research. It also charges NIH with leading and coordinating expanded pediatric research. Further, the Cures Act directs the Centers for Disease Control and Prevention to expand surveillance of neurological diseases.

With amendments to the FDCA and the PHSA, Title III of the Cures Act seeks to accelerate the discovery, development, and delivery of new medicines and medical technologies. To that end, and among other provisions, the Cures Act reauthorizes the existing priority review voucher program for certain drugs intended to treat rare pediatric diseases until 2020; creates a new priority review voucher program for drug applications determined to be material national security threat medical countermeasure applications; revises the FDCA to streamline review of combination product applications; requires FDA to evaluate the potential use of “real world evidence” to help support approval of new indications for approved drugs; provides a new “limited population” approval pathway for antibiotic and antifungal drugs intended to treat serious or life-threatening infections; and authorizes FDA to designate a drug as a “regenerative advanced therapy,” thereby making it eligible for certain expedited review and approval designations.

Regulation Outside the United States

Regulation and Procedures Governing Approval of Medicinal Products in the European Union

In order to market any product outside of the United States, a company must also comply with numerous and varying regulatory requirements of other countries and jurisdictions regarding quality, safety and efficacy and governing, among other things, clinical trials, marketing authorization, commercial sales and distribution of products. Whether or not it obtains FDA approval for a product, the company would need to obtain the necessary approvals by the comparable foreign regulatory authorities before it can commence clinical trials or marketing of the product in those countries or jurisdictions. Specifically, the process governing approval of medicinal products in the European Union generally follows the same lines as in the United States and involves satisfactorily completing preclinical studies and adequate and well-controlled clinical trials to establish the safety and efficacy of the product for each proposed indication, as well as the submission to the relevant competent authorities of a marketing authorisation application, or MAA, and actual granting of a marketing authorization by these authorities before the product can be marketed and sold in the European Union.
Clinical Trial Approval. Pursuant to the currently applicable Clinical Trials Directive 2001/20/EC and the Directive 2005/28/EC on Good Clinical Practice, a system for the approval of clinical trials in the European Union has been implemented through national legislation of the member states. Under this system, an applicant must obtain approval from the competent national authority of a European Union member state in which the clinical trial is to be conducted, or in multiple member states if the clinical trial is to be conducted in a number of member states. Furthermore, the applicant may only start a clinical trial at a specific study site after the competent ethics committee has issued a favorable opinion. The clinical trial application must be accompanied by an investigational medicinal product dossier with supporting information prescribed by Directive 2001/20/EC and Directive 2005/28/EC and corresponding national laws of the member states and further detailed in applicable guidance documents.

In April 2014, the European Union passed a new Clinical Trials Regulation, (EU) No 536/2014, which will replace the current Clinical Trials Directive 2001/20/EC. To ensure that the rules for clinical trials are identical throughout the European Union, the new European Union clinical trials legislation was passed as a regulation that is directly applicable in all European Union member states without the need for implementation into the member states’ national laws. All clinical trials performed in the European Union are required to be conducted in accordance with the Clinical Trials Directive 2001/20/EC until the new Clinical Trials Regulation (EU) No 536/2014 becomes applicable. According to the current plans of the European Medicines Agency, or EMA, the new Clinical Trials Regulation will become applicable no earlier than 2019. The Clinical Trials Directive 2001/20/EC will, however, still apply three years from the date of entry into application of the Clinical Trials Regulation to (i) clinical trials applications submitted before the entry into application and (ii) clinical trials applications submitted within one year after the entry into application if the sponsor opts for old system.

The new Clinical Trials Regulation aims to simplify and streamline the approval of clinical trial in the European Union. The main characteristics of the regulation include: a streamlined application procedure via a single entry point, the European Union portal; a single set of documents to be prepared and submitted for the application as well as simplified reporting procedures that will spare sponsors from submitting broadly identical information separately to various bodies and different member states; a harmonized procedure for the assessment of applications for clinical trials, which is divided in two parts. Part I is assessed jointly by all member states concerned. Part II is assessed separately by each member state concerned; strictly defined deadlines for the assessment of clinical trial applications; and the involvement of the ethics committees in the assessment procedure in accordance with the national law of the member state concerned but within the overall timelines defined by the Clinical Trials Regulation.

PRIME Designation in the EU

In March 2016, the European Medicines Agency, or EMA, launched an initiative to facilitate development of product candidates in indications, often rare, for which few or no therapies currently exist. The PRIority MEdicines, or PRIME, scheme is intended to encourage drug development in areas of unmet medical need and provides accelerated assessment of products representing substantial innovation reviewed under the centralized procedure. Products from small- and medium-sized enterprises, or SMEs, may qualify for earlier entry into the PRIME scheme than larger companies. Many benefits accrue to sponsors of product candidates with PRIME designation, including but not limited to, early and proactive regulatory dialogue with the EMA, frequent discussions on clinical trial designs and other development program elements, and accelerated marketing authorization application assessment once a dossier has been submitted. Importantly, a dedicated Agency contact and rapporteur from the Committee for Human Medicinal Products (CHMP) or Committee for Advanced Therapies (CAT) are appointed early in PRIME scheme facilitating increased understanding of the product at EMA’s Committee level. A kick-off meeting initiates these relationships and includes a team of multidisciplinary experts at the EMA to provide guidance on the overall development and regulatory strategies.

Marketing Authorization. To obtain a marketing authorization for a product under European Union regulatory systems, an applicant must submit an MAA either under a centralized procedure administered by the EMA or one of the procedures administered by competent authorities in European Union member states (decentralized procedure, national procedure or mutual recognition procedure). A marketing authorization may be granted only to an applicant established in the European Union. In the case of pediatric patients, Regulation (EC) No 1901/2006 provides that prior to obtaining a marketing authorization in the European Union, applicants have to demonstrate compliance with all measures included in an EMA-approved Paediatric Investigation Plan, or PIP, covering all subsets of the
pediatric population, unless the EMA has granted (1) a product-specific waiver, (2) a class waiver or (3) a deferral for one or more of the measures included in the PIP.

The centralized procedure provides for the grant of a single marketing authorization by the European Commission that is valid for all European Union member states. Pursuant to Regulation (EC) No 726/2004, the centralized procedure is compulsory for specific products, including for medicines produced by certain biotechnological processes, products designated as orphan medicinal products, advanced therapy products and products with a new active substance indicated for the treatment of certain diseases, including products for the treatment of cancer. For products with a new active substance indicated for the treatment of other diseases and products that are highly innovative or for which a centralized process is in the interest of patients, the centralized procedure may be optional.

Under the centralized procedure, the Committee for Medicinal Products for Human Use, or the CHMP, established at the EMA is responsible for conducting the initial assessment of a product. The CHMP is also responsible for several post-authorization and maintenance activities, such as the assessment of modifications or extensions to an existing marketing authorization. Under the centralized procedure in the European Union, the maximum timeframe for the evaluation of an MAA is 210 days, excluding clock stops, when additional information or written or oral explanation is to be provided by the applicant in response to questions of the CHMP. Accelerated evaluation might be granted by the CHMP in exceptional cases, when a medicinal product is of major interest from the point of view of public health and in particular from the viewpoint of therapeutic innovation. If the CHMP accepts such request, the time limit of 210 days will be reduced to 150 days but it is possible that the CHMP can revert to the standard time limit for the centralized procedure if it considers that it is no longer appropriate to conduct an accelerated assessment.

Regulatory Data Protection in the EU. In the EU, innovative medicinal products approved on the basis of a complete independent data package qualify for eight years of data exclusivity upon marketing authorization and an additional two years of market exclusivity pursuant to Directive 2001/83/EC. Regulation (EC) No 726/2004 repeals this entitlement for medicinal products authorized in accordance with the centralized authorization procedure. Data exclusivity prevents applicants for authorization of generics of these innovative products from referencing the innovator’s data to assess a generic (abridged) application for a period of eight years. During an additional two-year period of market exclusivity, a generic marketing authorization application can be submitted and authorized, and the innovator’s data may be referenced, but no generic medicinal product can be placed on the EU market until the expiration of the market exclusivity. The overall ten-year period will be extended to a maximum of 11 years if, during the first eight years of those ten years, the marketing authorization holder obtains an authorization for one or more new therapeutic indications which, during the scientific evaluation prior to their authorization, are held to bring a significant clinical benefit in comparison with existing therapies. Even if a compound is considered to be a new chemical entity so that the innovator gains the prescribed period of data exclusivity, another company nevertheless could also market another version of the product if such company obtained marketing authorization based on an MAA with a complete independent data package of pharmaceutical tests, preclinical tests and clinical trials.

Periods of Authorization and Renewals. A marketing authorization shall be valid for five years in principle and the marketing authorization may be renewed after five years on the basis of a re-evaluation of the risk-benefit balance by the EMA or by the competent authority of the authorizing member state. To this end, the marketing authorization holder must provide the EMA or the competent authority with a consolidated version of the file in respect of quality, safety and efficacy, including all variations introduced since the marketing authorization was granted, at least six months before the marketing authorization ceases to be valid. Once renewed, the marketing authorization shall be valid for an unlimited period, unless the European Commission or the competent authority decides, on justified grounds relating to pharmacovigilance, to proceed with one additional five-year renewal. Any authorization which is not followed by the actual placing of the drug on the European Union market (in case of centralized procedure) or on the market of the authorizing member state within three years after authorization ceases to be valid (the so-called sunset clause).
Orphan Drug Designation and Exclusivity. Regulation 141/2000 provides that a drug shall be designated as an orphan drug if its sponsor can establish that the product is intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in ten thousand persons in the European Community when the application is made, or that the product is intended for the diagnosis, prevention or treatment of a life-threatening, seriously debilitating or serious and chronic condition in the European Community and that without incentives it is unlikely that the marketing of the drug in the European Community would generate sufficient return to justify the necessary investment. For either of these conditions, the applicant must demonstrate that there exists no satisfactory method of diagnosis, prevention or treatment of the condition in question that has been authorized in the European Community or, if such method exists, the drug will be of significant benefit to those affected by that condition.

Regulation 847/2000 sets out criteria and procedures governing designation of orphan drugs in the European Union. Specifically, an application for designation as an orphan product can be made any time prior to the filing of an application for approval to market the product. Marketing authorization for an orphan drug leads to a ten-year period of market exclusivity. During this market exclusivity period, the EMA or the member state competent authorities, cannot accept another application for a marketing authorization, or grant a marketing authorization, for a similar medicinal product for the same indication. The period of market exclusivity is extended by two years for medicines that have also complied with an agreed PIP.

This period may, however, be reduced to six years if, at the end of the fifth year, it is established that the product no longer meets the criteria for orphan drug designation, for example because the product is sufficiently profitable not to justify market exclusivity. Market exclusivity can be revoked only in very selected cases, such as consent from the marketing authorization holder, inability to supply sufficient quantities of the product, demonstration of “clinical superiority” by a similar medicinal product, or, after a review by the Committee for Orphan Medicinal Products, requested by a member state in the fifth year of the marketing exclusivity period (if the designation criteria are believed to no longer apply). Medicinal products designated as orphan drugs pursuant to Regulation 141/2000 shall be eligible for incentives made available by the European Community and by the member states to support research into, and the development and availability of, orphan drugs.

Regulatory Requirements after a Marketing Authorization has been Obtained. In case an authorization for a medicinal product in the European Union is obtained, the holder of the marketing authorization is required to comply with a range of requirements applicable to the manufacturing, marketing, promotion and sale of medicinal products. These include:

• Compliance with the European Union’s stringent pharmacovigilance or safety reporting rules, pursuant to which post-authorization studies and additional monitoring obligations can be imposed, has to be ensured.

• The manufacturing of authorized drugs, for which a separate manufacturer’s license is mandatory, must also be conducted in strict compliance with the EMA’s GMP requirements and comparable requirements of other regulatory bodies in the European Union, which mandate the methods, facilities and controls used in manufacturing, processing and packing of drugs to assure their safety and identity.

• The marketing and promotion of authorized drugs, including industry-sponsored continuing medical education and advertising directed toward the prescribers of drugs and/or the general public, are strictly regulated in the European Union notably under Directive 2001/83EC, as amended, and European Union member state laws.

In the European Economic Area, or EEA, in vitro medical devices are currently required to conform with the essential requirements of the European Union Directive on in vitro diagnostic medical devices (Directive No 98/79/EC, as amended). To demonstrate compliance with the essential requirements, the manufacturer must undergo a conformity assessment procedure. The conformity assessment varies according to the type of medical device and its classification. The conformity assessment of in vitro diagnostic medical devices can require the intervention of an accredited EEA Notified Body. If successful, the conformity assessment concludes with the drawing up by the manufacturer of an EC Declaration of Conformity entitling the manufacturer to affix the CE mark to its products and to sell them throughout the EEA. On April 5, 2017, the European Parliament passed the In Vitro Device Regulation, or IVDR, which repeals and replaces Directive No 98/79/EC. Unlike directives, which must be implemented into the national laws of the EU member states, a regulation is directly applicable, i.e., without the need for adoption of EU member state laws implementing them, in all EEA member states. The IVDR, among other things, is intended to establish a uniform, transparent, predictable and sustainable regulatory framework across the EU for in vitro diagnostic medical devices and ensure a high level of safety and health while supporting innovation. The IVDR will not become fully applicable until five years following its entry into force. Once applicable, the IVDR will among other things:

• strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
• establish explicit provisions on manufacturers’ responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
• improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number; and
• set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU.

Brexit and the Regulatory Framework in the United Kingdom

On June 23, 2016, the electorate in the United Kingdom voted in favor of leaving the European Union, commonly referred to as Brexit. The withdrawal of the United Kingdom from the European Union will take effect either on the effective date of the withdrawal agreement or, in the absence of agreement, two years after the United Kingdom provides a notice of withdrawal pursuant to the European Union Treaty. The United Kingdom communicated the notice of withdrawal to the EU on March 29, 2017. Since the regulatory framework for pharmaceutical products in the United Kingdom covering quality, safety and efficacy of pharmaceutical products, clinical trials, marketing authorization, commercial sales and distribution of pharmaceutical products is derived from European Union directives and regulations, Brexit could materially impact the future regulatory regime which applies to products and the approval of product candidates in the United Kingdom. It remains to be seen how, if at all, Brexit will impact regulatory requirements for product candidates and products in the United Kingdom.

Pharmaceutical Coverage, Pricing and Reimbursement

In the United States and markets in other countries, patients who are prescribed treatments for their conditions and providers performing the prescribed services generally rely on third-party payors to reimburse all or part of the associated healthcare costs. Patients are unlikely to use our products unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our products. Significant uncertainty exists as to the coverage and reimbursement status of products approved by the FDA and other government authorities. Even if our product candidates are approved, sales of our products will depend, in part, on the extent to which third-party payors, including government health programs in the United States such as Medicare and Medicaid, commercial health insurers and managed care organizations, provide coverage, and establish adequate reimbursement levels for, such products. The process for determining whether a payor will provide coverage for a product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the product once coverage is approved. Third-party payors are increasingly challenging the prices charged, examining the medical necessity, and reviewing the cost-effectiveness of medical products and services and imposing controls to manage costs. Third-party payors may limit coverage to specific products on an approved list, also known as a formulary, which might not include all of the approved products for a particular indication.
In order to secure coverage and reimbursement for any product that might be approved for sale, a company may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of the product, in addition to the costs required to obtain FDA or other comparable marketing approvals. Nonetheless, product candidates may not be considered medically necessary or cost effective. A decision by a third-party payor not to cover our product candidates could reduce physician utilization of our products once approved and have a material adverse effect on our sales, results of operations and financial condition. Additionally, a payor’s decision to provide coverage for a product does not imply that an adequate reimbursement rate will be approved. Further, one payor’s determination to provide coverage for a drug product does not assure that other payors will also provide coverage and reimbursement for the product, and the level of coverage and reimbursement can differ significantly from payor to payor. Third-party reimbursement and coverage may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development.

The containment of healthcare costs also has become a priority of federal, state and foreign governments and the prices of drugs have been a focus in this effort. Governments have shown significant interest in implementing cost-containment programs, including price controls, restrictions on reimbursement and requirements for substitution of generic products. Adoption of price controls and cost-containment measures, and adoption of more restrictive policies in jurisdictions with existing controls and measures, could further limit a company’s revenue generated from the sale of any approved products. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which a company or its collaborators receive marketing approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Outside the United States, ensuring adequate coverage and payment for our product candidates will face challenges. Pricing of prescription pharmaceuticals is subject to governmental control in many countries. Pricing negotiations with governmental authorities can extend well beyond the receipt of marketing approval for a product and may require us to conduct a clinical trial that compares the cost-effectiveness of a particular drug candidate to currently available therapies (so called health technology assessment, or HTA) in order to obtain reimbursement or pricing approval. For example, the European Union provides options for its member states to restrict the range of products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. European Union member states may approve a specific price for a product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the product on the market. Other member states allow companies to fix their own prices for products, but monitor and control prescription volumes and issue guidance to physicians to limit prescriptions. Recently, many countries in the European Union have increased the amount of discounts required on pharmaceuticals and these efforts could continue as countries attempt to manage healthcare expenditures, especially in light of the severe fiscal and debt crises experienced by many countries in the European Union. The downward pressure on healthcare costs in general, particularly prescription drugs, has become intense. As a result, increasingly high barriers are being erected to the entry of new products. Political, economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after reimbursement has been obtained. Reference pricing used by various European Union member states, and parallel trade (arbitrage between low-priced and high-priced member states), can further reduce prices. There can be no assurance that any country that has price controls or reimbursement limitations for pharmaceutical products will allow favorable reimbursement and pricing arrangements for any of our products, if approved in those countries.
Healthcare Law and Regulation

Healthcare providers and third-party payors play a primary role in the recommendation and prescription of drug products that are granted marketing approval. Arrangements with providers, consultants, third-party payors and customers are subject to broadly applicable fraud and abuse, anti-kickback, false claims laws, reporting of payments to physicians and teaching physicians and patient privacy laws and regulations and other healthcare laws and regulations that may constrain our business and/or financial arrangements. Restrictions under applicable federal and state healthcare laws and regulations, include the following:

- the federal anti-kickback statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing any remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation or arranging of, any good, facility, item or service, for which payment may be made, in whole or in part, by a federal healthcare program such as Medicare and Medicaid;
- the federal civil and criminal false claims laws, including the civil False Claims Act, and civil monetary penalties laws, which prohibit individuals or entities from, among other things, knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false, fictitious or fraudulent or knowingly making, using or causing to made or used a false record or statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created additional federal criminal laws that prohibit, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and their respective implementing regulations, including the Final Omnibus Rule published in January 2013, which impose obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal transparency requirements known as the federal Physician Payments Sunshine Act, under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the Affordable Care Act, which requires certain manufacturers of drugs, devices, biologics and medical supplies to report annually to the Centers for Medicare & Medicaid Services, or CMS, within the U.S. Department of Health and Human Services, information related to payments and other transfers of value made by that entity to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, can apply to sales or marketing arrangements and claims involving healthcare items or services and are reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require pharmaceutical companies to comply with the pharmaceutical industry’s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government in addition to requiring drug manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures and pricing information. State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Pharmaceutical Insurance Coverage and Health Care Reform

In the United States and markets in other countries, patients who are prescribed treatments for their conditions and providers performing the prescribed services generally rely on third-party payors to reimburse all or part of the associated health care costs. Significant uncertainty exists as to the coverage and reimbursement status of products approved by the FDA and other government authorities. Thus, even if a product candidate is approved, sales of the product will depend, in part, on the extent to which third-party payors, including government health programs in the
United States such as Medicare and Medicaid, commercial health insurers and managed care organizations, provide coverage and establish adequate reimbursement levels for the product. The process for determining whether a payor will provide coverage for a product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the product once coverage is approved. Third-party payors are increasingly challenging the prices charged, examining the medical necessity and reviewing the cost effectiveness of medical products and services and imposing controls to manage costs. Third-party payors may limit coverage to specific products on an approved list, also known as a formulary, which might not include all of the approved products for a particular indication.

In order to secure coverage and reimbursement for any product that might be approved for sale, a company may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of the product, in addition to the costs required to obtain FDA or other comparable marketing approvals. Nonetheless, product candidates may not be considered medically necessary or cost effective. A decision by a third-party payor not to cover a product could reduce physician utilization once the product is approved and have a material adverse effect on sales, results of operations and financial condition. Additionally, a payor’s decision to provide coverage for a product does not imply that an adequate reimbursement rate will be approved. Further, one payor’s determination to provide coverage for a product does not assure that other payors will also provide coverage and reimbursement for the product, and the level of coverage and reimbursement can differ significantly from payor to payor.

The containment of health care costs also has become a priority of federal, state and foreign governments and the prices of products have been a focus in this effort. Governments have shown significant interest in implementing cost-containment programs, including price controls, restrictions on reimbursement and requirements for substitution of generic products. Adoption of price controls and cost-containment measures, and adoption of more restrictive policies in jurisdictions with existing controls and measures, could further limit a company’s revenue generated from the sale of any approved products. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which a company or its collaborators receive marketing approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

There have been a number of federal and state proposals during the last few years regarding the pricing of pharmaceutical and biopharmaceutical products, limiting coverage and reimbursement for drugs and biologics and other medical products, government control and other changes to the health care system in the United States. In March 2010, the ACA was enacted, which includes measures that have significantly changed health care financing by both governmental and private insurers. The provisions of the ACA of importance to the pharmaceutical and biotechnology industry are, among others, the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drug agents or biologic agents, which is apportioned among these entities according to their market share in certain government health care programs;
- an increase in the rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for branded and generic drugs, respectively;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts to negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer’s outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers’ Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations, unless the drug is subject to discounts under the 340B drug discount program;
- a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers’ Medicaid rebate liability;
• expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;

• new requirements under the federal Physician Payments Sunshine Act for drug manufacturers to report information related to payments and other transfers of value made to physicians and teaching hospitals as well as ownership or investment interests held by physicians and their immediate family members;

• a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research;

• creation of the Independent Payment Advisory Board, which, if and when impaneled, will have authority to recommend certain changes to the Medicare program that could result in reduced payments for prescription drugs; and

• establishment of a Center for Medicare and Medicaid Innovation at CMS to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

Other legislative changes have been proposed and adopted since the ACA was enacted. These changes include the Budget Control Act of 2011, which, among other things, led to aggregate reductions to Medicare payments to providers of up to 2% per fiscal year that started in 2013 and will stay in effect through 2024 unless additional Congressional action is taken, and the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain for any of our product candidates for which we may obtain regulatory approval or the frequency with which any such product candidate is prescribed or used. Further, there have been several recent U.S. congressional inquiries and proposed state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products.

These healthcare reforms, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price for any approved product and/or the level of reimbursement physicians receive for administering any approved product. Reductions in reimbursement levels may negatively impact the prices or the frequency with which any such product candidate is prescribed or used. Further, there have been several recent U.S. congressional inquiries and proposed state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products.

The current Administration has also taken executive actions to undermine or delay implementation of the ACA. In January 2017, the President signed an Executive Order directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. In October 2017, the President signed a second Executive Order allowing for the use of association health plans and short-term health insurance, which may provide fewer health benefits than the plans sold through the ACA exchanges. At the same time, the Administration announced that it will discontinue the payment of cost-sharing reduction (CSR) payments to insurance companies until Congress approves the appropriation of funds for such CSR payments. The loss of the CSR payments is expected to increase premiums on certain policies issued by qualified health plans under the ACA. A bipartisan bill to appropriate funds for CSR payments was introduced in the Senate, but the future of that bill is uncertain.
More recently, with enactment of the Tax Cuts and Jobs Act of 2017, in December 2017, Congress repealed the “individual mandate.” The repeal of this provision, which requires most Americans to carry a minimal level of health insurance, will become effective in 2019. According to the Congressional Budget Office, the repeal of the individual mandate will cause 13 million fewer Americans to be insured in 2027 and premiums in insurance markets may rise. Additionally, on January 22, 2018, the President signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain ACA-mandated fees, including the so-called “Cadillac” tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. The Congress will likely consider other legislation to replace elements of the ACA during 2018.

Further, there have been several recent U.S. congressional inquiries and proposed federal and proposed and enacted state legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products. At the federal level, Congress and the current Administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. At the state level, individual states are increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. In addition, regional health care authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other health care programs. These measures could reduce the ultimate demand for our products, once approved, or put pressure on our product pricing.

**Item 1A. Risk Factors.**

Careful consideration should be given to the following risk factors, in addition to the other information set forth in this Annual Report on Form 10-K and in other documents that we file with the SEC, in evaluating our company and our business. Investing in our common stock involves a high degree of risk. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected.

**Risks Related to Our Financial Position and Need for Additional Capital**

We have incurred significant losses since inception. We expect to incur losses for the foreseeable future and may never achieve or maintain profitability.

Since our inception, we have incurred significant losses on an aggregate basis. Our net loss was $22.6 million, $18.1 million and $12.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. We have not generated any revenue to date from sales of any drugs and have financed our operations principally through the sale of our common stock in our initial public offering, through private placements of our preferred stock, and, to a lesser extent, through a collaboration agreement. We have devoted substantially all of our efforts to research and development. Our lead product candidate, ALRN-6924, is in clinical development, and our other product candidates are in preclinical research. As a result, we expect that it will be several years, if ever, before we have any product candidates ready for commercialization. We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. The net losses we incur may fluctuate significantly from quarter to quarter. We anticipate that our expenses will increase substantially if and as we:

- conduct our current and future clinical trials and additional preclinical research of ALRN-6924;
- initiate and continue research and preclinical and clinical development of our other product candidates;
- seek to identify additional product candidates;
- seek marketing approvals for any of our product candidates that successfully complete clinical trials, if any;
• establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;
• require the manufacture of larger quantities of our product candidates for clinical development and potentially commercialization;
• maintain, expand and protect our intellectual property portfolio;
• acquire or in-license other drugs and technologies;
• hire and retain additional clinical, quality control and scientific personnel;
• build out new facilities or expand existing facilities to support our ongoing development activity; and
• add operational, financial and management information systems and personnel, including personnel to support our drug development, any future commercialization efforts and our compliance with our obligations as a public company.

To become and remain profitable, we must develop, obtain approval for and eventually commercialize a drug or drugs with significant market potential, either on our own or with a collaborator. This will require us to be successful in a range of challenging activities, including completing preclinical studies and clinical trials of our product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those drugs for which we may obtain marketing approval and establishing and managing any collaborations for the development, marketing and/or commercialization of our product candidates. We may never succeed in these activities and, even if we do, may never generate revenues that are significant or large enough to achieve profitability. If we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would decrease the value of our company and could impair our ability to raise capital, maintain our research and development efforts, expand our business and/or continue our operations. A decline in the value of our company could also cause our stockholders to lose all or part of their investment.

Our limited operating history may make it difficult for our stockholders to evaluate the success of our business to date and to assess our future viability.

We are an early-stage company. We were incorporated in 2001 and commenced principal operations in 2006. Our operations to date have been limited to organizing and staffing our company, business planning, raising capital, developing our stapled peptide platform, identifying potential product candidates, conducting preclinical studies of our product candidates and conducting clinical trials of our product candidates. All of our product candidates other than ALRN-6924 are in preclinical research. We have not yet demonstrated our ability to successfully complete any clinical trials, including large-scale, pivotal clinical trials, obtain marketing approvals, manufacture a commercial-scale drug or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful drug commercialization. Typically, it takes about six to ten years to develop a new drug from the time it is in Phase 1 clinical trials to when it is approved for treating patients, but in many cases it may take longer. Consequently, any predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as a business with a limited operating history, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We may need to transition from a company with a research focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

As we continue to build our business, we expect our financial condition and operating results may fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control. Accordingly, stockholders should not rely upon the results of any particular quarterly or annual periods as indications of future operating performance.
We will need substantial additional funding. If we are unable to raise capital when needed, we may be forced to delay, reduce and/or eliminate our research and drug development programs or future commercialization efforts.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a very time-consuming, expensive and uncertain process that takes years to complete. We expect our expenses to increase in connection with our ongoing activities, particularly as we conduct clinical trials of, and seek marketing approval for, ALRN-6924 and our other product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to drug sales, marketing, manufacturing and distribution to the extent that such sales, marketing, manufacturing and distribution are not the responsibility of any collaborator that we may have at such time for any such product candidate. Furthermore, we expect to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we may be forced to delay, reduce and/or eliminate our research and drug development programs or future commercialization efforts.

We will be required to expend significant funds in order to advance the development of ALRN-6924, as well as any other product candidates. In addition, while we may seek one or more collaborators for future development of our product candidates for one or more indications, we may not be able to enter into a collaboration for any of our product candidates for such indications on suitable terms, on a timely basis or at all. In any event, our cash, cash equivalents and investments as of December 31, 2017 will not be sufficient to fund all of the efforts that we plan to undertake or to fund the completion of development of any of our product candidates. Accordingly, we will be required to obtain further funding through public or private equity offerings, debt financings, collaborations and licensing arrangements or other sources. We do not have any committed external source of funds. 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 believe that our cash, cash equivalents and investments as of December 31, 2017 will enable us to fund our operating expenses and capital expenditure requirements into the second half of 2019. Our estimate as to how long we expect our cash, cash equivalents and investments as of December 31, 2017 to be able to continue to fund our operations is based on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Further, changing circumstances, some of which may be beyond our control, could cause us to consume capital significantly faster than we currently anticipate, and we may need to seek additional funds sooner than planned. Our future capital requirements will depend on many factors, including:

- the scope, progress, results and costs of our current and future clinical trials and additional preclinical research of ALRN-6924;
- the scope, progress, results and costs of drug discovery, preclinical research and clinical trials for our other product candidates;
- the number of future product candidates that we pursue and their development requirements;
- the costs, timing and outcome of regulatory review of our product candidates;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- the success of any collaborations that we may enter into with third parties;
- the extent to which we acquire or invest in businesses, products and technologies, including entering into licensing or collaboration arrangements for product candidates, although we currently have no commitments or agreements to complete any such transactions;
- the costs and timing of future commercialization activities, including drug sales, marketing, manufacturing and distribution, for any of our product candidates for which we receive marketing approval, to the extent that such sales, marketing, manufacturing and distribution are not the responsibility of any collaborator that we may have at such time;
- the amount of revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;
the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;

our headcount growth and associated costs, including costs of our planned build-out of new facilities, as we expand our business operations and our research and development activities; and

the costs of operating as a public company.

Our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of drugs that we do not expect to be commercially available for many years, if at all. If we are unable to obtain product approvals or generate significant commercial revenues, our business will be materially harmed.

_Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish rights to our product candidates._

We expect our expenses to increase in connection with our planned operations. Until such time, if ever, as we can generate substantial revenues from the sale of drugs, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and/or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our then-existing stockholders may be diluted, and the terms of these securities could include liquidation or other preferences and anti-dilution protections that could adversely affect the rights of our common stockholders. In addition, debt financing, if available, would result in fixed payment obligations and may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures, creating liens, redeeming stock or declaring dividends, that could adversely impact our ability to conduct our business. In addition, securing financing could require a substantial amount of time and attention from our management and may divert a disproportionate amount of their attention away from day-to-day activities, which may adversely affect our management’s ability to oversee the development of our product candidates.

If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technology, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, reduce and/or eliminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

_Risks Related to the Discovery, Development and Commercialization of Our Product Candidates_

_We are dependent on the success of our lead product candidate, ALRN-6924, which is currently in multiple clinical trials. Our clinical trials of ALRN-6924 may not be successful. If we are unable to obtain approval for and commercialize ALRN-6924 or experience significant delays in doing so, our business will be materially harmed._

Our future success is substantially dependent on our ability to timely obtain marketing approval for, and then successfully commercialize, ALRN-6924, our lead product candidate. We are investing a majority of our efforts and financial resources in the research and development of ALRN-6924. Our other product candidates are in earlier stages of development. Our business depends entirely on the successful development and commercialization of our product candidates. We currently generate no revenues from sales of any products, and we may never be able to develop a marketable product.

ALRN-6924 will require additional clinical development, evaluation of clinical, preclinical and manufacturing activities, marketing approval in multiple jurisdictions, substantial investment and significant marketing efforts before we generate any revenues from product sales. We believe that it is the current view of the U.S. Food and Drug Administration, or FDA, that in the event that we decide to seek marketing approval of ALRN-6924 with a label limited to non-mutated or wild type, or WT, p53 cancer patients, we would be required to have a companion _in vitro_ diagnostic approved for use with ALRN-6924. We would also expect that we would be required to obtain similar approvals from comparable foreign regulatory authorities. In such cases, we will need to contract with a third
party for the supply of a commercially available diagnostic to identify patients with WT p53 status, or develop such a diagnostic ourselves, in each case requiring approval of the diagnostic by regulatory authorities. Companion diagnostics are subject to regulation as medical devices and must be separately approved or cleared for marketing by the FDA or certain other foreign regulatory agencies. We are not permitted to market or promote ALRN-6924, or any other product candidates, before we receive marketing approval from the FDA and comparable foreign regulatory authorities, and we may never receive such marketing approvals.

The success of ALRN-6924 will depend on several factors, including the following:

• successful and timely completion of our ongoing clinical trials of ALRN-6924;
• initiation and successful patient enrollment and completion of additional clinical trials on a timely basis;
• safety, tolerability and efficacy profiles that are satisfactory to the FDA or any comparable foreign regulatory authority for marketing approval;
• timely receipt of marketing approvals for both ALRN-6924 and any required companion diagnostic from applicable regulatory authorities;
• the performance of our future collaborators, if any;
• the extent of any required post-marketing approval commitments to applicable regulatory authorities;
• establishment of supply arrangements with third-party raw materials and drug product suppliers and manufacturers;
• establishment of scaled production arrangements with third-party manufacturers to obtain finished products that are appropriately packaged for sale;
• obtaining and maintaining patent protection, trade secret protection and regulatory exclusivity, both in the United States and internationally;
• protection of our rights in our intellectual property portfolio, including our licensed intellectual property;
• successful launch of commercial sales following any marketing approval;
• a continued acceptable safety profile following any marketing approval;
• commercial acceptance by patients, the medical community and third-party payors; and
• our ability to compete with other therapies.

We do not have complete control over many of these factors, including certain aspects of clinical development and the regulatory submission process, potential threats to our intellectual property rights and the manufacturing, marketing, distribution and sales efforts of any future collaborator.

_The approach we are taking to discover and develop novel drugs is unproven and may never lead to marketable products._

We have concentrated our efforts and therapeutic product research on stapled peptide technology, and our future success depends on the successful development of this technology and products based on stapled peptide technology. Neither we nor any other company has received marketing approval to market therapeutics utilizing stapled peptides. The scientific discoveries that form the basis for our efforts to discover and develop new drugs are relatively new. The scientific evidence to support the feasibility of developing drugs based on these discoveries is both preliminary and limited. Very few drug candidates based on these discoveries have ever been tested in animals, and development of an earlier stapled peptide product candidate by us was suspended following a clinical trial due to the anticipated costs of required reformulation. Peptides, the class of molecule we are trying to develop into drugs, do not naturally possess the inherent molecular properties typically required of drugs, such as the ability to be stable in the body long enough to reach the tissues in which their effects are required, nor the ability to enter cells within these tissues in order to exert their effects. We currently have only limited data to suggest that we can
introduce these properties into peptides. We may spend large amounts of money trying to introduce these properties, and never succeed in doing so. In addition, our stapled peptide product candidates may not demonstrate in patients the chemical and pharmacological properties ascribed to them in laboratory studies, and they may interact with human biological systems in unforeseen, ineffective or harmful ways. As a result, we may never succeed in developing a marketable product. If we do not successfully develop and commercialize products based upon our technological approach, we will not become profitable and the value of our common stock will decline. Further, our focus on stapled peptide technology as opposed to multiple technologies increases the risks associated with the ownership of our common stock. If our approach is not successful, we may be required to change the scope and direction of our product development activities. In that case, we may not be able to successfully identify and implement an alternative product development strategy.

Moreover, our lead product candidate, ALRN-6924, reactivates p53 by disrupting the interactions between p53 and MDMX and MDM2, thereby freeing p53 to transit to its DNA target in the nucleus and initiate apoptosis in cancerous cells. We believe that ALRN-6924 is the first and only product candidate in clinical development that can bind to and disrupt the interaction of MDMX and MDM2 with p53 with equivalent effectiveness, or equipotently. Although we have evaluated ALRN-6924 in preclinical studies and are aware of published literature supporting the role of MDMX and MDM2 in reactivating WT p53 as well as clinical results for small molecule inhibitors that act to disrupt the interaction of p53 and MDM2, we believe that we are the first to clinically test a molecule that binds directly to both MDMX and MDM2. As such, the effect of binding to and simultaneously disrupting the interactions of MDMX and MDM2 with WT p53 in cancer patients has not been established in clinical trials. In addition, the role of factors other than MDMX and MDM2 in circumventing the p53 mechanism is still the subject of continued research. As a result, we do not know whether the mechanism of action of ALRN-6924 will have the expected effect on all target cancer indications and whether ALRN-6924 will succeed in demonstrating the safety and efficacy needed to advance in clinical development and obtain marketing approval.

The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, interim results of a clinical trial do not necessarily predict final results and the results of our clinical trials may not satisfy the requirements of the FDA or comparable foreign regulatory authorities.

We currently have no drugs approved for sale and we cannot guarantee that we will ever have marketable drugs. Clinical failure can occur at any stage of clinical development. For instance, our first clinical trial of one of our earlier stapled peptide product candidates did not generate the desired results, and we suspended the development program. Clinical trials may produce negative or inconclusive results, and we or any future collaborators may decide, or regulators may require us, to conduct additional clinical trials or preclinical studies. We will be required to demonstrate with substantial evidence through well-controlled clinical trials that our product candidates are safe and effective for use in a diverse population before we can seek marketing approvals for their commercial sale. Success in preclinical studies and early-stage clinical trials does not mean that future larger registration clinical trials will be successful because product candidates in later-stage clinical trials may fail to demonstrate sufficient safety and efficacy to the satisfaction of the FDA and non-U.S. regulatory authorities despite having progressed through preclinical studies and early-stage clinical trials. Product candidates that have shown promising results in preclinical studies and early-stage clinical trials may still suffer significant setbacks in subsequent registration clinical trials. Additionally, the outcome of preclinical studies and early-stage clinical trials may not be predictive of the success of later-stage clinical trials.

From time to time, we may publish or report interim or preliminary data from our clinical trials. Interim or preliminary data from clinical trials that we may conduct may not be indicative of the final results of the trial and are subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data become available. Interim or preliminary data also remain subject to audit and verification procedures that may result in the final data being materially different from the interim or preliminary data. As a result, interim or preliminary data should be viewed with caution until the final data are available.

In addition, the design of a clinical trial can determine whether its results will support approval of a drug and flaws in the design of a clinical trial may not become apparent until the clinical trial is well advanced. We have limited experience in designing clinical trials and may be unable to design and conduct a clinical trial to support marketing approval. Further, if our product candidates are found to be unsafe or lack efficacy, we will not be able to obtain marketing approval for them and our business would be harmed. A number of companies in the
pharmaceutical industry, including those with greater resources and experience than us, have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in preclinical studies and earlier clinical trials.

In some instances, there can be significant variability in safety and efficacy results between different clinical trials of the same product candidate due to numerous factors, including changes in trial protocols, differences in size and type of the patient populations, differences in and adherence to the dosing regimen and other trial protocols and the rate of dropout among clinical trial participants. We do not know whether any clinical trials we may conduct will demonstrate consistent or adequate efficacy and safety sufficient to obtain marketing approval to market our product candidates.

We have multiple clinical trials of ALRN-6924 currently ongoing. In the event that an adverse safety issue, clinical hold or other adverse finding occurs in one or more of our clinical trials of ALRN-6924, such event could adversely affect our other clinical trials of ALRN-6924. Moreover, there is a relatively limited safety data set for product candidates utilizing stapled peptides or that are designed to reactivate p53. An adverse safety issue or other adverse finding in a clinical trial conducted by a third party with a product candidate utilizing stapled peptides or that is designed to reactivate p53, such as the small molecules in development that target the p53-MDM2 interaction, could adversely affect our clinical trials of ALRN-6924.

Further, our product candidates may not be approved even if they achieve their primary endpoints in Phase 3 clinical trials or registration trials. The FDA or non-U.S. regulatory authorities may disagree with our trial design and our interpretation of data from preclinical studies and clinical trials. In addition, any of these regulatory authorities may change requirements for the approval of a product candidate even after reviewing and providing comments or advice on a protocol for a pivotal clinical trial that has the potential to result in approval by the FDA or another regulatory authority. In addition, any of these regulatory authorities may also approve a product candidate for fewer or more limited indications than we request or may grant approval contingent on the performance of costly post-marketing clinical trials. In addition, the FDA or other non-U.S. regulatory authorities may not approve the labeling claims that we believe would be necessary or desirable for the successful commercialization of our product candidates.

Before obtaining marketing approvals for the commercial sale of any product candidate for a target indication, we must demonstrate with substantial evidence gathered in preclinical studies and well-controlled clinical studies, and, with respect to approval in the United States, to the satisfaction of the FDA, that the product candidate is safe and effective for use for that target indication. There is no assurance that the FDA or non-U.S. regulatory authorities will consider our future clinical trials to be sufficient to serve as the basis for approval of one of our product candidates for any indication. The FDA and non-U.S. regulatory authorities retain broad discretion in evaluating the results of our clinical trials and in determining whether the results demonstrate that a product candidate is safe and effective. If we are required to conduct additional clinical trials of a product candidate than we expect prior to its approval, we will need substantial additional funds and there is no assurance that the results of any such additional clinical trials will be sufficient for approval.

Clinical drug development is a lengthy and expensive process, with an uncertain outcome. If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs, experience delays in completing, or ultimately be unable to complete, the development of our product candidates or be unable to obtain marketing approval.

Before obtaining marketing approval from regulatory authorities for the sale of our product candidates, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical studies and early-stage clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial, such as the results of our ongoing clinical trials of ALRN-6924, do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their drugs.
We do not know whether ongoing clinical trials will be completed on schedule or at all, or whether future
clinical trials will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all.

Clinical trials can be delayed for a variety of reasons, including delays related to:

- obtaining marketing approval to commence a trial;
- reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and
  clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly
  among different CROs and clinical trial sites;
- obtaining institutional review board approval at each clinical trial site;
- recruiting suitable patients to participate in a trial;
- developing and validating any companion diagnostic to be used in the trial, to the extent we are required
  to do so;
- patients failing to comply with trial protocol or dropping out of a trial;
- clinical trial sites deviating from trial protocol or dropping out of a trial;
- the need to add new clinical trial sites; or
- manufacturing sufficient quantities of product candidate for use in clinical trials.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or
prevent our ability to receive marketing approval or commercialize our product candidates, including:

- we may receive feedback from regulatory authorities that requires us to modify the design of our clinical
  trials;
- clinical trials of our product candidates may produce negative or inconclusive results, and we may
  decide, or regulators may require us, to conduct additional clinical trials or abandon drug development
  programs;
- the number of patients required for clinical trials of our product candidates may be larger than we
  anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop
  out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual
  obligations to us in a timely manner, or at all;
- we or our investigators might have to suspend or terminate clinical trials of our product candidates for
  various reasons, including non-compliance with regulatory requirements, a finding that our product
  candidates have undesirable side effects or other unexpected characteristics, or a finding that the
  participants are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of
  our product candidates may be insufficient or inadequate;
- regulators may revise the requirements for approving our product candidates, or such requirements may
  not be as we anticipate; and
- any future collaborators that conduct clinical trials may face any of the above issues, and may conduct
  clinical trials in ways they view as advantageous to them but that are suboptimal for us.
If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- incur unplanned costs;
- be delayed in obtaining marketing approval for our product candidates or not obtain marketing approval at all;
- obtain marketing approval in some countries and not in others;
- obtain marketing approval for indications or patient populations that are not as broad as intended or desired;
- obtain marketing approval with labeling that includes significant use or distribution restrictions or safety warnings, including boxed warnings;
- be subject to additional post-marketing testing requirements; or
- have the drug removed from the market after obtaining marketing approval.

Our drug development costs will also increase if we experience delays in testing or marketing approvals. We do not know whether clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Furthermore, we rely on third-party CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials, and while we have agreements governing their committed activities, we have limited influence over their actual performance. Significant clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring drugs to market before we do and impair our ability to successfully commercialize our product candidates and may harm our business and results of operations.

**If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary marketing approvals could be delayed or prevented.**

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or comparable foreign regulatory authorities. Patient enrollment is a significant factor in the timing of clinical trials. In particular, because our clinical trials of ALRN-6924 are focused on indications with small patient populations and are targeted at a subset of patients in such indications with cancer cells that contain WT p53, our ability to enroll eligible patients may be limited or may result in slower enrollment than we anticipate.

Patient enrollment may be affected if our competitors have ongoing clinical trials for product candidates that are under development for the same indications as our product candidates, and patients who would otherwise be eligible for our clinical trials instead enroll in clinical trials of our competitors’ product candidates. Patient enrollment may also be affected by other factors, including:

- size and nature of the patient population;
- severity of the disease under investigation;
- availability and efficacy of approved drugs for the disease under investigation;
- patient eligibility criteria for the trial in question;
- perceived risks and benefits of the product candidate under study;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment;
proximity and availability of clinical trial sites for prospective patients; and
continued enrollment of prospective patients by clinical trial sites.

Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays or may require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing.

If serious adverse or unacceptable side effects are identified during the development of our product candidates or we observe limited efficacy of our product candidates, we may need to abandon or limit the development of one or more of our product candidates.

Adverse events or undesirable side effects caused by, or other unexpected properties of, our product candidates could cause us, any future collaborators, an institutional review board, or IRB, or regulatory authorities to interrupt, delay or halt clinical trials of one or more of our product candidates and could result in the delay or denial of marketing approval by the FDA or comparable foreign regulatory authorities or a more restrictive label, if approved.

In general, our clinical trials of ALRN-6924 include cancer patients who are very sick and whose health is deteriorating, and we expect that additional clinical trials of ALRN-6924 and our other product candidates will include similar patients with deteriorating health. It is possible that some of these patients might die prior to their completion of our clinical trial. Such deaths may be caused by the cancers from which such patients are suffering, or other causes, unrelated to ALRN-6924 or the other product candidates that may be the subject of the clinical trial. Even if the deaths are not related to our product candidate, the deaths could affect perceptions regarding the safety of our product candidate.

If any of our product candidates are associated with adverse events or undesirable side effects or have properties that are unexpected, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. We, or any future collaborators, may abandon development or limit development of that product candidate to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. Any of these occurrences may harm our business, results of operations, financial condition and prospects significantly.

We have never obtained marketing approval for a product candidate and we may be unable to obtain, or may be delayed in obtaining, marketing approval for any of our product candidates.

We have never obtained marketing approval for a product candidate. It is possible that the FDA may refuse to accept for substantive review any new drug applications, or NDAs, that we submit for our product candidates or may conclude after review of our data that our application is insufficient to obtain marketing approval of our product candidates. If the FDA does not accept or approve our NDAs for our product candidates, it may require that we conduct additional clinical, nonclinical or manufacturing validation studies and submit that data before it will reconsider our applications. Depending on the extent of these or any other FDA-required studies, approval of any NDA or application that we submit may be delayed by several years, or may require us to expend more resources than we have available. It is also possible that additional studies, if performed and completed, may not be considered sufficient by the FDA to approve our NDAs.

Any delay in obtaining, or an inability to obtain, marketing approvals would prevent us from commercializing our product candidates, generating revenues and achieving and sustaining profitability. If any of these outcomes occur, we may be forced to abandon our development efforts for our product candidates, which could significantly harm our business.
The FDA or comparable foreign regulatory authorities may, under certain circumstances, require that a companion diagnostic be approved for use with ALRN-6924. If we are unable to successfully develop and obtain approval for such a diagnostic, either on our own or through a third party, or if we experience significant delays in doing so, we may not obtain marketing approval for ALRN-6924 in a timely manner, or at all.

If we decide to seek marketing approval of ALRN-6924 with a label limited to WT p53 cancer patients, we would be required to have a companion in vitro diagnostic approved for use with ALRN-6924. We would also expect that we would be required to obtain similar approvals from comparable foreign regulatory authorities. In such cases, we will need to contract with a third party for the supply of a commercially available diagnostic to identify patients with WT p53 status, or develop such a diagnostic ourselves, in each case requiring approval of the diagnostic by regulatory authorities. We are currently evaluating the risks and benefits of each approach. We currently rely upon commercially available third-party assays and employ a central laboratory to test both archived tumor tissue samples and fresh biopsy samples from patients taken prior to enrollment in clinical trials of ALRN-6924 to identify WT p53 status. We do not have experience or capabilities in developing or commercializing companion diagnostics.

Companion diagnostics are subject to regulation by the FDA and comparable foreign regulatory authorities as medical devices and require separate marketing approval prior to commercialization. We or any third party upon which we decide to rely may encounter difficulties in developing and obtaining approval for a companion diagnostic for ALRN-6924, including issues relating to selectivity/specificity, analytical validation, reproducibility or clinical validation. The process of complying with the requirements of the FDA and comparable foreign regulatory authorities to support marketing authorization of a companion diagnostic is costly, time-consuming and burdensome. Any delay or failure to develop or obtain marketing approval of the companion diagnostic could delay or prevent approval of ALRN-6924.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs and product candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial drugs or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable drugs. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other strategic arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

We may not be successful in our efforts to identify or discover additional potential product candidates.

One element of our strategy is to leverage our proprietary stapled peptide technology to develop additional product candidates across oncology and other diseases with unmet medical need. We may not be successful in doing so. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons, including:

- the research methodology used may not be successful in identifying potential product candidates;
- potential product candidates may, on further study, be shown to have harmful side effects or other characteristics that indicate that they are unlikely to be drugs that will receive marketing approval and/or achieve market acceptance; and
- potential product candidates may not be effective in treating their targeted diseases.

Research programs to identify new product candidates require substantial technical, financial and human resources. If we are unable to identify suitable compounds for preclinical and clinical development, our business would be harmed.
If any of our product candidates receives marketing approval and we, or others, later discover that the drug is less effective than previously believed or causes undesirable side effects that were not previously identified, our ability, or that of any future collaborators, to market the drug could be compromised.

Clinical trials of our product candidates must be conducted in carefully defined subsets of patients who have agreed to enter into clinical trials. Consequently, it is possible that our clinical trials, or those of any future collaborator, may indicate an apparent positive effect of a product candidate that is greater than the actual positive effect, if any, or alternatively fail to identify undesirable side effects. If one or more of our product candidates receives marketing approval and we, or others, discover that the drug is less effective than previously believed or causes undesirable side effects that were not previously identified, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the drug or seize the drug;
- we, or any future collaborators, may be required to recall the drug, change the way the drug is administered or conduct additional clinical trials;
- additional restrictions may be imposed on the marketing of, or the manufacturing processes for, the particular drug;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- we, or any future collaborators, may be required to create a Medication Guide outlining the risks of the previously unidentified side effects for distribution to patients;
- we, or any future collaborators, could be sued and held liable for harm caused to patients;
- the drug may become less competitive; and
- our reputation may suffer.

Any of these events could have a material and adverse effect on our operations and business and could adversely impact our stock price.

Even if any of our product candidates receive marketing approval, they may fail to achieve the degree of market acceptance by physicians, patients, healthcare payors and others in the medical community necessary for commercial success.

If any of our product candidates receive marketing approval, they may nonetheless fail to gain sufficient market acceptance by physicians, patients, healthcare payors and others in the medical community. For example, current cancer treatments like chemotherapy and radiation therapy are well-established in the medical community, and doctors may continue to rely on these treatments. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant revenues from sales of drugs and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and safety of the product;
- the potential advantages of the product compared to competitive therapies;
- the prevalence and severity of any side effects;
- whether the product is designated under physician treatment guidelines as a first-, second- or third-line therapy;
- our ability, or the ability of any future collaborators, to offer the product for sale at competitive prices;
- the product’s convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try, and of physicians to prescribe, the product;
• limitations or warnings, including distribution or use restrictions contained in the product’s approved labeling;
• the strength of sales, marketing and distribution support;
• changes in the standard of care for the targeted indications for the product; and
• availability and amount of coverage and reimbursement from government payors, managed care plans and other third-party payors.

If, in the future, we are unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market our product candidates, we may not be successful in commercializing our product candidates if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale or marketing of pharmaceutical drugs. We are not currently a party to a strategic collaboration that provides us with access to a collaborator’s resources in selling or marketing drugs. To achieve commercial success for any approved drug for which sales and marketing is not the responsibility of any strategic collaborator that we may have in the future, we must either develop a sales and marketing organization or outsource these functions to other third parties. In the future, we may choose to build a sales and marketing infrastructure to market or co-promote some of our product candidates if and when they are approved, or enter into collaborations with respect to the sale and marketing of our product candidates.

There are risks involved with both establishing our own sales and marketing capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time-consuming and could delay any commercial launch of a product candidate. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our drugs on our own include:
• our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
• the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future drugs;
• the lack of complementary drugs to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive drug lines;
• unforeseen costs and expenses associated with creating an independent sales and marketing organization; and
• inability to obtain sufficient coverage and reimbursement from third-party payors and governmental agencies.

If we enter into arrangements with third parties to perform sales and marketing services, our revenues from the sale of drugs or the profitability of these revenues to us are likely to be lower than if we were to market and sell any drugs that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our drugs effectively. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.
We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.

The pharmaceutical and biotechnology industries generally, and the cancer drug sector specifically, are highly competitive and characterized by rapidly advancing technologies, evolving understanding of disease etiology and a strong emphasis on proprietary drugs. We face competition with respect to ALRN-6924, our lead product candidate, and will face competition with respect to any product candidates that we may seek to discover and develop or commercialize in the future, from major pharmaceutical, specialty pharmaceutical and biotechnology companies. There are a number of major pharmaceutical, specialty pharmaceutical and biotechnology companies that currently market and sell drugs or are pursuing the development of drugs for the treatment of cancer. Potential competitors also include academic institutions and governmental agencies and public and private research institutions.

There are a large number of companies developing or marketing treatments for cancer, including the indications for which we may develop product candidates. Many of the companies that we compete or may compete against in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved drugs than we do. Small or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or that may be necessary for, our programs.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize drugs that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any drugs that we may develop. Our competitors also may obtain FDA or other regulatory approval for their drugs more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. The key competitive factors affecting the success of all of our product candidates, if approved, are likely to be their efficacy, safety, convenience, price, the effectiveness of companion diagnostics in guiding the use of related therapeutics, the level of generic competition and the availability of reimbursement from government and other third-party payors.

The most common methods of treating patients with cancer are surgery, radiation and drug therapy. There are a variety of available drug therapies marketed for cancer. In many cases, these drugs are administered in combination to enhance efficacy. Some of the currently-approved drug therapies are branded and subject to patent protection and may be established as the standard of care for treatment of indications for which we may choose to seek regulatory approvals. Many of these approved drugs are well-established therapies and are widely accepted by physicians, patients and third-party payors, and, even if our drug candidates were to be approved, there can be no assurance that our drugs would displace existing treatments. In addition to currently marketed therapies, there are also a number of drugs in late-stage clinical development to treat cancer, including the indications for which we are developing product candidates. These clinical-stage drug candidates may provide efficacy, safety, convenience and other benefits that are not provided by currently-marketed therapies. As a result, they may provide significant competition for any of our product candidates for which we obtain regulatory approval.

We designed ALRN-6924, our lead product candidate, to act as a reactivator of p53 for the treatment of various cancers. We are aware of other product candidates that are in clinical development for the treatment of various cancers through the reactivation of p53. Although there is a subset of drugs that directly target the p53 pathway, there are many cancer drugs that claim to affect the p53 pathway by upstream or complementary pathways. We are aware of selective small molecule inhibitors that are designed to target the p53-MDM2 interaction in various stages of clinical development being tested by F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., or collectively Roche, Amgen Inc., Novartis AG and Daiichi Sankyo Co., Ltd. If ALRN-6924 were to be approved for the indications for which we currently have ongoing clinical trials, it will compete with currently-marketed drugs or drugs that may be approved for marketing by the FDA in the future and such competition will not be limited to drugs that act through the reactivation of p53.
If the FDA or comparable foreign regulatory authorities approve generic versions of any of our drugs that receive marketing approval, or such authorities do not grant our drugs appropriate periods of data or market exclusivity before approving generic versions of our drugs, the sales of our drugs could be adversely affected.

Once an NDA is approved, the drug covered thereby becomes a “reference-listed drug” in the FDA’s publication, “Approved Drug Products with Therapeutic Equivalence Evaluations.” Manufacturers may seek approval of generic versions of reference-listed drugs through submission of abbreviated new drug applications, or ANDAs, in the United States. In support of an ANDA, a generic manufacturer need not conduct clinical trials demonstrating safety and efficacy. Rather, the applicant generally must show that its drug has the same active ingredient(s), dosage form, strength, route of administration and conditions of use or labeling as the reference-listed drug and that the generic version is bioequivalent to the reference-listed drug, meaning it is absorbed in the body at the same rate and to the same extent. Generic drugs may be significantly less costly to bring to market than the reference-listed drug and companies that produce generic drugs are generally able to offer them at lower prices. Thus, following the introduction of a generic drug, a significant percentage of the sales of any branded product or reference-listed drug is typically lost to the generic drug.

The FDA may not approve an ANDA for a generic drug until any applicable period of non-patent exclusivity for the reference-listed drug has expired. The Federal Food, Drug, and Cosmetic Act, or FDCA, provides a period of five years of non-patent exclusivity for a new drug containing a new chemical entity, or NCE. Specifically, in cases where such exclusivity has been granted, an ANDA may not be filed with the FDA and the FDA may not approve the application until the expiration of five years unless the submission is accompanied by a Paragraph IV certification that a patent covering the reference-listed drug is either invalid or will not be infringed by the generic drug, in which case the applicant may submit its application four years following approval of the reference-listed drug. Manufacturers may seek to launch these generic drugs following the expiration of the marketing exclusivity period, even if we still have patent protection for our drug.

Competition that our drugs may face from generic versions of our drugs could materially and adversely impact our future revenue, profitability and cash flows and substantially limit our ability to obtain a return on the investments we have made in those drug candidates. Our future revenues, profitability and cash flows could also be materially and adversely affected and our ability to obtain a return on the investments we have made in those drug candidates may be substantially limited if our drugs, if and when approved, are not afforded the appropriate periods of non-patent exclusivity.

Even if we are able to commercialize any product candidate, such product candidate may become subject to unfavorable pricing regulations, third-party coverage and reimbursement policies or healthcare reform initiatives, which would harm our business.

The regulations that govern marketing approval, pricing, coverage and reimbursement for new drugs vary widely from country to country. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval.

Our ability to commercialize any products successfully also will depend in part on the extent to which reimbursement and coverage for these products and related treatments will be available from government authorities, private health insurers and other organizations, and if reimbursement and coverage is available, the level of reimbursement and coverage. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the healthcare industry in the United States and elsewhere is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, the third-party payors who reimburse patients or healthcare providers, such as government and private insurance plans, are requiring that drug companies provide them with
pre-determined discounts from list prices, and are seeking to reduce the prices charged or the amounts reimbursed for medical products. We cannot be sure that reimbursement will be available for any drug that we commercialize and, if reimbursement is available, we cannot be sure as to the level of reimbursement. Reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, eligibility for reimbursement does not imply that any drug will be reimbursed in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs, may be incorporated into existing payments for other services and may reflect budgetary constraints or imperfections in Medicare data. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement rates. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for new products that we develop and for which we obtain marketing approval could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

**Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any drugs that we may develop.**

We face an inherent risk of product liability exposure related to the testing of our product candidates in clinical trials and will face an even greater risk if we commercially sell any drugs that we may develop. If we cannot successfully defend ourselves against claims that our product candidates or drugs caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or drugs that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any drugs that we may develop.

We currently hold clinical trial liability insurance coverage for up to $5.0 million, but that coverage may not be adequate to cover any and all liabilities that we may incur. We would need to increase our insurance coverage when we begin the commercialization of our product candidates, if ever. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

**Governments outside of the United States tend to impose strict price controls, which may adversely affect our revenues from the sales of our products, if any.**

In some countries, particularly member states of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. In addition, there can be
considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political, economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after reimbursement has been obtained. Reference pricing used by various European Union member states and parallel distribution, or arbitrage between low-priced and high-priced member states, can further reduce prices. In some countries, we, or our future collaborators, may be required to conduct a clinical trial or other studies that compare the cost-effectiveness of our product candidates to other available therapies in order to obtain or maintain reimbursement or pricing approval. Publication of discounts by third-party payors or authorities may lead to further pressure on the prices or reimbursement levels within the country of publication and other countries. If reimbursement of any product candidate approved for marketing is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be materially harmed.

**Risks Related to Our Dependence on Third Parties**

We rely on third parties to conduct our clinical trials and some aspects of our research and preclinical studies, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials, research and studies.

We currently rely on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators, to conduct our clinical trials of ALRN-6924 and expect to continue to rely upon third parties to conduct additional clinical trials of ALRN-6924 and our other product candidates. We currently rely and expect to continue to rely on third parties to conduct some aspects of our research and preclinical studies. Any of these third parties may terminate their engagements with us at any time. If we need to enter into alternative arrangements, it would delay our drug development activities.

Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our regulatory responsibilities. For example, we will remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as Good Clinical Practice, or GCP, regulations for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. The European Medicines Agency, or EMA, also requires us to comply with similar standards. Regulatory authorities enforce these GCP requirements through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our CROs fail to comply with applicable GCP requirements, the clinical data generated in our clinical trials may be deemed unreliable and the FDA, EMA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. There can be no assurances that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP regulations. In addition, our clinical trials must be conducted with product produced under current Good Manufacturing Practices, or cGMP, regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the marketing approval process. We also are required to register certain ongoing clinical trials and post the results of certain completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within certain timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates.

We also expect to rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of such third parties could delay clinical development or marketing approval of our product candidates or commercialization of our drugs, producing additional losses and depriving us of potential revenue from sales of drugs.
We contract with third parties for the manufacture of our product candidates for preclinical studies and, in the case of ALRN-6924, our ongoing clinical trials, and expect to continue to do so for additional clinical trials and ultimately for commercialization. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or drugs or such quantities at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We do not have any manufacturing facilities or personnel. We currently rely, and expect to continue to rely, on third-party manufacturers for the manufacture of our product candidates for preclinical studies and clinical trials under the guidance of members of our organization. To date, we have obtained the active pharmaceutical ingredient, or API, of ALRN-6924 from one third-party manufacturer. We have engaged a separate third-party manufacturer to conduct fill-and-finish and labeling services, as well as for the storage and distribution of ALRN-6924 to clinical sites. We do not have a long-term supply agreement with either of these third-party manufacturers, and we purchase our required drug supplies on a purchase order basis.

We expect to rely on third-party manufacturers or third-party collaborators for the manufacture of our product candidates for commercial supply of any of our product candidates for which we or any of our future collaborators obtain marketing approval. We may be unable to establish any agreements with third-party manufacturers or to do so on acceptable terms. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- the possible failure of the third party to manufacture our product candidate according to our schedule, or at all, including if our third-party contractors give greater priority to the supply of other products over our product candidates or otherwise do not satisfactorily perform according to the terms of the agreements between us and them;
- the possible termination or nonrenewal of agreements by our third-party contractors at a time that is costly or inconvenient for us;
- the possible breach by the third-party contractors of our agreements with them;
- the failure of third-party contractors to comply with applicable regulatory requirements;
- the possible failure of the third party to manufacture our product candidates according to our specifications;
- the possible mislabeling of clinical supplies, potentially resulting in the wrong dose amounts being supplied or active drug or placebo not being properly identified;
- the possibility of clinical supplies not being delivered to clinical sites on time, leading to clinical trial interruptions, or of drug supplies not being distributed to commercial vendors in a timely manner, resulting in lost sales; and
- the possible misappropriation of our proprietary information, including our trade secrets and know-how.

The facilities used by our contract manufacturers to manufacture our product candidates must be approved by the FDA pursuant to inspections that will be conducted after we submit our NDA to the FDA. We do not have complete control over all aspects of the manufacturing process of, and are dependent on, our contract manufacturing partners for compliance with cGMP regulations for manufacturing both active drug substances and finished drug products. Third-party manufacturers may not be able to comply with cGMP regulations or similar regulatory requirements outside of the United States. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or others, they will not be able to secure and/or maintain marketing approval for their manufacturing facilities. In addition, we do not have complete control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA or a comparable foreign regulatory authority does not approve these facilities for the manufacture of our product candidates or if it withdraws any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain marketing approval for or market our product candidates, if approved. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or drugs, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our drugs and harm our business and results of operations.
Any drugs that we may develop may compete with other product candidates and drugs for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us.

Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply of the API of ALRN-6924 and we only currently use a different single third-party manufacturer for fill-and-finish services for ALRN-6924. If our current contract manufacturers cannot perform as agreed, we may be required to replace those manufacturers. Although we believe that there are several potential alternative manufacturers who could manufacture our product candidates, we may incur added costs and delays in identifying and qualifying any such replacement.

Our current and anticipated future dependence upon others for the manufacture of our product candidates or drugs may adversely affect our future profit margins and our ability to commercialize any drugs that receive marketing approval on a timely and competitive basis.

Although we currently plan to retain all commercial rights to ALRN-6924 and our other stapled peptide product candidates, we may enter into strategic collaborations for the development, marketing and commercialization of ALRN-6924 and our other stapled peptide product candidates. If those collaborations are not successful, the development, marketing and/or commercialization of our product candidates that are the subject of such collaborations would be harmed.

As we further develop ALRN-6924, we may build a commercial infrastructure with the capability to directly market it to a variety of markets and geographies. Although we currently plan to retain all commercial rights to ALRN-6924 and our other stapled peptide product candidates, we may enter into strategic collaborations for the development, marketing and commercialization of ALRN-6924 and our other product candidates. Our likely collaborators for any collaboration arrangements include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies. If we do enter into any such arrangements with any third parties, we will likely have limited control over the amount and timing of resources that our collaborators dedicate to the development, marketing and/or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on our collaborators’ abilities to successfully perform the functions assigned to them in these arrangements. In addition, any future collaborators may have the right to abandon research or development projects and terminate applicable agreements, including funding obligations, prior to or upon the expiration of the agreed upon terms. For example, in 2013, Roche terminated the research collaboration to which we were a party.

Collaborations involving our product candidates would pose the following risks to us:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development, marketing and/or commercialization of our product candidates or may elect not to continue or renew development, marketing or commercialization programs based on clinical trial results, changes in the collaborator’s strategic focus or available funding or external factors such as an acquisition that diverts resources or creates competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, drugs that compete directly or indirectly with our drugs or product candidates;
- a collaborator with marketing and distribution rights to one or more drugs may not commit sufficient resources to the marketing and distribution of such drug or drugs;
disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;

• collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential litigation;

• collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;

• we may lose certain valuable rights under circumstances identified in any collaboration arrangement that we enter into, such as if we undergo a change of control;

• collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development, marketing and/or commercialization of the applicable product candidates;

• collaborators may learn about our discoveries, data, proprietary information, trade secrets or compounds and use this knowledge to compete with us in the future; and

• the number and type of our collaborations could adversely affect our attractiveness to future collaborators or acquirers.

Collaboration agreements may not lead to development or commercialization of product candidates in the most efficient manner, or at all.

If we decide to seek to establish collaborations, but are not able to establish those collaborations, we may have to alter our development and commercialization plans.

Our drug development programs and the potential commercialization of our product candidates will require substantial additional cash to fund expenses. As noted above, we may seek to selectively form collaborations to expand our capabilities, potentially accelerate research and development activities and provide for commercialization activities by third parties.

We would face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator’s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator’s evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or comparable foreign regulatory authorities, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing drugs, the existence of uncertainty with respect to our ownership of intellectual property, which can exist if there is a challenge to such ownership without regard to the merits of the challenge, and industry and market conditions generally. The potential collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate.

We may also be restricted under then-existing collaboration agreements from entering into future agreements on certain terms with potential collaborators.

Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all, if and when we seek to enter into collaborations. If we are unable to do so, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its
Risks Related to Our Intellectual Property

Our success depends in part on our ability to protect our intellectual property. It is difficult and costly to protect our proprietary rights and technology, and we may not be able to ensure their protection.

Our commercial success will depend in large part on obtaining and maintaining patent, trademark and trade secret protection of our proprietary technologies and our product candidates, which include ALRN-6924 and others, their respective components, formulations, methods used to manufacture them and methods of treatment, as well as successfully defending these patents against third-party challenges. Our ability to stop unauthorized third parties from making, using, selling, offering to sell or importing our product candidates is dependent upon the extent to which we have rights under valid and enforceable patents or trade secrets that cover these activities.

The patenting process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. In addition, we may not pursue or obtain patent protection in all relevant markets. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Our pending and future patent applications may not result in issued patents that protect our technology or products, in whole or in part. In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technology or from developing competing products and technologies.

We currently in-license certain intellectual property from President and Fellows of Harvard College, or Harvard, and Dana-Farber Cancer Institute, or DFCI, and others. In the future we may in-license intellectual property from other licensors. We rely on certain of these licensors to file and prosecute patent applications and maintain patents and otherwise protect the intellectual property we license from them. We have limited control over these activities or any other intellectual property that may be related to our in-licensed intellectual property. For example, we cannot be certain that such activities by these licensors have been or will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents and other intellectual property rights. We have limited control over the manner in which our licensors initiate an infringement proceeding against a third-party infringer of the intellectual property rights, or defend certain of the intellectual property that is licensed to us. It is possible that the licensors’ infringement proceeding or defense activities may be less vigorous than had we conducted them ourselves.

The growth of our business may depend in part on our ability to acquire or in-license additional proprietary rights. For example, our programs may involve additional product candidates that may require the use of additional proprietary rights held by third parties. Our product candidates may also require specific formulations to work effectively and efficiently. These formulations may be covered by intellectual property rights held by others. We may develop products containing our compounds and pre-existing pharmaceutical compounds. These pharmaceutical compounds may be covered by intellectual property rights held by others. We may be required by the FDA or comparable foreign regulatory authorities to provide a companion diagnostic test or tests with our product candidates. These diagnostic test or tests may be covered by intellectual property rights held by others. We may be unable to acquire or in-license any relevant third-party intellectual property rights that we identify as necessary or important to our business operations. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all, which would harm our business. We may need to cease use of the compositions or methods covered by such third-party intellectual property rights, and may need to seek to develop alternative approaches that do not infringe on such intellectual property rights which may entail additional costs and development delays, even if we were able to develop such alternatives, which may not be feasible. Even if we are able to obtain a license under such intellectual property rights, any such license may be non-exclusive, which may allow our competitors access to the same technologies licensed to us.
Additionally, we sometimes collaborate with academic institutions to accelerate our preclinical research or development under written agreements with these institutions. In certain cases, these institutions provide us with an option to negotiate a license to any of the institution’s rights in technology resulting from the collaboration. Regardless of such option, we may be unable to negotiate a license within the specified timeframe or under terms that are acceptable to us. If we are unable to do so, the institution may offer the intellectual property rights to others, potentially blocking our ability to pursue our program. If we are unable to successfully obtain rights to required third-party intellectual property or to maintain the existing intellectual property rights we have, we may have to abandon development of such program and our business and financial condition could suffer.

The licensing and acquisition of third-party intellectual property rights is a competitive practice, and companies that may be more established, or have greater resources than we do, may also be pursuing strategies to license or acquire third-party intellectual property rights that we may consider necessary or attractive in order to commercialize our product candidates. More established companies may have a competitive advantage over us due to their larger size and cash resources or greater clinical development and commercialization capabilities. There can be no assurance that we will be able to successfully complete such negotiations and ultimately acquire the rights to the intellectual property surrounding the additional product candidates that we may seek to acquire.

During the course of business we have decided not to pursue certain products or processes and have terminated certain corresponding intellectual property license agreements or removed certain intellectual property from current license agreements, and we may do so again in the future. If it is later determined that our activities or product candidates infringe this intellectual property we may be liable for damages, enhanced damages or subjected to an injunction, any of which could have a material adverse effect on our business.

The patent position of pharmaceutical and biotechnology companies generally is highly uncertain and involves complex legal and factual questions for which many legal principles remain unresolved. In recent years patent rights have been the subject of significant litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued in the United States or in other jurisdictions which protect our technology or products or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. Under a “first-to-file” system, assuming the other requirements for patentability are met, the first inventor to file a patent application generally will be entitled to a patent on the invention regardless of whether another inventor had made the invention earlier. The America Invents Act includes a number of other significant changes to U.S. patent law, including provisions that affect the way patent applications are prosecuted, redefine prior art and establish a new post-grant review system. The effects of these changes are currently unclear as the USPTO only recently developed new regulations and procedures in connection with the America Invents Act and many of the substantive changes to patent law, including the “first-to-file” provisions, only became effective in March 2013. In addition, the courts have yet to address many of these provisions and the applicability of the act and new regulations on specific patents discussed herein have not been determined and would need to be reviewed. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition. We may become involved in opposition, interference, derivation, *inter partes* review or other proceedings challenging our patent rights or the
patent rights of others, and the outcome of any proceedings are highly uncertain. An adverse determination in any such proceeding could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and our owned and in-licensed patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in the patent claims of our owned or in-licensed patents being narrowed, invalidated or held unenforceable, which could limit our ability to stop or prevent us from stopping others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours or otherwise provide us with a competitive advantage.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make or use compounds that are similar to the pharmaceutical compounds used in our product candidates but that are not covered by the claims of our patents;
- the active pharmaceutical ingredients in our current product candidates will eventually become commercially available in generic drug products, and no patent protection may be available with regard to formulation or method of use;
- we or our licensors, as the case may be, may fail to meet our obligations to the U.S. government in regards to any in-licensed patents and patent applications funded by U.S. government grants, leading to the loss of patent rights;
- we or our licensors, as the case may be, might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- it is possible that our pending patent applications will not result in issued patents;
- it is possible that there are prior public disclosures that could invalidate our or our licensors’ patents, as the case may be, or parts of our or their patents;
- it is possible that others may circumvent our owned or in-licensed patents;
- it is possible that there are unpublished applications or patent applications maintained in secrecy that may later issue with claims covering our products or technology similar to ours;
- the laws of foreign countries may not protect our or our licensors’, as the case may be, proprietary rights to the same extent as the laws of the United States;
- the claims of our owned or in-licensed issued patents or patent applications, if and when issued, may not cover our product candidates;
- our owned or in-licensed issued patents may not provide us with any competitive advantages, may be narrowed in scope or may be held invalid or unenforceable as a result of legal challenges by third parties;
• the inventors of our owned or in-licensed patents or patent applications may become involved with competitors, develop products or processes which design around our patents or become hostile to us or the patents or patent applications on which they are named as inventors;

• we have engaged in scientific collaborations in the past, such as with Roche, and will continue to do so in the future. Such collaborators may develop adjacent or competing products to ours that are outside the scope of our patents;

• we may not develop additional proprietary technologies for which we can obtain patent protection;

• it is possible that product candidates or diagnostic tests we develop may be covered by third parties’ patents or other exclusive rights; or

• the patents of others may have an adverse effect on our business.

We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect, and we have limited control over the protection of trade secrets used by our licensors, collaborators and suppliers. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors or use such information to compete with us. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. If our confidential or proprietary information is divulged to or acquired by third parties, including our competitors, our competitive position in the marketplace will be harmed and this would have a material adverse effect on our business.

If any of our owned or in-licensed patents are found to be invalid or unenforceable, or if we are otherwise unable to adequately protect our rights, it could have a material adverse impact on our business and our ability to commercialize or license our technology and product candidates. Likewise, our current owned and in-licensed patents covering our proprietary technologies and our product candidates are expected to expire on various dates from 2020 through 2033, without taking into account any possible patent term adjustments or extensions. Our earliest in-licensed patents were only filed in the United States and may expire before, or soon after, our first product achieves marketing approval in the United States. Upon the expiration of our current patents, we may lose the right to exclude others from practicing these inventions. The expiration of these patents could also have a similar material adverse effect on our business, results of operations, financial condition and prospects. We own or in-license pending patent applications covering our proprietary technologies or our product candidates that if issued as patents are expected to expire from 2020 through 2037, without taking into account any possible patent term adjustments or extensions. However, we cannot be assured that the USPTO or relevant foreign patent offices will grant any of these patent applications.

If we fail to comply with our obligations under our patent licenses with third parties, we could lose license rights that are important to our business.

We are a party to license agreements with Harvard, DFCI, Materia and others, pursuant to which we in-license key patent and patent applications for our product candidates. These existing licenses impose various diligence, milestone payment, royalty, insurance and other obligations on us. If we fail to comply with these obligations, our licensors may have the right to terminate the license, in which event we would not be able to develop or market the products covered by such licensed intellectual property.

In early 2016, Harvard asserted that we had not achieved one or more of the diligence milestones set forth in our license agreement with Harvard and DFCI within the time provided for in the agreement and that we were in material breach of the license agreement. In making this assertion, Harvard did not seek to terminate the license agreement or interfere with our ongoing p53 program, but instead proposed to convert our exclusive license with respect to certain of the patent families licensed under the license agreement to a non-exclusive license. DFCI did not join Harvard in making this assertion or proposal and has not expressed a similar position to us. Under Harvard’s proposal, we would have retained our rights to these patent families under the license agreement on a non-exclusive basis, and Harvard and DFCI would have been able to license these patent families to third parties so that we would be unable to prevent third parties from practicing the claims of those patents, but Harvard and DFCI would not have
been able to license to third parties any of the other patent families licensed to us under the license agreement or any of our own patents or patent applications. As such, Harvard’s proposal would not have impeded our development of ALRN-6924 or our other ongoing programs. However, we rejected the proposal and provided Harvard with a response stating that we believe that we had fully satisfied the diligence milestones as required under the license agreement and that Harvard’s claim of breach is incorrect. Since that time, we have continued to communicate with Harvard in the ordinary course under the license agreement and have paid a milestone payment to Harvard, and Harvard has not further asserted to us its claim of material breach or sought to terminate the license agreement. In addition, in May 2017, we received correspondence from Harvard, which indicated that Harvard is aware of a third party that is interested in developing a product that may require a license under certain of the patent families licensed to us under the license agreement. If Harvard were to assert in the future that we are in material breach of the license agreement and to seek to terminate the license agreement such that we lost our right to practice the claims of the patents licensed under the license agreement, we would not be able to commercialize ALRN-6924 until the applicable patents expired unless we were able to negotiate a new license arrangement with Harvard or DFCI with respect to the patent families owned by them respectively. Such loss of license rights under the license agreement with Harvard and DFCI or the loss of license rights under other of our license agreements if we were found not to be in compliance with such license agreements could materially adversely affect our business, results of operations, financial condition and prospects. We may enter into additional licenses in the future and if we fail to comply with obligations under those agreements, we could suffer similar consequences.

We may incur substantial costs as a result of litigation or other proceedings relating to patents, and we may be unable to protect our rights to our products and technology.

If we or our licensors choose to go to court to stop a third party from using the inventions claimed in our owned or in-licensed patents, that third party may ask the court to rule that the patents are invalid and/or should not be enforced against that third party. These lawsuits are expensive and would consume time and other resources even if we or they, as the case may be, were successful in stopping the infringement of these patents. In addition, there is a risk that the court will decide that these patents are not valid and that we or they, as the case may be, do not have the right to stop others from using the inventions.

There is also the risk that, even if the validity of these patents is upheld, the court will refuse to stop the third party on the ground that such third party’s activities do not infringe our owned or in-licensed patents. In addition, the U.S. Supreme Court has recently changed some legal principles that affect patent applications, granted patents and assessment of the eligibility or validity of these patents. As a consequence, issued patents may be found to contain invalid claims according to the newly revised eligibility and validity standards. Some of our owned or in-licensed patents may be subject to challenge and subsequent invalidation or significant narrowing of claim scope in proceedings before the USPTO, or during litigation, under the revised criteria which could also make it more difficult to obtain patents.

We, or our licensors, may not be able to detect infringement against our owned or in-licensed patents, as the case may be, which may be especially difficult for manufacturing processes or formulation patents. Even if we or our licensors detect infringement by a third party of our owned or in-licensed patents, we or our licensors, as the case may be, may choose not to pursue litigation against or settlement with the third party. If we, or our licensors, later sue such third party for patent infringement, the third party may have certain legal defenses available to it, which otherwise would not be available except for the delay between when the infringement was first detected and when the suit was brought. Such legal defenses may make it impossible for us or our licensors to enforce our owned or in-licensed patents, as the case may be, against such third party.

If another party questions the patentability of any of our claims in our owned or in-licensed U.S. patents, the third party can request that the USPTO review the patent claims such as in an inter partes review, ex parte re-exam or post-grant review proceedings. These proceedings are expensive and may result in a loss of scope of some claims or a loss of the entire patent. In addition to potential USPTO review proceedings, we may become a party to patent opposition proceedings in the European Patent Office, or EPO, or similar proceedings in other foreign patent offices, where either our owned or in-licensed foreign patents are challenged. The costs of these opposition or similar proceedings could be substantial, and may result in a loss of scope of some claims or a loss of the entire patent. An unfavorable result at the USPTO, EPO or other patent office may result in the loss of our right to exclude others from practicing one or more of our inventions in the relevant country or jurisdiction, which could have a material adverse effect on our business.
We may incur substantial costs as a result of litigation or other proceedings relating to intellectual property rights other than patents, and we may be unable to protect our rights to our products and technology.

We may rely on trade secrets and confidentiality agreements to protect our technology and know-how, especially where we do not believe patent protection is appropriate or obtainable. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. If we choose to go to court to stop a third party from using any of our trade secrets, we may incur substantial costs. These lawsuits may consume our time and other resources even if we are successful.

If we are sued for infringing patents or other intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.

Our commercial success depends upon our ability to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields relating to our product candidates. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that others may assert our product candidates infringe the patent rights of others. Moreover, it is not always clear to industry participants, including us, which patents cover various types of drugs, products or their methods of use or manufacture. Thus, because of the large number of patents issued and patent applications filed in our fields, there may be a risk that third parties may allege they have patent rights encompassing our product candidates, technologies or methods.

In addition, because some patent applications in the United States may be maintained in secrecy until the patents are issued, patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after filing, and publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our owned and in-licensed issued patents or our pending applications, or that we or, if applicable, a licensor were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering our products or technology similar to ours. Any such patent application may have priority over our owned and in-licensed patent applications or patents, which could require us to obtain rights to issued patents covering such technologies. If another party has filed a U.S. patent application on inventions similar to those owned by or in-licensed to us, we or, in the case of in-licensed technology, the licensor may have to participate in an interference proceeding declared by the USPTO to determine priority of invention in the United States. If we or one of our licensors is a party to an interference proceeding involving a U.S. patent application on inventions owned by or in-licensed to us, we may incur substantial costs, divert management’s time and expend other resources, even if we are successful.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries generally. We may be exposed to, or threatened with, future litigation by third parties having patent or other intellectual property rights alleging that our product candidates and/or proprietary technologies infringe their intellectual property rights.

If a third party claims that we infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, regardless of merit, may be expensive and time-consuming to litigate and may divert our management’s attention from our core business;
- substantial damages for infringement, which we may have to pay if a court decides that the product candidate or technology at issue infringes on or violates the third party’s rights, and, if the court finds that the infringement was willful, we could be ordered to pay treble damages and the patent owner’s attorneys’ fees;
- a court prohibiting us from developing, manufacturing, marketing or selling our product candidates, or from using our proprietary technologies, unless the third party licenses its product rights to us, which it is not required to do;
• if a license is available from a third party, we may have to pay substantial royalties, upfront fees and other amounts, and/or grant cross-licenses to intellectual property rights for our products; and
• redesigning our product candidates or processes so they do not infringe, which may not be possible or may require substantial monetary expenditures and time.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations or could otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

We may choose to challenge the patentability of claims in a third party’s U.S. patent by requesting that the USPTO review the patent claims in an ex-parte re-exam, inter partes review or post-grant review proceedings. These proceedings are expensive and may consume our time or other resources. We may choose to challenge a third party’s patent in patent opposition proceedings in the EPO, or other foreign patent office. The costs of these opposition proceedings could be substantial, and may consume our time or other resources. If we fail to obtain a favorable result at the USPTO, EPO or other patent office then we may be exposed to litigation by a third party alleging that the patent may be infringed by our product candidates or proprietary technologies.

We may not be able to protect our intellectual property rights with patents throughout the world.

Filing, prosecuting and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Competitors may use our technology in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection but where enforcement is not as strong as in the United States. These products may compete with our product candidates in jurisdictions where we do not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products against third parties in violation of our proprietary rights generally. The initiation of proceedings by third parties to challenge the scope or validity of our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

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

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent prosecution process and following the issuance of a patent. Our failure to comply with such requirements could result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case if our patent were in force, which would have a material adverse effect on our business.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is common in the biotechnology and pharmaceutical industries, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are
successful in defending against such claims, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and, if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. This type of litigation or proceeding could substantially increase our operating losses and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other intellectual property related proceedings could adversely affect our ability to compete in the marketplace.

**Risks Related to Marketing Approval and Other Legal Compliance Matters**

*Even if we complete the necessary preclinical studies and clinical trials, the marketing approval process is expensive, time-consuming and uncertain and may prevent us, or any future collaborators, from obtaining approvals for the commercialization of some or all of our product candidates. As a result, we cannot predict when or if, and in which territories, we, or any future collaborators, will obtain marketing approval to commercialize a product candidate.*

The research, testing, manufacturing, labeling, approval, selling, marketing, promotion and distribution of drugs are subject to extensive regulation by the FDA and comparable foreign regulatory authorities, whose laws and regulations may differ from country to country. We, and any future collaborators, are not permitted to market our product candidates in the United States or in other countries until we or they receive approval of an NDA from the FDA or marketing approval from comparable foreign regulatory authorities. Our product candidates are in early stages of development and are subject to the risks of failure inherent in drug development. We have not submitted an application for or received marketing approval for any of our product candidates in the United States or in any other jurisdiction. We have limited experience in conducting and managing the clinical trials necessary to obtain marketing approvals, including FDA approval of an NDA.

The process of obtaining marketing approvals, both in the United States and abroad, is a lengthy, expensive and uncertain process. It may take many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate’s safety and efficacy. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. The FDA or other regulatory authorities have substantial discretion and may determine that our product candidates are not safe and effective, only moderately effective or have undesirable or unintended side effects, toxicities or other characteristics that preclude our obtaining marketing approval or prevent or limit commercial use. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

Our product candidates could fail to receive marketing approval for many reasons, including the following:

- the FDA or comparable foreign regulatory authorities may disagree with the design or implementation of our clinical trials;
- we may be unable to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that a product candidate is safe and effective for its proposed indication;
- the results of clinical trials may not meet the level of statistical significance required by the FDA or comparable foreign regulatory authorities for approval;
- we may be unable to demonstrate that a product candidate’s clinical and other benefits outweigh its safety risks;
the FDA or comparable foreign regulatory authorities may disagree with our interpretation of data from preclinical studies or clinical trials;

the data collected from clinical trials of our product candidates may not be sufficient to support the submission of an NDA or other submission or to obtain marketing approval in the United States or elsewhere;

the FDA or comparable foreign regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which we contract for clinical and commercial supplies;

the FDA or comparable foreign regulatory authorities may fail to approve any companion diagnostics that may be required in connection with approval of our therapeutic product candidates; and

the approval policies or regulations of the FDA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient for approval.

This lengthy approval process as well as the unpredictability of clinical trial results may result in our failing to obtain marketing approval to market ALRN-6924, which would significantly harm our business, results of operations and prospects.

In addition, changes in marketing approval policies during the development period, changes in or the enactment or promulgation of additional statutes, regulations or guidance or changes in regulatory review for each submitted drug application may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical studies, clinical trials or other studies and testing. In addition, varying interpretations of the data obtained from preclinical studies and clinical trials could delay, limit or prevent marketing approval of a product candidate. Any marketing approval we, or any collaborators we may have in the future, ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved drug not commercially viable.

Any delay in obtaining or failure to obtain required approvals could materially adversely affect our ability or that of any collaborators we may have to generate revenue from the particular product candidate, which likely would result in significant harm to our financial position and adversely impact our stock price.

Failure to obtain marketing approval in foreign jurisdictions would prevent our product candidates from being marketed abroad. Any approval we are granted for our product candidates in the United States would not assure approval of our product candidates in foreign jurisdictions.

In order to market and sell our drugs in the European Union and many other jurisdictions, we, and any collaborators we may have in the future, must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The marketing approval process outside of the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside of the United States, it is required that the drug be approved for reimbursement before the drug can be approved for sale in that country. We, and any collaborators we may have in the future, may not obtain approvals from regulatory authorities outside of the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside of the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA.

Additionally, on June 23, 2016, the electorate in the United Kingdom voted in favor of leaving the European Union, commonly referred to as Brexit. On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. Since a significant proportion of the regulatory framework in the United Kingdom is derived from European Union directives and regulations, the referendum could materially impact the regulatory regime with respect to the approval of our product candidates in the United Kingdom or the European Union. Any delay in obtaining, or an inability to obtain, any marketing approvals, as a result of Brexit or otherwise, would prevent us from commercializing our product candidates in the United Kingdom.
and/or the European Union and restrict our ability to generate revenue and achieve and sustain profitability. If any of these outcomes occur, we may be forced to restrict or delay efforts to seek regulatory approval in the United Kingdom and/or European Union for our product candidates, which could significantly and materially harm our business.

We, or any future collaborators, may not be able to obtain orphan drug designation or obtain or maintain orphan drug exclusivity for our product candidates and, even if we do, that exclusivity may not prevent the FDA or the EMA from approving competing products.

Regulatory authorities in some jurisdictions, including the United States and the European Union, may designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is a drug intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States, or a patient population greater than 200,000 in the United States where there is no reasonable expectation that the cost of developing the drug will be recovered from sales in the United States. In April 2017, the FDA granted orphan drug designation to ALRN-6924 for use in the treatment of AML. We expect to seek orphan drug designation for ALRN-6924 for PTCL and MDS and may seek orphan drug designations for ALRN-6924 for other indications or for other of our product candidates. There can be no assurances that we will be able to obtain such designations.

In the United States, orphan drug designation entitles a party to financial incentives such as opportunities for grant funding towards clinical trial costs, tax advantages and user-fee waivers. In addition, if a product that has orphan drug designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan drug exclusivity. Orphan drug exclusivity in the United States provides that the FDA may not approve any other applications, including a full NDA, to market the same drug for the same indication for seven years, except in limited circumstances. The applicable exclusivity period is ten years in Europe. The European exclusivity period can be reduced to six years if a drug no longer meets the criteria for orphan drug designation or if the drug is sufficiently profitable so that market exclusivity is no longer justified.

Even if we, or any future collaborators, obtain orphan drug designation for a product candidate as we have obtained for ALRN-6924 for AML, we, or they, may not be able to obtain or maintain orphan drug exclusivity for that product candidate. We may not be the first to obtain marketing approval of any product candidate for which we have obtained orphan drug designation for the orphan-designated indication due to the uncertainties associated with developing pharmaceutical products. In addition, exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan-designated indication or may be lost if the FDA later determines that the request for designation was materially defective or if we are unable to assure sufficient quantities of the product to meet the needs of patients with the rare disease or condition. Further, even if we, or any future collaborators, obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs with different active moieties may be approved for the same condition. Even after an orphan drug is approved, the FDA can subsequently approve the same drug with the same active moiety for the same condition if the FDA concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care or the manufacturer of the product with orphan exclusivity is unable to maintain sufficient product quantity. Orphan drug designation neither shortens the development time or regulatory review time of a drug nor gives the drug any advantage in the regulatory review or approval process.

Even if we, or any collaborators we may have in the future, obtain marketing approvals for our product candidates, the terms of approvals and ongoing regulation of our drugs could require substantial expenditure of resources and may limit how we, or they, manufacture and market our drugs, which could materially impair our ability to generate revenue.

Once marketing approval has been granted, an approved drug and its manufacturer and marketer are subject to ongoing review and extensive regulation. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. We, and any collaborators we may have in the future, must also comply with requirements concerning advertising and promotion for any of our product candidates for
which we or they obtain marketing approval. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the drug’s approved labeling. Thus, we, and any collaborators we may have in the future, may not be able to promote any drugs we develop for indications or uses for which they are not approved.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of a drug. For example, the approval may be subject to limitations on the indicated uses for which the drug may be marketed or to the conditions of approval, including the requirement to implement a Risk Evaluation and Mitigation Strategy, which could include requirements for a restricted distribution system. Manufacturers of approved drugs and those manufacturers’ facilities are also required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to cGMPs, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation and reporting requirements. We, our contract manufacturers, our future collaborators and their contract manufacturers could be subject to periodic unannounced inspections by the FDA to monitor and ensure compliance with cGMPs.

Accordingly, assuming we, or our future collaborators, receive marketing approval for one or more of our product candidates, we, and our future collaborators, and our and their contract manufacturers will continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production, product surveillance and quality control.

If we, and our future collaborators, are not able to comply with post-approval regulatory requirements, we, and our future collaborators, could have the marketing approvals for our drugs withdrawn by regulatory authorities and our, or our future collaborators’, ability to market any future drugs could be limited, which could adversely affect our ability to achieve or sustain profitability. Further, the cost of compliance with post-approval regulations may have a negative effect on our operating results and financial condition.

**The FDA’s and other regulatory authorities’ policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates, which would impact our ability to generate revenue.**

In December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of drugs and spur innovation, but its ultimate implementation is unclear. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business, prospects, financial condition and results of operations.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of the current administration may impact our business and industry. Namely, the current administration has taken several executive actions, including the issuance of a number of executive orders, that could impose significant burdens on, or otherwise materially delay, the FDA’s ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance and review and approval of marketing applications. Notably, on January 30, 2017, the President issued an executive order, applicable to all executive agencies, including the FDA, which requires that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency shall identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the “two-for-one” provisions. This executive order includes a budget neutrality provision that required the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the executive order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within Office of Management and Budget on February 2, 2017, the administration indicated that the “two-for-one” provisions may apply not only to agency regulations, but also to significant agency guidance documents. In addition, on February 24, 2017, the President issued an executive order directing each affected agency to designate an agency official as a “Regulatory Reform
Officer” and establish a “Regulatory Reform Task Force” to implement the two-for-one provisions and other previously issued executive orders relating to the review of federal regulations; however, it is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA’s ability to exercise its regulatory authority. If these executive actions impose constraints on the FDA’s ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

Any of our product candidates for which we, or our future collaborators, obtain marketing approval in the future will be subject to substantial penalties if we, or they, fail to comply with regulatory requirements or if we, or they, experience unanticipated problems with our drugs following approval.

Any of our product candidates for which we, or our future collaborators, obtain marketing approval in the future, will be subject to continual review by the FDA and other regulatory authorities.

The FDA and other agencies, including the Department of Justice, or the DOJ, closely regulate and monitor the post-approval marketing and promotion of drugs to ensure that they are manufactured, marketed and distributed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers’ communications regarding off-label use and if we, or our future collaborators, do not market any of our product candidates for which we, or they, receive marketing approval for only their approved indications, we, or they, may be subject to warnings or enforcement action for off-label marketing. Violation of the FDCA and other statutes, including the False Claims Act, relating to the promotion and advertising of prescription drugs may lead to investigations or allegations of violations of federal and state healthcare fraud and abuse laws and state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our drugs or their manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

• litigation involving patients taking our drug;
• restrictions on such drugs, manufacturers or manufacturing processes;
• restrictions on the labeling or marketing of a drug;
• restrictions on drug distribution or use;
• requirements to conduct post-marketing studies or clinical trials;
• warning letters or untitled letters;
• withdrawal of the drugs from the market;
• refusal to approve pending applications or supplements to approved applications that we submit;
• recall of drugs;
• fines, restitution or disgorgement of profits or revenues;
• suspension or withdrawal of marketing approvals;
• damage to relationships with any potential collaborators;
• restrictions on coverage by third-party payors;
• unfavorable press coverage and damage to our reputation;
• refusal to permit the import or export of drugs;
• drug seizure; or
• injunctions or the imposition of civil or criminal penalties.
Recently enacted and future legislation, and a change in existing government regulations and policies, may increase the difficulty and cost for us and our future collaborators to obtain marketing approval of and commercialize our product candidates and affect the prices we, or they, may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could, among other things, prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability, or the ability of any future collaborators, to profitably sell any drugs for which we, or they, obtain marketing approval. We expect that current laws, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we, or any future collaborators, may receive for any approved drugs.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or Medicare Modernization Act, changed the way Medicare covers and pays for pharmaceutical products and could decrease the coverage and price that we, or any future collaborators, may receive for any approved drugs. While the Medicare Modernization Act applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the Medicare Modernization Act may result in a similar reduction in payments from private payors.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the Affordable Care Act, or ACA, which substantially changed the way healthcare is financed by both governmental and private insurers, was enacted. Among the provisions of the ACA of potential importance to our business, including, without limitation, our ability to commercialize and the prices we may obtain for any of our product candidates, are the following:

- an annual, non-deductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- expansion of federal healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers and enhanced penalties for non-compliance;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices;
- extension of manufacturers’ Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- new requirements to report certain financial arrangements with physicians and certain others, including reporting “transfers of value” made or distributed to prescribers and other healthcare providers and reporting investment interests held by physicians and their immediate family members;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.
In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes include the Budget Control Act of 2011, which, among other things, led to aggregate reductions to Medicare payments to providers of 2% per fiscal year starting in 2013 and, due to subsequent legislative amendments to the statute, the reductions will stay in effect through 2025 unless additional congressional action is taken, and the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain for any of our product candidates for which we may obtain regulatory approval or the frequency with which any such product candidate is prescribed or used. Further, there have been several recent U.S. congressional inquiries and proposed state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products.

We expect that these healthcare reforms, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price that we receive for any approved product and/or the level of reimbursement physicians receive for administering any approved product we might bring to market. Reductions in reimbursement levels may negatively impact the prices we receive or the frequency with which our products are prescribed or administered. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. Since enactment of the ACA, there have been numerous legal challenges and Congressional actions to repeal and replace provisions of the ACA. In May 2017, the U.S. House of Representatives passed legislation known as the American Health Care Act of 2017. Thereafter, the Senate Republicans introduced and then updated a bill to replace the ACA known as the Better Care Reconciliation Act of 2017, and in the U.S. Senate a number of measures have been proposed and considered, but none has been passed.

The current Administration has also taken executive actions to undermine or delay implementation of the ACA. In January 2017, an executive order was issued directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. In October 2017, a second executive order was issued allowing for the use of association health plans and short-term health insurance, which may provide fewer health benefits than the plans sold through the ACA exchanges. At the same time, the Administration announced that it will discontinue the payment of cost-sharing reduction, or CSR, payments to insurance companies until Congress approves the appropriation of funds for such CSR payments. The loss of the CSR payments is expected to increase premiums on certain policies issued by qualified health plans under the ACA. A bill to appropriate funds for CSR payments was introduced in the Senate, but the future of that bill is uncertain.

More recently, with enactment of the Tax Cuts and Jobs Act of 2017, in December 2017, Congress repealed the “individual mandate.” The repeal of this provision, which requires most Americans to carry a minimal level of health insurance, will become effective in 2019. According to the Congressional Budget Office, the repeal of the individual mandate will cause 13 million fewer Americans to be insured in 2027 and premiums in insurance markets may rise. Further, each chamber of Congress has put forth multiple bills designed to repeal or repeal and replace portions of the ACA. Although none of these measures has been enacted by Congress to date, Congress may consider other legislation to repeal and replace elements of the ACA.

We will continue to evaluate the effect that the ACA and its possible repeal and replacement could have on our business. It is possible that repeal and replacement initiatives, if enacted into law, could ultimately result in fewer individuals having health insurance coverage or in individuals having insurance coverage with less generous benefits. Accordingly, such reforms, if enacted, could have an adverse effect on anticipated revenue from product candidates that we may successfully develop and for which we may obtain marketing approval and may affect our overall financial condition and ability to develop commercialize product candidates. While the timing and scope of any potential future legislation to repeal and replace ACA provisions is highly uncertain in many respects, it is also possible that some of the ACA provisions that generally are not favorable for the research-based pharmaceutical
industry could also be repealed along with ACA coverage expansion provisions. At this point, healthcare reform and its impacts on the Company are highly uncertain in many respects.

Additional changes that may affect our business include the expansion of new programs such as Medicare payment for performance initiatives for physicians under the Medicare Access and CHIP Reauthorization Act of 2015, or MACRA, which will be fully implemented in 2019. At this time, it is unclear how the introduction of the Medicare quality payment program will impact overall physician reimbursement.

We expect that these and other healthcare reform measures that may be adopted in the future may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved drug. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our drugs. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our drug candidates or additional pricing pressures.

The cost of prescription pharmaceuticals in the United States has also been the subject of considerable discussion in the United States, and members of Congress and the Administration have stated that they will address such costs through new legislative and administrative measures. The pricing of prescription pharmaceuticals is also subject to governmental control outside the United States. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidates to that of other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our ability to generate revenues and become profitable could be impaired. In the European Union, similar political, economic and regulatory developments may affect our ability to profitably commercialize our products.

Moreover, legislative and regulatory proposals have also been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA’s approval process may significantly delay or prevent marketing approval, as well as subject us and any future collaborators to more stringent drug labeling and post-marketing testing and other requirements.

We may seek a breakthrough therapy designation for ALRN-6924 or one or more of our other product candidates, we might not receive such designation, and even if we do, such designation may not lead to a faster development or regulatory review or approval process.

We may seek a breakthrough therapy designation for ALRN-6924 or one or more of our other product candidates. A breakthrough therapy is defined as a drug that is intended, alone or in combination with one or more other drugs, to treat a serious condition, and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. For drugs and biologies that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens. Drugs designated as breakthrough therapies by the FDA may also be eligible for priority review if supported by clinical data at the time the NDA is submitted to the FDA.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe that one of our product candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. Even if we receive breakthrough therapy designation, the receipt of such designation for a product candidate may not result in a faster development or regulatory review or approval process compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualify as
breakthrough therapies, the FDA may later decide that the product candidates no longer meet the conditions for qualification or decide that the time period for FDA review or approval will not be shortened.

**We may seek fast track designation for ALRN-6924 or one or more of our other product candidates, but we might not receive such designation, and even if we do, such designation may not actually lead to a faster development or regulatory review or approval process.**

If a drug is intended for the treatment of a serious condition and nonclinical or clinical data demonstrate the potential to address unmet medical need for this condition, a drug sponsor may apply for FDA fast track designation. If we seek fast track designation for a product candidate, we may not receive it from the FDA. However, even if we receive fast track designation, fast track designation does not ensure that we will receive marketing approval or that approval will be granted within any particular timeframe. We may not experience a faster development or regulatory review or approval process with fast track designation compared to conventional FDA procedures. In addition, the FDA may withdraw fast track designation if it believes that the designation is no longer supported by data from our clinical development program. Fast track designation alone does not guarantee qualification for the FDA’s priority review procedures.

**We may seek priority review designation for ALRN-6924 or one or more of our other product candidates, but we might not receive such designation, and even if we do, such designation may not lead to a faster development or regulatory review or approval process.**

If the FDA determines that a product candidate offers a treatment for a serious condition and, if approved, the product would provide a significant improvement in safety or effectiveness, the FDA may designate the product candidate for priority review. A priority review designation means that the goal for the FDA to review an application is six months, rather than the standard review period of ten months. We may request priority review for our product candidates. The FDA has broad discretion with respect to whether or not to grant priority review status to a product candidate, so even if we believe a particular product candidate is eligible for such designation or status, the FDA may decide not to grant it. Moreover, a priority review designation does not necessarily mean a faster development or regulatory review or approval process or necessarily confer any advantage with respect to approval compared to conventional FDA procedures. Receiving priority review from the FDA does not guarantee approval within the six-month review cycle or at all.

**Our relationships with healthcare providers, physicians and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to penalties, including criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.**

Our relationships with healthcare providers, physicians and third-party payors will subject us to additional healthcare statutory and regulatory requirements and enforcement by the federal government and the states and foreign governments in which we conduct our business. Our future arrangements with healthcare providers, physicians and third-party payors and patients may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- **Anti-Kickback Statute**—the federal anti-kickback statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing any remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation or arranging of, any good, facility, item or service, for which payment may be made, in whole or in part, by a federal healthcare program, such as Medicare and Medicaid.

- **False Claims Act**—the federal civil and criminal false claims laws, including the civil False Claims Act, and civil monetary penalties laws, which prohibit individuals or entities from, among other things, knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false, fictitious or fraudulent or knowingly making, using or causing to made or used a false record or statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- **HIPAA**—the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created additional federal criminal laws that prohibit, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;

- **HIPAA Privacy Provisions**—as amended by the Health Information Technology for Economic and Clinical Health Act, and their respective implementing regulations, including the Final Omnibus Rule published in January 2013, which impose obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information

- **Transparency Requirements**—the federal transparency requirements known as the federal Physician Payments Sunshine Act, under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the Affordable Care Act, which requires certain manufacturers of drugs, devices, biologics and medical supplies to report annually to the Centers for Medicare & Medicaid Services, or CMS, within the U.S. Department of Health and Human Services, information related to payments and other transfers of value made by that entity to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members;

- **Analogous State and Foreign Laws**—analogous state and foreign fraud and abuse laws and regulations, such as state anti-kickback and false claims laws, can apply to sales or marketing arrangements and claims involving healthcare items or services and are reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require pharmaceutical companies to comply with the pharmaceutical industry’s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures and pricing information. State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, imprisonment, exclusion of drugs from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. Although effective compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, these risks cannot be entirely eliminated. Any action against us for an alleged or suspected violation could cause us to incur significant legal expenses and could divert our management’s attention from the operation of our business, even if our defense is successful. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, it may be costly to us in terms of money, time and resources, and they may be subject to criminal, civil or administrative sanctions, including exclusions from government-funded healthcare programs.

**Our employees may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.**

We are exposed to the risk of employee fraud or other misconduct, including intentional failures to comply with FDA regulations or similar regulations of comparable foreign regulatory authorities, provide accurate information to the FDA or comparable foreign regulatory authorities, comply with manufacturing standards we may establish, comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable foreign regulatory authorities, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices.
These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws, standards or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant fines or other sanctions.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

Although we maintain workers’ compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of hazardous and flammable materials, including chemicals and biological materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or commercialization efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Laws and regulations governing any international operations we may have in the future may preclude us from developing, manufacturing and selling certain product candidates outside of the United States and require us to develop and implement costly compliance programs.

If we expand our operations outside of the United States, we must comply with numerous laws and regulations in each jurisdiction in which we plan to operate. The creation and implementation of international business practices compliance programs is costly and such programs are difficult to enforce, particularly where reliance on third parties is required.

The Foreign Corrupt Practices Act, or FCPA, prohibits any U.S. individual or business from paying, offering, authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with certain accounting provisions requiring the company to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations. The anti-bribery provisions of the FCPA are enforced primarily by the DOJ. The Securities and Exchange Commission, or SEC, is involved with enforcement of the books and records provisions of the FCPA.
Compliance with the FCPA is expensive and difficult, particularly in countries in which corruption is a recognized problem. In addition, the FCPA presents particular challenges in the pharmaceutical industry, because, in many countries, hospitals are operated by the government, and doctors and other hospital employees are considered foreign officials. Certain payments to hospitals in connection with clinical trials and other work have been deemed to be improper payments to government officials and have led to FCPA enforcement actions.

Various laws, regulations and executive orders also restrict the use and dissemination outside of the United States, or the sharing with certain non-U.S. nationals, of information classified for national security purposes, as well as certain products and technical data relating to those products. If we expand our presence outside of the United States, it will require us to dedicate additional resources to comply with these laws, and these laws may preclude us from developing, manufacturing, or selling certain drugs and product candidates outside of the United States, which could limit our growth potential and increase our development costs.

The failure to comply with laws governing international business practices may result in substantial penalties, including suspension or debarment from government contracting. Violation of the FCPA can result in significant civil and criminal penalties. Indictment alone under the FCPA can lead to suspension of the right to do business with the U.S. government until the pending claims are resolved. Conviction of a violation of the FCPA can result in long-term disqualification as a government contractor. The termination of a government contract or relationship as a result of our failure to satisfy any of our obligations under laws governing international business practices would have a negative impact on our operations and harm our reputation and ability to procure government contracts. The SEC also may suspend or bar issuers from trading securities on U.S. exchanges for violations of the FCPA’s accounting provisions.

**Risks Related to Employee Matters and Managing Growth**

*Our future success depends on our ability to retain our President and Chief Executive Officer, our Senior Vice President, Chief Medical Officer and other key executives and to attract, retain and motivate qualified personnel.*

We are highly dependent on Joseph A. Yanchik III, our President and Chief Executive Officer, and Manuel Aivado, M.D., Ph.D., our Senior Vice President, Chief Medical Officer, as well as the other principal members of our management and scientific teams. Our agreements with Mr. Yanchik and Dr. Aivado do not prevent them from terminating their employment with us at any time. We do not maintain “key person” insurance for any of our executives or other employees. The loss of the services of any of these persons could impede the achievement of our research, development and commercialization objectives.

Recruiting and retaining qualified scientific, clinical, manufacturing and sales and marketing personnel will also be critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

*We expect to expand our development and regulatory capabilities and potentially our sales and marketing capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.*

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, clinical operations, regulatory affairs and, potentially, sales and marketing. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.
Risks Related to Our Common Stock

*Our executive officers and directors and entities associated or affiliated with our executive officers and directors may have the ability to significantly influence all matters submitted to stockholders for approval.*

As of December 31, 2017, our executive officers and directors and entities associated and affiliated with our executive officers and directors, in the aggregate, beneficially own shares representing 32% of our outstanding common stock. As a result, if these stockholders were to choose to act together, they may have the ability to significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, could significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

*Provisions in our corporate charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.*

Provisions in our certificate of incorporation and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for shares of common stock. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- establish a classified board of directors such that not all members of the board are elected at one time;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from the board;
- establish advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;
- limit who may call stockholder meetings;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a “poison pill” that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal certain provisions of our charter or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

An active trading market for our common stock may not be sustained.

Our shares of common stock began trading on The Nasdaq Global Market June 29, 2017. Given the limited trading history of our common stock, there is a risk that an active trading market for our shares may not be sustained, which could put downward pressure on the market price of our common stock and thereby affect the ability of stockholders to sell their shares. An inactive trading market for our common stock may also impair our ability to raise capital to continue to fund our operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.
If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. If few analysts commence, or if analysts discontinue, coverage of us, the trading price of our stock would likely decrease. If one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease to cover our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

The price of our common stock is volatile and may fluctuate substantially, which could result in substantial losses for our stockholders.

Our stock price is volatile. During the period from June 28, 2017 to March 26, 2018, the closing price of our common stock ranged from a high of $14.91 per share to a low of $7.61 per share. The stock market in general and the market for pharmaceutical and biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, our stockholders may not be able to sell their shares at or above the price they paid for their shares. The market price for our common stock may be influenced by many factors, including:

- the timing and results of clinical trials of ALRN-6924 and any of our other product candidates;
- regulatory actions with respect to our product candidates or our competitors’ products and product candidates;
- the success of existing or new competitive products or technologies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- establishment or termination of collaborations for our product candidates or development programs;
- failure or discontinuation of any of our development programs;
- results of clinical trials of product candidates of our competitors;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or development programs;
- the results of our efforts to discover, develop, acquire or in-license additional product candidates or products;
- actual or anticipated changes in estimates as to financial results or development timelines;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or other stockholders;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in estimates or recommendations by securities analysts, if any, that cover our stock;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this “Risk Factors” section.
We could be subject to securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management’s attention and our resources, which could harm our business.

We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. We may remain an emerging growth company until December 31, 2022, or until such earlier time as we have more than $1.07 billion in annual revenue, the market value of our stock held by non-affiliates is more than $700 million or we issue more than $1 billion of non-convertible debt over a three-year period. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.

As a public company, we incur, and particularly after we are no longer an “emerging growth company,” we will incur, significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC and Nasdaq have imposed various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. We have had to hire additional accounting, finance, and other personnel in connection with our becoming a public company, and our efforts to comply with the requirements of being a public company, and our management and other personnel devote a substantial amount of time towards maintaining compliance with these requirements. These requirements increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

Pursuant to Section 404, we will be required to furnish a report by our management on our internal control over financial reporting, and after we are no longer an emerging growth company, we will be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we are engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. There is a risk that neither we nor our independent registered public accounting firm will be able to conclude within the prescribed timeframe that our internal control over financial reporting is effective as required by Section 404. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.
We might not be able to utilize a significant portion of our net operating loss carryforwards and research and development tax credit carryforwards.

As of December 31, 2017, we had federal and state net operating loss carryforwards of $129.6 million and $125.8 million, respectively, which begin to expire in 2029 and 2030, respectively. As of December 31, 2017, we had federal and state research and development tax credit carryforwards of $2.0 million and $1.2 million, respectively, which begin to expire in 2025. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the newly enacted federal income tax law, federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain how various states will respond to the newly enacted federal tax law.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not conducted a study to assess whether we have experienced Section 382 ownership changes in the past and if a portion of our net operating loss and tax credit carryforwards are subject to an annual limitation under Section 382. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. If we determine that an ownership change has occurred at any time since our inception and our ability to use our historical net operating loss and tax credit carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

Because we do not anticipate paying any cash dividends on our capital stock for the foreseeable future, capital appreciation, if any, of our common stock will be our stockholders’ sole source of gain.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be our stockholders’ sole source of gain for the foreseeable future.

A significant portion of our total outstanding shares may be sold into the market at any time, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As of March 26, 2018, we had 14,734,383 shares of common stock outstanding. The holders of an aggregate of approximately 10.5 million shares of our common stock have rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We have registered all shares of common stock that we may issue under our equity compensation plans, including upon exercise of outstanding options. These shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates.

Our certificate of incorporation designates the state courts in the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against the company and our directors, officers and employees.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to our company or our stockholders, any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or our certificate of incorporation or bylaws, or any action asserting a claim against us governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find
favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers and employees.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We occupy approximately 7,400 rentable square feet of office and laboratory space in Cambridge, Massachusetts under a lease that expires in May 2018. We expect to lease space in a new facility in 2018.

Item 3. Legal Proceedings.

We are not currently subject to any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Priced Range of Our Common Stock

Our common stock trades under the symbol “ALRN” on the Nasdaq Global Market and has been publicly traded since June 29, 2017. Prior to this time, there was no public market for our common stock. The following table sets forth the high and low sales price of our common stock as reported on the Nasdaq Global Market for the periods indicated:

<table>
<thead>
<tr>
<th>Period</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Quarter (from June 29, 2017 to June 30, 2017)</td>
<td>$14.00</td>
<td>$10.37</td>
</tr>
<tr>
<td>Third Quarter (July 1, 2017 to September 30, 2017)</td>
<td>$14.66</td>
<td>$11.10</td>
</tr>
<tr>
<td>Fourth Quarter (October 1, 2017 to December 31, 2017)</td>
<td>$15.48</td>
<td>$8.77</td>
</tr>
</tbody>
</table>

Holders of Our Common Stock

As of March 26, 2018, there were approximately 55 holders of record of shares of our common stock. This number does not include stockholders for whom shares are held in “nominee” or “street” name.

Dividend Policy

We have never declared nor paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in respect of our common stock in the foreseeable future. Any future determination to pay cash dividends will be made at the discretion of our board of directors and will depend on restrictions and other factors our board of directors may deem relevant. Investors should not purchase our common stock with the expectation of receiving cash dividends.

Stock Performance Graph

The following performance graph and related information shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, or SEC, for purposes of Section 18 of the Securities
Exchange Act of 1934, as amended, or the Exchange Act, nor shall such information be incorporated by reference into any future filing under the Exchange Act or Securities Act of 1933, as amended, or the Securities Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the performance of our common stock to the Nasdaq Composite Index and to the Nasdaq Biotechnology Index from June 29, 2017 (the first date that shares of our common stock were publicly traded) through December 29, 2017, which was the last trading day of the year. The comparison assumes $100 was invested in our common stock and in each of the foregoing indices after the market closed on June 29, 2017, and it assumes reinvestment of dividends, if any. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Use of Proceeds from Registered Securities

On July 5, 2017, we closed our initial public offering of 3,750,000 shares of our common stock at a public offering price of $15.00 per share for an aggregate offering of $56.3 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to registration statement on Form S-1 (File No. 333-218474), which was declared effective by the SEC on June 28, 2017. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC acted as joint book-running managers for the offering and as representatives of the underwriters. William Blair & Company, L.L.C. and Canaccord Genuity Inc. acted as co-managers. The offering commenced on June 28, 2017 and did not terminate until the sale of all of the shares offered.

We received aggregate net proceeds from the offering of $50.0 million, after deducting underwriting discounts and commissions of $3.9 million and estimated offering expenses of $2.3 million payable by us. None of the underwriting discounts and commissions or offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours.

We had not used any of the net offering proceeds as of December 31, 2017. We have invested the net proceeds in a variety of capital preservation investments, including short-term, investment-grade, interest-bearing instruments. There has been no material change in our planned use of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b)(4) on June 29, 2017.
**Item 6. Selected Financial Data.**

You should read the following selected financial data together with our financial statements and the related notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information included in this Annual Report on Form 10-K. We have derived the statement of operations data for the years ended December 31, 2017, 2016 and 2015 and the balance sheet data as of December 31, 2017 and 2016 from our audited financial statements, which are included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of results that should be expected in any future period.

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands, except per share data)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Statement of Operations Data:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>14,239</td>
<td>10,276</td>
<td>7,832</td>
</tr>
<tr>
<td>General and administrative</td>
<td>8,769</td>
<td>7,893</td>
<td>5,059</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>23,008</td>
<td>18,169</td>
<td>12,891</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(23,008)</td>
<td>(18,169)</td>
<td>(12,891)</td>
</tr>
<tr>
<td>Interest income</td>
<td>404</td>
<td>46</td>
<td>13</td>
</tr>
<tr>
<td>Net loss</td>
<td>(22,604)</td>
<td>(18,123)</td>
<td>(12,878)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>(41)</td>
<td>(75)</td>
<td>(71)</td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$22,645</td>
<td>(18,198)</td>
<td>$12,949</td>
</tr>
<tr>
<td>Net loss per share attributable to common stockholders—basic and diluted (1)</td>
<td>$(3.04)</td>
<td>$(42.35)</td>
<td>$(32.31)</td>
</tr>
<tr>
<td>Weighted average common shares outstanding—basic and diluted (1)</td>
<td>7,443,078</td>
<td>429,686</td>
<td>400,713</td>
</tr>
</tbody>
</table>

(1) See Note 11 to our financial statements appearing at the end of this Annual Report on Form 10-K for details on the calculation of basic and diluted net loss per share attributable to common stockholders.

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance Sheet Data:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and investments</td>
<td>$50,752</td>
<td>$20,715</td>
<td>$3,768</td>
</tr>
<tr>
<td>Working capital (1)</td>
<td>46,949</td>
<td>17,002</td>
<td>1,477</td>
</tr>
<tr>
<td>Total assets</td>
<td>52,688</td>
<td>22,021</td>
<td>5,940</td>
</tr>
<tr>
<td>Redeemable convertible preferred stock (2)</td>
<td>129,745</td>
<td>97,681</td>
<td></td>
</tr>
<tr>
<td>Total stockholders’ equity (deficit)</td>
<td>47,797</td>
<td>(111,806)</td>
<td>(94,319)</td>
</tr>
</tbody>
</table>

(1) We define working capital as current assets less current liabilities.
(2) Upon the closing of the IPO on July 5, 2017, all shares of redeemable convertible preferred stock then outstanding converted into an aggregate of 10,509,774 shares of common stock. See Note 7 to our financial statements appearing at the end of this Annual Report on Form 10-K for further details.
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this report, including those set forth under Item 1A. “Risk Factors” in this Annual Report on Form 10-K.

Overview

We are a clinical-stage biopharmaceutical company that is focused on developing and commercializing a novel class of therapeutics called stapled peptides. Our lead product candidate, ALRN-6924, targets the tumor suppressor p53 for the treatment of a wide variety of cancers. ALRN-6924, which is currently being tested in multiple clinical trials, reactivates p53-mediated tumor suppression by targeting the two primary p53 suppressor proteins, MDMX and MDM2. Our ongoing clinical trials of ALRN-6924 consist of a Phase 1 trial for the treatment of advanced solid tumors or lymphomas, which we refer to as our Phase 1 All-comers trial, a Phase 2a trial for the treatment of peripheral T-cell lymphoma, or PTCL, a Phase 1 trial for the treatment of acute myeloid leukemia, or AML, and advanced myelodysplastic Syndrome, or MDS, as a monotherapy and a Phase 1b trial for the treatment of AML/MDS in combination with cytosine arabinoside, or Ara-C. We believe that, based on preclinical data and preliminary evidence of safety and anti-tumor activity in our ongoing clinical trials, there may be significant opportunity to develop ALRN-6924 as a monotherapy or combination therapy for a wide variety of solid and liquid tumors. We believe that by using our proprietary stapled peptide drug platform, we can develop first-in-class molecules, like ALRN-6924, that contain a novel set of properties. As such, our stapled peptide drugs may be able to address historically undruggable targets and complex mechanisms, such as intracellular protein-protein interactions like p53, that underlie many diseases with high unmet medical need. We believe that stapled peptide therapeutics have the potential to become a major class of drugs, like small molecules and monoclonal antibodies, for oncology and other therapeutic areas, and may significantly improve treatment paradigms and clinical outcomes for patients.

We were incorporated in 2001 and commenced principal operations in 2006. We have devoted substantially all of our resources to developing our product candidates, including ALRN-6924, developing our stapled peptide platform, building our intellectual property portfolio, business planning, raising capital and providing general and administrative support for these operations.

On June 28, 2017, our registration statement on Form S-1 relating to our initial public offering of our common stock, or IPO, was declared effective by the SEC. The IPO closed on July 5, 2017 and we issued and sold 3,750,000 shares of common stock at a public offering price of $15.00 per share for net proceeds of $50.0 million after deducting underwriting discounts and commissions of $3.9 million and offering expenses of $2.3 million. Upon the closing of the IPO, all shares of redeemable convertible preferred stock then outstanding converted into an aggregate of 10,509,774 shares of common stock.

Prior to the IPO, we financed our operations through private placements of preferred stock and, to a lesser extent, through payments received under a collaboration agreement. Since our inception through December 31, 2017, we had received $50.0 million in net proceeds from our IPO, $131.2 million from our sales of preferred stock and $34.9 million from a collaboration agreement.

Since our inception, we have incurred significant losses on an aggregate basis. Our net losses were $22.6 million, $18.1 million and $12.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, we had an accumulated deficit of $136.9 million. These losses have resulted primarily from costs incurred in connection with research and development activities, licensing and patent investment and general and administrative costs associated with our operations. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years.
As a result, we will need additional financing to support our continuing operations. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity or debt financings or other sources, which may include collaborations with third parties. We may be unable to raise additional funds or enter into other agreements or arrangements when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as and when needed, we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates.

Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate revenue from product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

As of December 31, 2017, we had cash, cash equivalents and investments of $50.8 million. We believe that our cash, cash equivalents and investments as of December 31, 2017, will enable us to fund our operating expenses and capital expenditure requirements into the second half of 2019. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we expect. See “—Liquidity and Capital Resources.” Our future viability beyond that point is dependent on our ability to raise additional capital to finance our operations.

Components of our Results of Operations

Revenue

We have not generated any revenue from product sales and do not expect to generate any revenue from the sale of products in the near future. If our development efforts for ALRN-6924 or other product candidates that we may develop in the future are successful and result in marketing approval or collaboration or license agreements with third parties, we may generate revenue in the future from a combination of product sales or payments from collaboration or license agreements that we may enter into with third parties.

Operating Expenses

Our expenses since inception have consisted solely of research and development costs and general and administrative costs.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our discovery efforts, and the development of our product candidates, and include:

- expenses incurred under agreements with third parties, including contract research organizations, or CROs, that conduct research, preclinical activities and clinical trials on our behalf as well as contract manufacturing organizations, or CMOs, that manufacture our product candidates for use in our preclinical and clinical trials;
- salaries, benefits and other related costs, including stock-based compensation expense, for personnel engaged in research and development functions;
- costs of outside consultants, including their fees, stock-based compensation and related travel expenses;
- the costs of laboratory supplies and acquiring, developing and manufacturing preclinical study and clinical trial materials;
- costs related to compliance with regulatory requirements; and
- facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.
We expense research and development costs as incurred. Research and development expenses are comprised of salaries, stock-based compensation and benefits of employees, third-party license fees and other operational costs related to our research and development activities, including allocated facility-related expenses and external costs of outside vendors engaged to conduct both preclinical studies and clinical trials.

We recognize costs for certain development activities, such as clinical trials, 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 and our clinical investigative sites. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and are reflected in our financial statements as prepaid or accrued research and development expenses.

We typically use our employee and infrastructure resources across our development programs. We track outsourced development costs and milestone payments made under our licensing arrangements by product candidate or development program, but we do not allocate personnel costs, license payments made under our licensing arrangements or other internal costs to specific development programs or product candidates. These costs are included in unallocated research and development expenses in the table below. Unallocated research and development expenses also includes internal research relating to non-clinical and pipeline compounds in oncology and non-oncology indications.

The following table summarizes our research and development expenses by product candidate or development program:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017 (in thousands)</th>
<th>2016 (in thousands)</th>
<th>2015 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALRN-6924 and p53 program</td>
<td>$8,755</td>
<td>$6,392</td>
<td>$4,082</td>
</tr>
<tr>
<td>Other early-stage development programs</td>
<td>232</td>
<td>266</td>
<td>211</td>
</tr>
<tr>
<td>Unallocated research and development expenses</td>
<td>5,252</td>
<td>3,618</td>
<td>3,539</td>
</tr>
<tr>
<td>Total research and development expenses</td>
<td>$14,239</td>
<td>$10,276</td>
<td>$7,832</td>
</tr>
</tbody>
</table>

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect that our research and development expenses will continue to increase for the foreseeable future as we initiate additional clinical trials of ALRN-6924, pursue later stages of clinical development of ALRN-6924, initiate clinical trials for product candidates other than ALRN-6924 and continue to discover and develop additional product candidates, including product candidates for targets in which we have made substantial investments in prior years and next generation stapled peptide compounds for the treatment of a variety of disease indications.

We cannot determine with certainty the duration and costs of the current or future clinical trials of our product candidates or if, when, or to what extent we will generate revenue from the commercialization and sale of any of our product candidates for which we obtain marketing approval. We may never succeed in obtaining marketing approval for any of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including:

- the scope, rate of progress, expense and results of our ongoing clinical trials of ALRN-6924, as well as of any future clinical trials of ALRN-6924 or other product candidates and other research and development activities that we may conduct;
- uncertainties in clinical trial design and patient enrollment rates;
- significant and changing government regulation and regulatory guidance;
- the timing and receipt of any marketing approvals; and
- the expense of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.
A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the U.S. Food and Drug Administration, or FDA, or another regulatory authority were to require us to conduct clinical trials beyond those that we anticipate will be required for the completion of clinical development of a product candidate, or if we experience significant trial delays due to patient enrollment or other reasons, we would be required to expend significant additional financial resources and time on the completion of clinical development.

We are currently conducting our Phase 1 All-comers trial, our Phase 2a PTCL trial and our Phase 1/1b AML/MDS trials. At this time, we cannot reasonably estimate the cost for initiating and completing other clinical trials of ALRN-6924 and preclinical studies of ALRN-6924, as it will be highly dependent on the clinical data from ongoing clinical trials as well as any target disease subpopulations chosen for further evaluation.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs, including stock-based compensation, for personnel in our executive, finance, corporate and business development and administrative functions. General and administrative expenses also include legal fees relating to patent and corporate matters; professional fees for accounting, auditing, tax and consulting services; insurance costs; travel expenses; and facility-related expenses, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs.

We expect that our general and administrative expenses will increase in the future as we increase our general and administrative personnel headcount to support personnel in research and development and to support our operations generally as we increase our research and development activities and activities related to the potential commercialization of our product candidates. We also expect to incur increased expenses associated with operating as a public company, including costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements; director and officer insurance costs; and investor and public relations costs.

Interest Income

Interest income consists of interest income earned on our cash, cash equivalents and investments. Historically, our interest income had not been significant due to low investment balances and low interest earned on those balances.

Income Taxes

Since our inception in 2001, we have not recorded any U.S. federal or state income tax benefits for the net losses we have incurred in any year or for our earned research and development tax credits, due to our uncertainty of realizing a benefit from those items. As of December 31, 2017, we had federal and state net operating loss carryforwards of $129.6 million and $125.8 million, respectively, which begin to expire in 2029 and 2030, respectively. As of December 31, 2017, we also had federal and state research and development tax credit carryforwards of $2.0 million and $1.2 million, respectively, which begin to expire in 2025.

Utilization of the net operating loss carryforwards and research and development tax credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership changes that have occurred previously or that could occur in the future. These ownership changes may limit the amount of carryforwards that can be utilized annually to offset future taxable income. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50% over a three-year period. We have not conducted a study to assess whether a change of control has occurred or whether there have been multiple changes of control since inception due to the significant complexity and cost associated with such a study. If we have experienced a change of control, as defined by Section 382, at any time since inception, utilization of the net operating loss carryforwards or research and development tax credit carryforwards would be subject to an annual
limitation under Section 382, which is determined by first multiplying the value of our common stock at the time of the ownership change by the applicable long-term tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the net operating loss carryforwards or research and development tax credit carryforwards before utilization. Further, until a study is completed and any limitation is known, no amounts are being presented as an uncertain tax position.

**Critical Accounting Policies and Use of Estimates**

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of our financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, costs and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are 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. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in the notes to our financial statements appearing at the end of this Annual Report on Form 10-K, we believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our financial statements.

**Accrued Research and Development Expenses**

As part of the process of preparing our financial statements, we are required to estimate our accrued research and development expenses. This process involves reviewing open contract and purchase orders, communicating with our personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated costs incurred for the services when we have not yet been invoiced or otherwise notified of the actual costs. The majority of our service providers invoice us in arrears for services performed, on a pre-determined schedule or when contractual milestones are met; however, some require advanced payments. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. Examples of estimated accrued research and development expenses include fees paid to:

- CROs in connection with performing research activities on our behalf and conducting preclinical studies and clinical trials on our behalf;
- investigative sites or other service providers in connection with clinical trials;
- vendors in connection with preclinical and clinical development activities; and
- vendors related to product manufacturing and development and distribution of preclinical and clinical supplies.

We base our expenses related to preclinical studies and clinical trials on our estimates of the services received and efforts expended pursuant to quotes and contracts with multiple CROs that conduct and manage preclinical studies and clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. There may be instances in which payments made to our vendors will exceed the level of services provided and result in a prepayment of the expense. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing fees, we estimate the time period over which services will be performed, enrollment of patients, number of sites activated and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual or amount of prepaid expense accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in us reporting amounts that are too high or too low in any particular period. To date, we have not made any material adjustments to our prior estimates of accrued research and development expenses.
Stock-Based Compensation

We measure stock options and other stock-based awards granted to employees and directors based on their fair value on the date of the grant and recognize compensation expense of those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. We apply the straight-line method of expense recognition to all awards with only service-based vesting conditions and apply the graded-vesting method to all awards with performance-based vesting conditions or to awards with both service-based and performance-based vesting conditions.

For stock-based awards granted to non-employees, compensation expense is recognized over the period during which services are rendered by such non-employees until completed. At the end of each financial reporting period prior to the completion of the service, the fair value of these awards is remeasured using the then-current fair value of our common stock and updated assumption inputs in the Black-Scholes option-pricing model.

We estimate the fair value of each stock option grant on the date of grant using the Black-Scholes option-pricing model, which uses as inputs the fair value of our common stock and assumptions we make for the volatility of our common stock, the expected term of our stock options, the risk-free interest rate for a period that approximates the expected term of our stock options and our expected dividend yield.

Determination of Fair Value of Common Stock

Due to the absence of a public market for our common stock, prior to June 28, 2017, the date our stock began publicly trading, the estimated fair value of our common stock was determined by our board of directors as of the date of each option grant, with input from management, considering our most recently available third-party valuations of common stock and our board of directors’ assessment of additional objective and subjective factors that it believed were relevant and which may have changed from the date of the most recent valuation through the date of the grant. These third-party valuations were performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants’ Accounting and Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. These common stock valuations were prepared using a hybrid method, which used market approaches to estimate our enterprise value. The hybrid method is a probability-weighed expected return method, or PWERM, where the equity value in one or more scenarios is calculated using an option-pricing method, or OPM. The OPM treats common stock and preferred stock as call options on the total equity value of a company, with exercise prices based on the value thresholds at which the allocation among the various holders of a company’s securities changes. Under this method, the common stock has value only if the funds available for distribution to stockholders exceeded the value of the preferred stock liquidation preference at the time of the liquidity event, such as a strategic sale or a merger. The PWERM is a scenario-based methodology that estimates the fair value of common stock based upon an analysis of future values for the company, assuming various outcomes. The common stock value is based on the probability-weighted present value of expected future investment returns considering each of the possible outcomes available as well as the rights of each class of stock. The future value of the common stock under each outcome is discounted back to the valuation date at an appropriate risk-adjusted discount rate and probability weighted to arrive at an indication of value for the common stock.

For grants made after the date our stock began public trading, the fair value per share of our common stock on the date of grant is determined using the closing price of our common stock on The Nasdaq Global Market on the date of grant.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act of 2012, or the JOBS Act, permits an “emerging growth company” such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards when they are required to be adopted by public companies that are not emerging growth companies.
Results of Operations

Comparison of the Years Ended December 31, 2017 and 2016

The following table summarizes our results of operations for the years ended December 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Revenue</th>
<th>Operating expenses</th>
<th>Loss from operations</th>
<th>Interest income</th>
<th>Net loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ —</td>
<td>$ 14,239</td>
<td>$(23,008)</td>
<td>404</td>
<td>$(22,604)</td>
</tr>
<tr>
<td>2016</td>
<td>$ —</td>
<td>$ 10,276</td>
<td>$(18,169)</td>
<td>46</td>
<td>$(18,123)</td>
</tr>
<tr>
<td>(Decrease)</td>
<td>$ —</td>
<td>$ 3,963</td>
<td>$ 4,839</td>
<td>358</td>
<td>$ 4,481</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Research and Development Expenses</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$ 8,755</td>
<td>$ 2,363</td>
</tr>
<tr>
<td>2016</td>
<td>$ 6,392</td>
<td></td>
</tr>
<tr>
<td>(Decrease)</td>
<td>$ 2,363</td>
<td></td>
</tr>
</tbody>
</table>

Research and Development Expenses

Research and development expenses for the year ended December 31, 2017 were $14.2 million, compared to $10.3 million for the year ended December 31, 2016. The increase of $4.0 million was primarily due to an increase of $2.4 million in research expenses associated with ALRN-6924 and p53 program and an increase of $1.6 million in unallocated research and development expenses. The increase in ALRN-6924 and p53 program expenses was primarily due to an increase in clinical trial costs in the year ended December 31, 2017 associated with contract manufacturing costs and increased clinical activity associated with our Phase 1/1b AML/MDS trials which commenced in the second half of 2016. This increase was offset by a decrease in clinical trial costs in the year ended December 31, 2017 associated with decreased clinical activity associated with our Phase 1 All-comers trial as we completed enrollment in this trial in January 2017. The increase in unallocated research and development expenses was primarily due to increased wage and other personnel related costs resulting from additional personnel that we hired to support our ongoing clinical trials. We expect that our research and development expenses will continue to increase for the foreseeable future as we initiate additional clinical trials of ALRN-6924, pursue later stages of clinical development of ALRN-6924, and continue to discover and develop additional product candidates, including product candidates for targets in which we have made substantial investments in prior years and next generation stapled peptide compounds for the treatment of a variety of disease indications. We also expect that our research and development expenses will increase in the future as we increase our research and development headcount to support the increase in our research and development activities.

General and Administrative Expenses

General and administrative expenses were $8.8 million for the year ended December 31, 2017, compared to $7.9 million for year ended December 31, 2016. The increase of $0.9 million was primarily due to an increase of $0.9 million in personnel costs and $0.4 million in other general and administrative expense offset by a $0.4 million reduction in professional fees. The increase in personnel related costs was primarily due to higher non-cash stock compensation costs in the year ended December 31, 2017. The increase in other general and administrative costs was primarily due to higher insurance costs. The decrease in professional fees was primarily the result of a charge of $1.5 million related to the write off of offering costs in the year ended December 31, 2016, which consisted mostly of legal and accounting fees that were previously capitalized in connection with a postponed equity financing. This
decrease was offset by increased costs related to operating as a public company. We expect that our general and administrative expenses will increase in the future as we increase our general and administrative personnel headcount to support personnel in research and development and to support our operations generally as we increase our research and development activities. We also expect to incur increased expenses associated with operating as a public company, including costs of accounting, audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and SEC requirements; director and officer insurance costs; and investor and public relations costs.

**Interest Income**

Interest income for the year ended December 31, 2017 was $0.4 million higher than it was for the year ended December 31, 2016 due to higher investment balances resulting from the $50.0 million in net proceeds received from our IPO in July 2017.

**Comparison of the Years Ended December 31, 2016 and 2015**

The following table summarizes our results of operations for the years ended December 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
</tr>
<tr>
<td>Revenue</td>
<td>$—</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>$10,276</td>
</tr>
<tr>
<td>General and administrative</td>
<td>$7,893</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$18,169</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>($18,169)</td>
</tr>
<tr>
<td>Interest income</td>
<td>$46</td>
</tr>
<tr>
<td>Net loss</td>
<td>($18,123)</td>
</tr>
</tbody>
</table>

**Research and Development Expenses**

The increase of $2.4 million in research expenses associated with the ALRN-6924 and p53 program. The increase in ALRN-6924 expenses was primarily due to an increase in clinical trial costs in 2016 associated with our ongoing Phase 1 All-comers trial as well as with our Phase 2a PTCL trial and our Phase 1/1b AML/MDS trials, each of which commenced in 2016.

**General and Administrative Expenses**

General and administrative expenses were $7.9 million for the year ended December 31, 2016, compared to $5.1 million for year ended December 31, 2015. The increase of $2.8 million was due to an increase of $1.2 million in professional fees, an increase of $0.1 million in facility-related costs, which include direct depreciation costs and allocated expenses for rent and maintenance of facilities and other operating costs, and a charge of $1.5 million recognized in June 2016 related to the write off of offering costs previously capitalized in connection with a postponed initial public offering. The increase in professional fees was due to increases in legal fees and in the use of outside professionals.
Interest Income

Interest income for the year ended December 31, 2016 was comparable to interest income for the year ended December 31, 2015. Our interest income in each year was not significant due to low investment balances and low interest earned on those balances.

Liquidity and Capital Resources

Since our inception, we have incurred significant losses on an aggregate basis. We have not yet commercialized any of our product candidates, which are in various phases of preclinical and clinical development, and we do not expect to generate revenue from sales of any products for several years, if at all. Prior to the IPO, we financed our operations through private placements of our preferred stock and, to a lesser extent, through payments received under a collaboration agreement. Since our inception through December 31, 2017, we had received $50.0 million in net proceeds from our IPO, $131.2 million from our sales of preferred stock and $34.9 million from a collaboration agreement. As of December 31, 2017, we had cash, cash equivalents and investments of $50.8 million.

On June 28, 2017, our registration statement on Form S-1 relating to our initial public offering of our common stock was declared effective by the SEC. The IPO closed on July 5, 2017 and we issued and sold 3,750,000 shares of common stock at a public offering price of $15.00 per share for net proceeds of $50.0 million after deducting underwriting discounts and commissions of $3.9 million and other offering expenses of $2.3 million. Upon the closing of the IPO, all shares of preferred stock then outstanding converted into an aggregate of 10,509,774 shares of common stock.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash used in operating activities</td>
<td>$ (20,531)</td>
<td>$ (15,014)</td>
<td>$ (11,710)</td>
</tr>
<tr>
<td>Cash provided by (used in) investing activities</td>
<td>(38,912)</td>
<td>(25)</td>
<td>10,629</td>
</tr>
<tr>
<td>Cash provided by (used in) financing activities</td>
<td>50,591</td>
<td>31,986</td>
<td>(1,359)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>$ (8,852)</td>
<td>$ 16,947</td>
<td>$ (2,440)</td>
</tr>
</tbody>
</table>

Operating Activities. During the year ended December 31, 2017, operating activities used $20.5 million of cash, primarily resulting from our net loss of $22.6 million offset by net cash provided by non-cash charges of $1.7 million and changes in our operating assets and liabilities of $0.4 million. Non-cash charges resulted primarily from stock-based compensation expense. Net cash provided by changes in our operating assets and liabilities during the year ended December 31, 2017 consisted primarily of an increase of $1.2 million in accrued expenses and other current liabilities offset by an increase of $0.8 million in prepaid expenses and other current assets. The increase in accrued expenses and other current liabilities was primarily due to the increase of clinical trial-related accruals and contract manufacturing costs. The increase in prepaid expenses and other current assets was primarily due to the timing of vendor invoicing and payments.

During the year ended December 31, 2016, operating activities used $15.0 million of cash, primarily resulting from our net loss of $18.1 million, partially offset by non-cash charges of $2.4 million and cash provided by changes in our operating assets and liabilities of $0.7 million. Net cash provided by changes in our operating assets and liabilities during the year ended December 31, 2016 consisted of an increase of $1.2 million in accounts payable and an increase of $0.3 million in accrued expenses and other current liabilities, partially offset by a $0.8 million increase in other assets and a $0.1 million increase in prepaid expenses and other current assets. The increases in accounts payable and accrued expenses and other current liabilities were largely due to an increase of clinical trial-related expenses as we had increased enrollment in our Phase 1 All-comers trial and we had commenced our Phase 2a PTCL trial and our Phase 1/1b AML/MDS trials. The increase in other assets was due to deposits paid to our CROs for our ongoing clinical trials.
During the year ended December 31, 2015, operating activities used $11.7 million of cash, primarily resulting from our net loss of $12.9 million, partially offset by non-cash charges of $0.9 million and cash provided by changes in our operating assets and liabilities of $0.2 million. Net cash provided by changes in our operating assets and liabilities during the year ended December 31, 2015 consisted of a $0.6 million increase in accrued expenses and other current liabilities, partially offset by a $0.2 million decrease in accounts payable and a $0.1 million increase in prepaid expenses and other current assets. The increase in accrued expenses and other current liabilities was largely due to the increase of clinical trial-related accruals as we had increased enrollment in our ongoing Phase 1 All-comers trial of ALRN-6924.

**Investing Activities.** During the year ended December 31, 2017, investing activities used $38.9 million of cash, consisting of net purchases of investments of $71.1 million offset against proceeds from the sales or maturities of those investments of $32.3 million.

During the year ended December 31, 2016, we used an insignificant amount of cash in investing activities, consisting of net purchases of investments and an increase in restricted cash.

During the year ended December 31, 2015, investing activities provided $10.6 million of cash, consisting of net proceeds from sales of investments of $10.0 million and a decrease in restricted cash of $0.7 million, both of which were partially offset by purchases of property and equipment of $0.1 million.

We expect that purchases of property and equipment will increase over the next year as we expect to lease space in a new facility in 2018.

**Financing Activities.** During the year ended December 31, 2017, net cash provided by financing activities was $50.6 million primarily due to the proceeds, less underwriting discounts, from our IPO in July 2017 of $52.3 million. These proceeds were offset by payments of initial public offering costs of $2.3 million.

During the year ended December 31, 2016, net cash provided by financing activities was $32.0 million, primarily due to the net proceeds from our sales of Series E-1 preferred stock and Series F preferred stock of $32.1 million, partially offset by the payment of initial public offering costs of $0.2 million.

During the year ended December 31, 2015, we used $1.4 million of net cash in financing activities, due to the payment of initial public offering costs of $1.3 million and the payment of issuance costs of $0.1 million related to our issuance of Series E-1 preferred stock, both partially offset by proceeds from the exercise of stock options.

**Funding Requirements**

We expect our expenses to increase substantially in connection with our ongoing development activities related to ALRN-6924, which is still in the early stages of clinical development, and other product candidates and programs. We expect that our expenses will increase substantially if and as we:

- conduct our current and future clinical trials and additional preclinical research of ALRN-6924;
- initiate and continue research and preclinical and clinical development of our other product candidates;
- seek to identify additional product candidates;
- seek marketing approvals for any of our product candidates that successfully complete clinical trials, if any;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;
- require the manufacture of larger quantities of our product candidates for clinical development and potentially commercialization;
- maintain, expand and protect our intellectual property portfolio;
- acquire or in-license other drugs and technologies;
• hire and retain additional clinical, quality control and scientific personnel;
• build out new facilities or expand existing facilities to support our ongoing development activity; and
• add operational, financial and management information systems and personnel, including personnel to support our drug development, any future commercialization efforts and our compliance with our obligations as a public company.

As of December 31, 2017, we had cash, cash equivalents and investments of $50.8 million. We believe that our cash, cash equivalents and investments, will enable us to fund our operating expenses and capital expenditure requirements into the second half of 2019. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect.

Because of the numerous risks and uncertainties associated with the development of ALRN-6924 and other product candidates and programs and because the extent to which we may enter into collaborations with third parties for development of our product candidates is unknown, we are unable to estimate the timing and amounts of increased capital outlays and operating expenses associated with completing the research and development of our product candidates. Our future capital requirements will depend on many factors, including:

• the scope, progress, results and costs of our current and future clinical trials and additional preclinical research of ALRN-6924;
• the scope, progress, results and costs of drug discovery, preclinical research and clinical trials for our other product candidates;
• the number of future product candidates that we pursue and their development requirements;
• the costs, timing and outcome of regulatory review of our product candidates;
• our ability to establish and maintain collaborations on favorable terms, if at all;
• the success of any collaborations that we may enter into with third parties;
• the extent to which we acquire or invest in businesses, products and technologies, including entering into licensing or collaboration arrangements for product candidates, although we currently have no commitments or agreements to complete any such transactions;
• the costs and timing of future commercialization activities, including drug sales, marketing, manufacturing and distribution, for any of our product candidates for which we receive marketing approval, to the extent that such sales, marketing, manufacturing and distribution are not the responsibility of any collaborator that we may have at such time;
• the amount of revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;
• the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
• our headcount growth and associated costs, including costs of our planned build-out of new facilities, as we expand our business operations and our research and development activities; and
• the costs of operating as a public company.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval for any product candidates or generate revenue from the sale of any products for which we may obtain marketing approval. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of drugs that we do not expect to be commercially available for many years, if ever. Accordingly, we will need to obtain substantial additional funds to achieve our business objectives.
Adequate additional funds may not be available to us on acceptable terms, or at all. We do not currently have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest may be diluted, and the terms of these securities may include liquidation or other preferences and anti-dilution protections that could adversely affect your rights as a common stockholder. Additional debt or preferred equity financing, if available, may involve agreements that include restrictive covenants that may limit our ability to take specific actions, such as incurring debt, making capital expenditures or declaring dividends, which could adversely impact our ability to conduct our business, and may require the issuance of warrants, which could potentially dilute your ownership interest.

If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technology, future revenue streams, research programs, or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or collaborations, strategic alliances or licensing arrangements with third parties when needed, we may be required to delay, limit, reduce and/or terminate our product development programs or any future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

**Contractual Obligations and Commitments**

The following table summarizes our contractual obligations at December 31, 2017:

<table>
<thead>
<tr>
<th>Payments Due by Period</th>
<th>Total</th>
<th>Less Than 1 Year</th>
<th>1 - 3 Years</th>
<th>3 - 5 Years</th>
<th>More Than 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease commitments (1)</td>
<td>$202</td>
<td>$202</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>License agreement obligations (2)</td>
<td>$1,470</td>
<td>245</td>
<td>490</td>
<td>490</td>
<td>245</td>
</tr>
<tr>
<td>Total</td>
<td>$1,672</td>
<td>447</td>
<td>490</td>
<td>490</td>
<td>245</td>
</tr>
</tbody>
</table>

(1) Represents minimum payments due for our lease of office and laboratory space in Cambridge, Massachusetts under an operating lease agreement that expires in May 2018.

(2) Represents the aggregate minimum annual license maintenance fees payable under our existing licensing agreements with third parties. Amounts in the table reflect such fees payable through 2023, but we will be obligated to make such annual payments until the license agreements are terminated.

Under various licensing and related agreements to which we are a party, we may be required to make milestone payments and pay royalties and other amounts to third parties. We have not included any such contingent payment obligations in the table above as the amount, timing and likelihood of such payments are not known.

Under an amended and restated license agreement with President and Fellows of Harvard College, or Harvard, and Dana-Farber Cancer Institute, or DFCI, through December 31, 2017, we have paid aggregate milestone payments of $0.3 million related to achieving specified milestones for ALRN-6924 and another compound that we are not currently developing, and we have agreed to make additional milestone payments of up to $7.5 million and $7.65 million for each such product candidate, respectively, upon achieving additional specified clinical, regulatory and sales milestones. We have agreed to make milestone payments of up to $7.7 million per any additional licensed therapeutic product and up to $0.7 million per any additional licensed diagnostic product upon achieving specified clinical, regulatory and sales milestones with respect to each such product. In addition, we have agreed to pay royalties of low single-digit percentages on annual net sales of licensed products sold by us, our affiliates or our sublicensees. If we grant any sublicense rights under the license agreement, we have agreed to pay a percentage, up to the mid-twenties, of fees received by us in connection with our sublicense of the licensed products. In accordance with the terms of the agreement, our sublicense payment obligations may be subject to specified reductions, which have been and may potentially be substantial.
Under a license agreement with Materia, through December 31, 2017, we have paid aggregate milestone payments of $0.2 million related to achieving specified milestones for ALRN-6924 and another compound that we are not currently developing, and we have agreed to make additional milestone payments of up to $6.25 million and $6.35 million for each such product candidate, respectively, upon achieving additional specified clinical, regulatory and sales milestones. We have agreed to make milestone payments of up to $6.4 million upon achieving specified clinical, regulatory and sales milestones with respect to any other licensed product. In addition, we have also agreed to pay tiered royalties ranging in the low single-digit percentages on annual net sales of licensed products sold by us or our sublicensees.

In addition, under two other license agreements with third parties, we have agreed to make future milestone payments in a range of up to $0.4 million to $1.9 million per licensed product upon achieving specified clinical, regulatory and sales milestones. We have also agreed to pay royalties under each agreement ranging in the low single-digit percentages on annual net sales of each developed product. We do not currently utilize the technologies licensed under these two agreements in our clinical program.

We enter into contracts in the normal course of business with CROs and CMOs for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. These contracts do not contain any minimum purchase commitments and are cancelable by us upon prior notice of 30 days and, as a result, are not included in the table of contractual obligations above. Payments due upon cancelation consist only of payments for services provided and expenses incurred up to the date of cancelation.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recently Issued Accounting Pronouncements

We have reviewed all recently issued standards and have determined that, other than as disclosed in Note 2 to our financial statements appearing at the end of this Annual Report on Form 10-K, such standards will not have a material impact on our financial statements or do not otherwise apply to our operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related changes in interest rates. As of December 31, 2017, our cash equivalents consisted of money market accounts and investments in corporate notes and commercial paper that have contractual maturities of less than 90 days. As of December 31, 2017, our investments consisted of investments in corporate notes and commercial paper that have contractual maturities of less than one year. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the investments in our portfolio, an immediate 10% change in market interest rates would not have a material impact on the fair market value of our investment portfolio or on our financial position or results of operations.

Item 8. Financial Statements and Supplementary Data.

The financial statements required to be filed pursuant to this Item 8 are appended to this Annual Report on Form 10-K. An index of those financial statements is found in Item 15 of Part IV of this Annual Report on Form 10-K.


None
Item 9A. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2017.

Management’s Annual Report on Internal Control over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has occurred during the three months ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.
PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 will be included under the captions “Executive Officers,” “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement to be filed with the SEC with respect to our 2018 Annual Meeting of Stockholders, which is expected to be filed no later than 120 days after the end of our last fiscal year ended December 31, 2017 and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to our officers, including our principal executive, financial and accounting officers, and our directors and employees. We have posted the text of our Code of Business Conduct and Ethics under the “Investors & Media — Corporate Governance” section of our website, www.aileronrx.com. We intend to disclose on our website any amendments to, or waivers from, the Code of Business Conduct and Ethics that are required to be disclosed pursuant to the disclosure requirements of Item 5.05 of Form 8-K.

Item 11. Executive Compensation.

The information required by this Item 11 will be included under the captions “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in our definitive proxy statement to be filed with the SEC with respect to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.


The information required by this Item 12 will be included under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in our definitive proxy statement to be filed with the SEC with respect to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information required by this Item 13 will be included, as applicable, under the captions “Employment Agreements,” “Director Independence” and “Related Person Transactions” in our definitive proxy statement to be filed with the SEC with respect to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 will be included under the captions “Audit Fees and Services” and “Pre-Approval Policies and Procedures” in our definitive proxy statement to be filed with the SEC with respect to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.
PART IV


The following documents are filed as part of this Report:

(a) *Financial Statements*. The following documents are included in Part II, Item 8 of this Report and are incorporated by reference herein:

**INDEX TO FINANCIAL STATEMENTS**

- Report of Independent Registered Public Accounting Firm F-1
- Balance Sheets as of December 31, 2017 and 2016 F-2
- Statements of Operations for the Years ended December 31, 2017, 2016, and 2015 F-3
- Statements of Stockholders’ Equity for the Years ended December 31, 2017, 2016, and 2015 F-4
- Notes to Financial Statements F-6
(b) **Financial Statement Schedules.** Schedules have been omitted since they are either not required or not applicable or the information is otherwise included herein.

(c) **Exhibits.**

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
<th>Incorporation by Reference</th>
<th>Filed Herewith</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Restated Certificate of Incorporation of the Registrant</td>
<td>S-K 7/5/2017</td>
<td>3.1</td>
</tr>
<tr>
<td>3.2</td>
<td>Amended and Restated By-laws of the Registrant</td>
<td>S-K 7/5/2017</td>
<td>3.2</td>
</tr>
<tr>
<td>4.1</td>
<td>Specimen stock certificate evidencing shares of common stock</td>
<td>S-1^ 6/19/2017</td>
<td>4.1</td>
</tr>
<tr>
<td>4.2</td>
<td>Seventh Amended and Restated Investor Rights Agreement, dated as of December 23, 2016, among the Registrant and the other parties thereto</td>
<td>S-1^ 6/2/2017</td>
<td>4.2</td>
</tr>
<tr>
<td>10.1*</td>
<td>2006 Stock Incentive Plan, as amended</td>
<td>S-1^ 6/2/2017</td>
<td>10.1</td>
</tr>
<tr>
<td>10.2*</td>
<td>Form of Incentive Stock Option Agreement under 2006 Stock Incentive Plan</td>
<td>S-1^ 6/2/2017</td>
<td>10.2</td>
</tr>
<tr>
<td>10.3*</td>
<td>Form of Nonstatutory Stock Option Agreement under 2006 Stock Incentive Plan</td>
<td>S-1^ 6/2/2017</td>
<td>10.3</td>
</tr>
<tr>
<td>10.4*</td>
<td>2016 Stock Incentive Plan</td>
<td>S-1^ 6/2/2017</td>
<td>10.4</td>
</tr>
<tr>
<td>10.5*</td>
<td>Form of Incentive Stock Option Agreement under 2016 Stock Incentive Plan</td>
<td>S-1^ 6/2/2017</td>
<td>10.5</td>
</tr>
<tr>
<td>10.6*</td>
<td>Form of Nonstatutory Stock Option Agreement under 2016 Stock Incentive Plan</td>
<td>S-1^ 6/2/2017</td>
<td>10.6</td>
</tr>
<tr>
<td>10.7*</td>
<td>2017 Stock Incentive Plan</td>
<td>S-1^ 6/19/2017</td>
<td>10.8</td>
</tr>
<tr>
<td>10.8*</td>
<td>Form of Incentive Stock Option Agreement under 2017 Stock Incentive Plan</td>
<td>S-1^ 6/19/2017</td>
<td>10.9</td>
</tr>
<tr>
<td>10.9*</td>
<td>Form of Nonstatutory Stock Option Agreement under 2017 Stock Incentive Plan</td>
<td>S-1^ 6/19/2017</td>
<td>10.10</td>
</tr>
<tr>
<td>10.10*</td>
<td>2017 Employee Stock Purchase Plan</td>
<td>S-1^ 6/19/2017</td>
<td>10.11</td>
</tr>
<tr>
<td>10.11</td>
<td>Form of Director and Officer Indemnification Agreement</td>
<td>S-1^ 6/19/2017</td>
<td>10.12</td>
</tr>
<tr>
<td>10.13</td>
<td>Amended and Restated License Agreement, dated as of February 19, 2010, by and among the Registrant, President and Fellows of Harvard College and Dana-Farber Cancer Institute, Inc.</td>
<td>S-1^ 6/19/2017</td>
<td>10.14</td>
</tr>
<tr>
<td>10.15</td>
<td>Employment Agreement, dated as of March 1, 2008, between the Registrant and Joseph A. Yanchik III, as amended on December 31, 2008</td>
<td>S-1^ 6/2/2017</td>
<td>10.16</td>
</tr>
</tbody>
</table>
Offer Letter, dated as of March 25, 2015, between the Registrant and Kira A. Nelson

Employment Agreement, dated as of June 5, 2017, between the Registrant and Donald V. Dougherty

Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm

Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contract or compensatory plan.

† Confidential treatment has been requested and/or granted as to certain portions, which portions have been omitted and filed separately with the U.S. Securities and Exchange Commission.

^ SEC File No. 333-218474
**SIGNATURES**

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

Aileron Therapeutics, Inc.

Date: April 2, 2018

By: __________________________

/s/ Joseph A. Yanchik III

Joseph A. Yanchik III

President and Chief Executive Officer

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ Joseph A. Yanchik III</td>
<td>President, Chief Executive Officer and Director (principal executive officer)</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Joseph A. Yanchik III</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Donald V. Dougherty</td>
<td>Senior Vice President, Chief Financial Officer (principal financial officer)</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Donald V. Dougherty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Kira A. Nelson</td>
<td>Vice President, Finance and Operations (principal accounting officer)</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Kira A. Nelson</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Jeffrey A. Bailey</td>
<td>Chairman of the Board of Directors</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Jeffrey A. Bailey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Reinhard J. Ambros, Ph.D.</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Reinhard J. Ambros</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Scott B. Kapnick</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Scott B. Kapnick</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ John H. McArthur, Ph.D.</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>John H. McArthur, Ph.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Armen B. Shanafelt, Ph.D.</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Armen B. Shanafelt, Ph.D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Caleb Winder</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Caleb Winder</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/s/ Jodie P. Morrison</td>
<td>Director</td>
<td>April 2, 2018</td>
</tr>
<tr>
<td>Jodie P. Morrison</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Aileron Therapeutics, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Aileron Therapeutics, Inc. as of December 31, 2017 and 2016, and the related statements of operations and comprehensive loss, of redeemable convertible preferred stock and stockholders' equity (deficit), and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company will require additional financing to fund future operations. Management’s plans in regard to this matter are described in Note 1.

/s/PricewaterhouseCoopers LLP

Boston, Massachusetts
April 2, 2018

We have served as the Company’s auditor since 2009.
AILERON THERAPEUTICS, INC.
BALANCE SHEETS

(In thousands, except share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,863</td>
<td>$20,715</td>
</tr>
<tr>
<td>Investments</td>
<td>38,889</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>1,000</td>
<td>333</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>88</td>
<td>25</td>
</tr>
<tr>
<td>Total current assets</td>
<td>51,840</td>
<td>21,073</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>154</td>
<td>107</td>
</tr>
<tr>
<td>Restricted cash</td>
<td></td>
<td>63</td>
</tr>
<tr>
<td>Other assets</td>
<td>694</td>
<td>778</td>
</tr>
<tr>
<td>Total assets</td>
<td>$52,688</td>
<td>$22,021</td>
</tr>
<tr>
<td><strong>Liabilities, Redeemable Convertible Preferred Stock and Stockholders’ Equity (Deficit)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$1,600</td>
<td>$1,971</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities</td>
<td>3,291</td>
<td>2,100</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>4,891</td>
<td>4,071</td>
</tr>
<tr>
<td>Deferred rent</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,891</td>
<td>4,082</td>
</tr>
<tr>
<td>Commitments and contingencies (Note 12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable convertible preferred stock (Series A, A-1, B, C-1, C-2, D, D-1, E, E-1, E-2, E-3 and F), $0.01 par value; no shares and 151,557,293 shares authorized at December 31, 2017 and 2016, respectively; no shares and 105,631,019 shares issued and outstanding at December 31, 2017 and 2016, respectively</td>
<td></td>
<td>129,745</td>
</tr>
<tr>
<td><strong>Stockholders’ equity (deficit)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, $0.001 par value; 5,000,000 shares and no shares authorized at December 31, 2017 and 2016, respectively; no shares issued and outstanding at December 31, 2017 and 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $0.001 par value; 150,000,000 shares and 143,500,000 shares authorized at December 31, 2017 and 2016, respectively; 14,723,818 and 432,413 shares issued and outstanding at December 31, 2017 and 2016, respectively</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>184,761</td>
<td>2,536</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(33)</td>
<td>—</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(136,946)</td>
<td>(114,342)</td>
</tr>
<tr>
<td>Total stockholders’ equity (deficit)</td>
<td>47,797</td>
<td>(111,806)</td>
</tr>
<tr>
<td>Total liabilities, redeemable convertible preferred stock and stockholders’ equity (deficit)</td>
<td>$52,688</td>
<td>$22,021</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
AILERON THERAPEUTICS, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>Revenue</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>14,239</td>
<td>10,276</td>
<td>7,832</td>
</tr>
<tr>
<td>General and administrative</td>
<td>8,769</td>
<td>7,893</td>
<td>5,059</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>23,008</td>
<td>18,169</td>
<td>12,891</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(23,008)</td>
<td>(18,169)</td>
<td>(12,891)</td>
</tr>
<tr>
<td>Interest income</td>
<td>404</td>
<td>46</td>
<td>13</td>
</tr>
<tr>
<td>Net loss</td>
<td>(22,604)</td>
<td>(18,123)</td>
<td>(12,878)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>(41)</td>
<td>(75)</td>
<td>(71)</td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$ (22,645)</td>
<td>$ (18,198)</td>
<td>$ (12,949)</td>
</tr>
<tr>
<td>Net loss per share attributable to common stockholders—basic and diluted</td>
<td>$ (3.04)</td>
<td>$ (42.35)</td>
<td>$ (32.31)</td>
</tr>
<tr>
<td>Weighted average common shares outstanding—basic and diluted</td>
<td>7,443,078</td>
<td>429,686</td>
<td>400,713</td>
</tr>
<tr>
<td>Comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (22,604)</td>
<td>$ (18,123)</td>
<td>$ (12,878)</td>
</tr>
<tr>
<td>Other comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on investments, net of tax of $0</td>
<td>(33)</td>
<td>—</td>
<td>(4)</td>
</tr>
<tr>
<td>Total other comprehensive loss</td>
<td>(33)</td>
<td>—</td>
<td>(4)</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>$ (22,637)</td>
<td>$ (18,123)</td>
<td>$ (12,882)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
# Aileron Therapeutics, Inc.
## Statement of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

(In thousands, except share data)

<table>
<thead>
<tr>
<th>Date</th>
<th>Redeemable Convertible Preferred Stock</th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Accumulated Other Comprehensive Loss</th>
<th>Accumulated Deficit</th>
<th>Total Stockholders' Equity (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at December 31, 2014</td>
<td>Shares: 81,975,780 Amount: $97,610</td>
<td>Shares: 386,335 Par Value: $1,293</td>
<td>Shares: 4</td>
<td>$ (83,341)</td>
<td>$ (82,044)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exercise of stock options</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stock-based compensation expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td></td>
<td>71</td>
<td>(71)</td>
<td>(71)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unrealized loss on investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issuance of Series E-1 redeemable convertible preferred stock, net of issuance costs of $17</td>
<td></td>
<td>9,705,882 Par Value: $13,183</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issuance of Series F redeemable convertible preferred stock, net of issuance costs of $165</td>
<td></td>
<td>13,949,357 Par Value: $18,806</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exercise of stock options</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stock-based compensation expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td></td>
<td>75</td>
<td>(75)</td>
<td>(75)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at December 31, 2016</td>
<td>Shares: 105,631,019 Amount: $129,745</td>
<td>Shares: 432,413 Par Value: $2,536</td>
<td>Shares: 4</td>
<td>$ (114,342)</td>
<td>$ (111,806)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issuance of Series F redeemable convertible preferred stock, net of issuance costs of $32</td>
<td></td>
<td>483,501 Par Value: $626</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td></td>
<td>41</td>
<td>(41)</td>
<td>(41)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conversion of redeemable convertible preferred stock to common stock</td>
<td></td>
<td>(106,114,520)</td>
<td>(130,412)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issuance of common stock upon completion of initial public offering, net of commissions, underwriting discounts and offering costs</td>
<td></td>
<td>10,509,774 Par Value: $11</td>
<td>130,401</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exercise of stock options</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stock-based compensation expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unrealized loss on investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at December 31, 2017</td>
<td>Shares: $ Amount: 14,723,818</td>
<td>Shares: $15 Par Value: $184,761</td>
<td>Shares: (33)</td>
<td>$ (136,946)</td>
<td>$ 47,797</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
AILERON THERAPEUTICS, INC.
STATEMENTS OF CASH FLOWS

(In thousands)

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$(22,604)</td>
<td>$(18,123)</td>
<td>$(12,878)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used in operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>129</td>
<td>232</td>
<td>325</td>
</tr>
<tr>
<td>Net amortization of premiums and discounts on investments</td>
<td>(152)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>1,749</td>
<td>688</td>
<td>626</td>
</tr>
<tr>
<td>Change in deferred rent</td>
<td>(11)</td>
<td>(18)</td>
<td>(21)</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>—</td>
<td>12</td>
<td>—</td>
</tr>
<tr>
<td>Write-off of deferred offering costs</td>
<td>—</td>
<td>1,500</td>
<td>—</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(764)</td>
<td>(75)</td>
<td>(109)</td>
</tr>
<tr>
<td>Other assets</td>
<td>147</td>
<td>(778)</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(241)</td>
<td>1,215</td>
<td>(237)</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities</td>
<td>1,216</td>
<td>333</td>
<td>584</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(20,531)</td>
<td>(15,014)</td>
<td>(11,710)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(142)</td>
<td>(94)</td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(71,056)</td>
<td>(12,634)</td>
<td>(2,368)</td>
</tr>
<tr>
<td>Proceeds from sales or maturities of investments</td>
<td>32,286</td>
<td>12,634</td>
<td>12,378</td>
</tr>
<tr>
<td>Changes in restricted cash</td>
<td>—</td>
<td>(25)</td>
<td>713</td>
</tr>
<tr>
<td>Net cash provided by (used in) investing activities</td>
<td>(38,912)</td>
<td>(25)</td>
<td>10,629</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs</td>
<td>471</td>
<td>32,143</td>
<td>(91)</td>
</tr>
<tr>
<td>Proceeds from exercise of stock options</td>
<td>111</td>
<td>23</td>
<td>52</td>
</tr>
<tr>
<td>Proceeds from initial public offering of common stock, net of commissions and underwriting discounts</td>
<td>52,313</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments of initial public offering costs</td>
<td>(2,304)</td>
<td>(180)</td>
<td>(1,320)</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>50,591</td>
<td>31,986</td>
<td>(1,359)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>(8,852)</td>
<td>16,947</td>
<td>(2,440)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>20,715</td>
<td>3,768</td>
<td>6,208</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>$11,863</td>
<td>$20,715</td>
<td>$3,768</td>
</tr>
<tr>
<td><strong>Supplemental disclosure of non-cash financing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>$</td>
<td>41</td>
<td>$75</td>
</tr>
<tr>
<td>Issuance costs for redeemable convertible preferred stock included in accounts payable and accrued expenses</td>
<td>$</td>
<td>—</td>
<td>$154</td>
</tr>
<tr>
<td>Deferred offering costs included in accounts payable and accrued expenses</td>
<td>$</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
AILERON THERAPEUTICS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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

1. Nature of the Business and Basis of Presentation

Aileron Therapeutics, Inc. (“Aileron” or the “Company”) is a clinical-stage biopharmaceutical company that is focused on developing and commercializing a novel class of therapeutics called stapled peptides. The Company’s lead product candidate, ALRN-6924, targets the tumor suppressor p53 for the treatment of a wide variety of cancers. ALRN-6924 reactivates p53-mediated tumor suppression by targeting the two primary p53 suppressor proteins, MDMX and MDM2. ALRN-6924 was in multiple clinical trials as of December 31, 2017.

The Company is subject to risks common to companies in the biotechnology industry, including but not limited to, new technological innovations, protection of proprietary technology, dependence on key personnel, compliance with government regulations and the need to obtain additional financing. Product candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure, and extensive compliance-reporting capabilities.

The Company’s product candidates are in development. There can be no assurance that the Company’s research and development will be successfully completed, that adequate protection for the Company’s intellectual property will be obtained, that any products developed will obtain necessary governmental regulatory approval or that any approved products will be commercially viable. Even if the Company’s drug development efforts are successful, it is uncertain when, if ever, the Company will generate significant revenue from product sales. The Company operates in an environment of rapid change in technology and substantial competition from pharmaceutical and biotechnology companies. In addition, the Company is dependent upon the services of its key employees and consultants.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Reverse Stock Split

On June 16, 2017, in connection with its initial public offering (“IPO”), the Company effected a one-for-9.937 reverse stock split of its issued and outstanding shares of common stock and a proportional adjustment to the existing conversion ratios for each series of the Company’s redeemable convertible preferred stock (see Note 7). Accordingly, all common share and per share amounts for all periods presented in the accompanying financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this reverse stock split and the associated adjustment of the preferred stock conversion ratios.

Initial Public Offering

On June 28, 2017, the Company’s registration statement on Form S-1 relating to its IPO was declared effective by the Securities and Exchange Commission (“SEC”). In the IPO, which closed on July 5, 2017, the Company issued and sold 3,750,000 shares of common stock at a public offering price of $15.00 per share for net proceeds of $50,009 after deducting underwriting discounts and commissions of $3,937 and offering expenses of $2,304. Upon the closing of the IPO, all 106,114,520 shares of redeemable convertible preferred stock then outstanding converted into an aggregate of 10,509,774 common shares.

Liquidity

In accordance with Accounting Standards Update (“ASU”) No. 2014-15, Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Subtopic 205-40), management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the company’s ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation
initially does not take into consideration the potential mitigating effect of management’s plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the company’s ability to continue as a going concern. The mitigating effect of management’s plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been approved before the date that the financial statements are issued.

The Company’s financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities in the ordinary course of business. Through December 31, 2017, the Company has funded its operations with net proceeds of $50,009 from its IPO, $131,211 from sales of preferred stock and $34,910 from a collaboration agreement. As of December 31, 2017, the Company had cash, cash equivalents and investments of $50,752. The Company has incurred losses and negative cash flows from operations and had an accumulated deficit of $136,946 as of December 31, 2017. The Company expects to continue to generate losses for the foreseeable future.

As of April 2, 2018, the date of issuance of these financial statements, the Company expects that its cash, cash equivalents and investments of $50,752 as of December 31, 2017 will be sufficient to fund its operating expenses and capital expenditure requirements through at least the next twelve months. The future viability of the Company is dependent on its ability to raise additional capital to finance its operations. Although the Company has been successful in raising capital in the past, there is no assurance that it will be successful in obtaining such additional financing on terms acceptable to the Company, if at all.

To execute its business plans, the Company will need substantial funding to support its continuing operations and pursue its growth strategy. Until such time as the Company can generate significant revenue from product sales, if ever, it expects to finance its operations through the sale of common stock in public offering and/or private placements, debt financings or other capital sources, including collaborations with other companies or other strategic transactions. The Company may not be able to obtain financing on acceptable terms or at all. The terms of any financing may adversely affect the holdings or the rights of the Company’s stockholders. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate some or all of its research and development programs, product portfolio expansion plans or commercialization efforts, which could adversely affect its business prospects.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, the accrual of research and development expenses and the valuation of common stock and stock-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from the Company’s estimates.

Cash Equivalents

The Company considers all short-term, highly liquid investments with original maturities of 90 days or less at acquisition date to be cash equivalents. Cash equivalents, which consist of money market accounts, are stated at fair value.
**Restricted Cash**

As of December 31, 2017, current restricted cash of $88 consisted of $25 of cash deposited in a separate restricted bank account as a security deposit for the Company’s corporate credit cards and $63 of cash deposited in a separate restricted bank account as a security deposit for the lease of the Company’s facilities. As of December 31, 2016, current restricted cash consisted of $25 of cash deposited in a separate restricted bank account as a security deposit for the Company’s corporate credit cards and non-current restricted cash consisted of $63 of cash deposited in a separate restricted bank account as a security deposit for the lease of the Company’s facilities.

**Investments**

The Company classifies its available-for-sale investments as current assets on the balance sheet if they mature within one year from the balance sheet date.

The Company classifies all of its investments as available-for-sale securities. The Company’s investments are measured and reported at fair value using quoted prices in active markets for similar securities or using other inputs that are observable or can be corroborated by observable market data. Unrealized gains and losses on available-for-sale securities are reported as accumulated other comprehensive income (loss), which is a separate component of stockholders’ equity (deficit). The cost of securities sold is determined on a specific identification basis, and realized gains and losses are included in other income (expense) within the statements of operations and comprehensive loss.

The Company evaluates its investments with unrealized losses for other-than-temporary impairment. When assessing investments for other-than-temporary declines in value, the Company considers such factors as, among other things, how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the Company’s ability and intent to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value and market conditions in general. If any adjustment to fair value reflects a decline in the value of the investment that the Company considers to be “other than temporary”, the Company reduces the investment to fair value through a charge to the statements of operations and comprehensive loss. No such adjustments were necessary during the periods presented.

**Concentration of Credit Risk and of Significant Suppliers**

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents and investments. From time to time, the Company has maintained all of its cash, cash equivalents and investment balances at three accredited financial institutions, in amounts that exceed federally insured limits. The Company generally invests its excess cash in money market funds, commercial paper and corporate notes that are subject to minimal credit and market risk. Management has established guidelines relative to credit ratings and maturities intended to safeguard principal balances and maintain liquidity. The investment portfolio is maintained in accordance with the Company’s investment policy, which defines allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer.

The Company is dependent on third-party manufacturers to supply products for research and development activities of its programs, including preclinical and clinical testing. In particular, the Company relies and expects to continue to rely on a small number of manufacturers to supply it with its requirements for the active pharmaceutical ingredients and formulated drugs related to these programs. These programs could be adversely affected by a significant interruption in the supply of active pharmaceutical ingredients and formulated drugs.
**Fair Value Measurements**

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable.

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company’s cash equivalents and investments are carried at fair value, determined according to the fair value hierarchy described above (see Note 3). The carrying values of the Company’s accounts payable and accrued expenses approximate their fair value due to the short-term nature of these liabilities.

**Deferred Offering Costs**

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in stockholders’ equity (deficit) as a reduction of additional paid-in capital generated as a result of the offering. Should the planned equity financing be abandoned, the deferred offering costs would be expensed immediately as a charge to operating expenses in the statement of operations and comprehensive loss.

The Company’s IPO was completed in July 2017 and previously deferred offering costs of $2,304 were recorded as a reduction to stockholder’s equity. As of December 31, 2017 and 2016, the Company did not have any deferred offering costs recorded. As of December 31, 2015, the Company had recorded $1,500 of deferred offering costs in contemplation of a probable 2016 equity financing. The Company determined in June 2016 that the equity financing was no longer probable of being consummated and, at that time, recorded general and administrative expense of $1,500 in the statement of operations and comprehensive loss to write off the deferred offering costs that had been capitalized.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense is recognized using the straight-line method over the following estimated useful lives:

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

Expenditures for repairs and maintenance of assets are charged to expense as incurred. Upon retirement or sale, the cost and related accumulated depreciation and amortization of assets disposed of are removed from the accounts and any resulting gain or loss is included in the statements of operations and comprehensive loss.
Impairment of Long-Lived Assets

Long-lived assets consist of property and equipment. Long-lived assets to be held and used are tested for recoverability whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends and significant changes or planned changes in the use of the assets. If an impairment review is performed to evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying amount. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its fair value, determined based on discounted cash flows. To date, the Company has not recorded any impairment losses on long-lived assets.

Research and Development Costs

Research and development expenditures are expensed as incurred. Research and development expenses are comprised of salaries, stock-based compensation and benefits of employees, third-party license fees and other operational costs related to the Company’s research and development activities, including allocated facility-related expenses and external costs of outside vendors engaged to conduct both preclinical studies and clinical trials.

Research Contract Costs and Accruals

The Company has entered into various research and development contracts with research institutions and other companies. These agreements are cancelable, and related payments are recorded as research and development expenses as incurred. The Company records accruals for estimated ongoing research costs. This process involves reviewing open contracts and purchase orders, communicating with personnel to identify services that have been performed and estimating level of service performed and the associated costs incurred for the services for which the Company has not yet been invoiced. Significant judgment and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from the Company’s estimates. The Company’s historical accrual estimates have not been materially different from the actual costs.

Patent Costs

All patent-related costs incurred in connection with filing and prosecuting patent applications are expensed as incurred due to the uncertainty about the recovery of the expenditure. Amounts incurred are classified as general and administrative expenses.

Accounting for Stock-Based Compensation

The Company measures all stock options and other stock-based awards granted to employees and directors based on the fair value on the date of the grant and recognizes compensation expense of those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The Company applies the straight-line method of expense recognition to all awards with only service-based vesting conditions and applies the graded vesting method to all awards with performance-based vesting conditions or both service-based and performance-based vesting conditions.

For stock-based awards granted to non-employees, compensation expense is recognized over the period during which services are rendered by such non-employees until completed. At the end of each financial reporting period prior to the completion of the service, the fair value of these awards is remeasured using the then-current fair value of the Company’s common stock and updated assumption inputs in the Black-Scholes option-pricing model. The Company classifies stock-based compensation expense in its statement of operations and comprehensive loss in the same manner in which the award recipient’s payroll costs are classified or in which the award recipient’s service payments are classified.
The Company recognizes compensation expense for only the portion of awards that are expected to vest. In developing a forfeiture rate estimate, the Company has considered its historical experience to estimate pre-vesting forfeitures for awards with service-based vesting conditions. The impact of a forfeiture rate adjustment will be recognized in full in the period of adjustment, and if the actual forfeiture rate is materially different from the Company’s estimate, the Company may be required to record adjustments to stock-based compensation expense in future periods.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company historically has been a private company and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. For options with service-based vesting conditions, the expected term of the Company’s stock options has been determined utilizing the “simplified” method for awards that qualify as “plain-vanilla” options. The expected term of stock options granted to non-employees is equal to the contractual term of the option award. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or in the Company’s tax returns. Deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in the provision for income taxes. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes, based upon the weight of available evidence, that it is more likely than not that all or a portion of the deferred tax assets will not be realized, a valuation allowance is established through a charge to income tax expense. Potential for recovery of deferred tax assets is evaluated by estimating the future taxable profits expected and considering prudent and feasible tax planning strategies.

The Company accounts for uncertainty in income taxes recognized in the financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

Segment Data

The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions. The Company’s singular focus is on developing a novel class of therapeutics for the treatment of cancer and other diseases. All of the Company’s tangible assets are held in the United States.

Comprehensive Loss

Comprehensive loss includes net loss as well as other changes in stockholders’ equity (deficit) that result from transactions and economic events other than those with stockholders. The Company’s only element of other comprehensive loss in all periods presented was unrealized gains (losses) on available-for-sale investments.
Net Income (Loss) per Share

The Company follows the two-class method when computing net income (loss) per share as the Company has issued shares that meet the definition of participating securities. The two-class method determines net income (loss) per share for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to common stockholders for the period to be allocated between common and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

Basic net income (loss) per share attributable to common stockholders is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share attributable to common stockholders is computed by adjusting income (loss) per share attributable to common stockholders to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing the diluted net income (loss) attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period, including potential dilutive common shares. For purpose of this calculation, outstanding options to purchase common stock and shares of redeemable convertible preferred stock are considered potential dilutive common shares.

The Company’s redeemable convertible preferred stock contractually entitled the holders of such shares to participate in dividends but contractually did not require the holders of such stock to participate in losses of the Company. Accordingly, in periods in which the Company reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is antidilutive.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The FASB has continued to issue accounting standards updates to clarify and provide implementation guidance related to Revenue from Contracts with Customers, including ASU 2016-08, Revenue from Contract with Customers: Principal versus Agent Considerations, ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These amendments address a number of areas, including the entity’s identification of its performance obligations in a contract, collectability, non-cash consideration, presentation of sales tax and an entity’s evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. These new standards will be effective for the Company beginning January 1, 2018. The adoption of these standards is not expected to have an impact on the Company’s financial position, results of operations or cash flows as the Company does not currently have any revenue-generating arrangements.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees or lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 (Accounting Standards Codification (“ASC”) Topic 842) supersedes the previous leases standard, ASC 840, Leases. The standard is effective for public entities for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-02 will have on its financial statements.
In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (“ASU 2016-09”), which amends ASC Topic 718, Compensation—Stock Compensation (“ASC Topic 718”). The new standard identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statements of cash flows. The standard is effective for annual periods beginning after December 15, 2016 and for interim periods within those fiscal years. The Company adopted ASU 2016-09 on the required effective date of January 1, 2017. The Company elected to maintain its existing policy to estimate forfeitures when determining periodic stock-based compensation expense. The adoption of the other provisions of ASU 2016-09 had no impact on the Company’s financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). This guidance addresses the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2017 and for interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-15 will have on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash (“ASU 2016-18”). The new standard requires restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The new standard is effective for annual periods beginning after December 15, 2017 and for interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation (“ASU 2017-09”), Scope of Modification Accounting which amends ASC Topic 718. This new standard clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The standard is effective for all companies for annual periods beginning on or after December 15, 2017 and for interim periods within those fiscal years. The Company is currently evaluating the potential impact that the adoption of ASU 2017-09 will have on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company’s financial statements upon adoption.

### 3. Fair Value of Financial Assets

The following tables present information about the Company’s assets that are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values:

<table>
<thead>
<tr>
<th>Fair Value Measurements as of December 31, 2017 using:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Cash equivalents:</strong></td>
</tr>
<tr>
<td>Money market funds</td>
</tr>
<tr>
<td>Investments:</td>
</tr>
<tr>
<td>Corporate notes</td>
</tr>
<tr>
<td>Commercial paper</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
As of December 31, 2017, the Company’s cash equivalents and investments were invested in money market funds, corporate notes and commercial paper and were valued based on Level 1 and Level 2 inputs. As of December 31, 2016, the Company’s cash equivalents were invested in money market funds and were valued based on Level 1 inputs. In determining the fair value of its corporate notes and commercial paper at each date presented above, the Company relied on quoted prices for similar securities in active markets or using other inputs that are observable or can be corroborated by observable market data. The Company’s cash equivalents have original maturities of less than 90 days from the date of purchase. All available-for-sale investments have contractual maturities of less than one year. During the years ended December 31, 2017 and 2016, there were no transfers between Level 1, Level 2 and Level 3.

4. Investments

As of December 31, 2016, the Company had no available-for-sale investments. As of December 31, 2017, the fair value of available-for-sale investments by type of security was as follows:

<table>
<thead>
<tr>
<th>Investments:</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized Cost</td>
</tr>
<tr>
<td>Corporate notes</td>
<td>$25,733</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>$13,189</td>
</tr>
<tr>
<td></td>
<td>$38,922</td>
</tr>
</tbody>
</table>

5. Property and Equipment, Net

Property and equipment, net consisted of the following:

<table>
<thead>
<tr>
<th>Property and equipment, net</th>
<th>December 31, 2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laboratory equipment</td>
<td>$1,308</td>
<td>$1,240</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>559</td>
<td>559</td>
</tr>
<tr>
<td>Computer equipment and software</td>
<td>195</td>
<td>331</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>$2,133</td>
<td>2,201</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and amortization</td>
<td>$(1,979)</td>
<td>$(2,094)</td>
</tr>
<tr>
<td></td>
<td>$154</td>
<td>107</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense for the years ended December 31, 2017, 2016 and 2015 was $95, $232 and $325, respectively. During the year ended December 31, 2017, fully depreciated assets with a cost of $210 were disposed of for no proceeds, resulting in neither a gain nor a loss and during the year ended December 31, 2016, assets with a cost of $12 were disposed of for no proceeds, resulting in a loss of $12. No assets were disposed of during the year ended December 31, 2015.
6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll and payroll-related costs</td>
<td>$1,120</td>
<td>$899</td>
</tr>
<tr>
<td>External research and development services</td>
<td>1,284</td>
<td>723</td>
</tr>
<tr>
<td>Professional fees</td>
<td>536</td>
<td>322</td>
</tr>
<tr>
<td>Other</td>
<td>351</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td>$3,291</td>
<td>$2,100</td>
</tr>
</tbody>
</table>

7. Redeemable Convertible Preferred Stock

As of December 31, 2017 and 31, 2016, the Company’s certificate of incorporation, as amended and restated, authorized the Company to issue no shares and 151,557,293 shares of $0.01 par value redeemable convertible preferred stock, respectively.

The Company previously had issued Series A, Series A-1, Series B, Series C-1 and Series C-2 redeemable convertible preferred stock (collectively, the “Junior Preferred Stock”) and Series D, Series D-1, Series E, Series E-1, Series E-2, Series E-3 and Series F redeemable convertible preferred stock (collectively, the “Senior Preferred Stock”), together the “Redeemable Preferred Stock”. The Redeemable Preferred Stock is classified outside of stockholders’ equity (deficit) because the shares contain redemption features that are not solely within the control of the Company.

In January 2016, the Company issued 9,705,882 shares of Series E-1 preferred stock at a price of $1.36 per share, resulting in proceeds of $13,183, net of issuance costs of $17.

In December 2016, the Company issued 13,949,357 shares of Series F redeemable convertible preferred stock (the “Series F preferred stock”) at a price of $1.36 per share, resulting in proceeds of $18,806, net of issuance costs of $165. As part of the Series F preferred stock purchase agreement, the investors agreed to purchase an additional 8,192,477 shares of Series F preferred stock at a price of $1.36 per share upon the Company achieving specified clinical milestones (the “second tranche closing”) for an aggregate purchase price of $11,142. In February 2017, the Company amended the Series F preferred stock purchase agreement to permit the sale of up to 758,458 additional shares of Series F preferred stock. In February 2017, pursuant to the amended Series F preferred stock purchase agreement, the Company issued 483,501 shares of Series F preferred stock at a price of $1.36 per share, resulting in proceeds of $626, net of issuance costs of $32. The purchasers of Series F preferred stock in this February 2017 closing agreed to purchase an additional 274,957 shares of Series F preferred stock at a price of $1.36 per share in the second tranche closing, which increased the aggregate number of shares of Series F preferred stock to be purchased in the second tranche closing to 8,467,434 shares for an aggregate purchase price of $11,516. The Company determined that the future tranche obligations of the Series F preferred stock purchase agreement, as amended, did not meet the definition of a freestanding financial instrument because, while separately exercisable, they were not legally detachable. Further, the Company determined that the embedded future tranche obligations did not require bifurcation for accounting purposes as they are clearly and closely related to the economic characteristics and risks of the initial preferred shares and would not qualify as a derivative on a standalone basis.

In December 2016, pursuant to the Series F preferred stock purchase agreement, holders of 8,927,582 shares of Series E redeemable convertible preferred stock (the “Series E preferred stock”) that participated in the Series F preferred stock financing elected to convert their shares of Series E preferred stock into 8,927,582 shares of Series E-2 preferred stock, and holders of 16,567,108 shares of Series E-1 preferred stock that participated in the Series F preferred stock financing elected to convert their shares of Series E-1 preferred stock into 16,567,108 shares of Series E-3 redeemable convertible preferred stock (the “Series E-3 preferred stock”). Holders of Series E preferred stock and Series E-1 preferred stock that did not participate in the Series F preferred stock financing were not entitled to convert their shares into Series E-2 preferred stock and Series E-3 preferred stock, respectively. In February 2017, pursuant to the amended Series F preferred stock purchase agreement, holders of 4,411,765 shares of Series E-1 preferred stock that participated in the February 2017 closing elected to convert their shares of Series E-1 preferred stock into 4,411,765 shares of Series E-3 preferred stock.
In February 2017, the Company issued 483,501 shares of Series F preferred stock at a price of $1.36 per share, resulting in proceeds of $626, net of issuance costs of $32.

The Company determined that the conversion of shares of preferred stock that occurred in December 2016 and February 2017 represented modifications of these securities for accounting purposes; however, the modifications did not result in the recognition of a deemed dividend for accounting purposes because the modifications did not result in a transfer of value from common stockholders to preferred stockholders.

Pursuant to the terms of the amended Series F preferred stock purchase agreement, if the second tranche closing did not occur prior to the closing of the Company’s initial public offering of common stock, then, immediately prior to such closing, the purchasers of the Series F preferred stock would be required to purchase a number of shares of the Company’s common stock equal to $11,516 divided by the price per share paid by the public in the initial public offering in a concurrent private offering. This requirement to purchase shares immediately prior to the closing of the Company’s initial public offering could be waived in whole or in part by the Company’s board of directors. As of December 31, 2016, the specified clinical milestones had not been achieved and the second tranche closing had not occurred.

On June 15, 2017, the Company’s board of directors waived in whole, effective immediately prior to the closing of the Company’s IPO, the requirement of the purchasers of Series F preferred stock to purchase shares of the Company’s common stock in a concurrent private offering in connection with the Company’s initial public offering.

Upon the completion of the Company’s IPO on July 5, 2017, all shares of the Redeemable Preferred Stock converted into an aggregate of 10,509,774 shares of common stock. As of December 31, 2017, there were no shares of Redeemable Preferred Stock authorized, issued or outstanding.

Redeemable Preferred Stock consisted of the following as of:

<table>
<thead>
<tr>
<th>Preferred Shares Authorized</th>
<th>Preferred Shares Issued and Outstanding</th>
<th>Carrying Value</th>
<th>Liquidation Preference</th>
<th>Common Stock Issuable Upon Conversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A preferred stock</td>
<td>1,250,000</td>
<td>1,250,000</td>
<td>$1,250</td>
<td>12,579</td>
</tr>
<tr>
<td>Series A-1 preferred stock</td>
<td>615,384</td>
<td>615,384</td>
<td>800</td>
<td>6,192</td>
</tr>
<tr>
<td>Series B preferred stock</td>
<td>3,706,056</td>
<td>3,706,056</td>
<td>1,506</td>
<td>372,955</td>
</tr>
<tr>
<td>Series C-1 preferred stock</td>
<td>5,934,050</td>
<td>5,934,050</td>
<td>6,997</td>
<td>597,167</td>
</tr>
<tr>
<td>Series C-2 preferred stock</td>
<td>8,689,144</td>
<td>8,689,144</td>
<td>10,248</td>
<td>874,423</td>
</tr>
<tr>
<td>Series D preferred stock</td>
<td>34,142,865</td>
<td>34,142,865</td>
<td>40,263</td>
<td>3,435,932</td>
</tr>
<tr>
<td>Series D-1 preferred stock</td>
<td>363,636</td>
<td>363,636</td>
<td>2,000</td>
<td>36,594</td>
</tr>
<tr>
<td>Series E preferred stock</td>
<td>12,715,822</td>
<td>3,788,240</td>
<td>4,453</td>
<td>381,225</td>
</tr>
<tr>
<td>Series E-1 preferred stock</td>
<td>24,264,705</td>
<td>7,697,597</td>
<td>10,446</td>
<td>774,639</td>
</tr>
<tr>
<td>Series E-2 preferred stock</td>
<td>9,226,082</td>
<td>8,927,582</td>
<td>10,493</td>
<td>898,418</td>
</tr>
<tr>
<td>Series E-3 preferred stock</td>
<td>21,237,785</td>
<td>16,567,108</td>
<td>22,483</td>
<td>1,667,214</td>
</tr>
<tr>
<td>Series F preferred stock</td>
<td>29,411,764</td>
<td>13,949,357</td>
<td>18,806</td>
<td>1,403,779</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>151,557,293</strong></td>
<td><strong>105,631,019</strong></td>
<td><strong>$129,745</strong></td>
<td><strong>$130,053</strong></td>
</tr>
</tbody>
</table>

The holders of the Redeemable Preferred Stock had the following rights and preferences prior to conversion:

**Voting Rights**

The holders of the Redeemable Preferred Stock were entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for a vote and had the right to vote the number of shares equal to the number of whole shares of common stock into which such holders of Redeemable Preferred Stock could convert on the record date for determination of stockholders entitled to vote. In addition, holders of the Senior Preferred Stock, voting as a single class, were entitled to elect three directors of the Company. The holders of the Junior Preferred Stock, voting as a single class, were entitled to elect two directors of the Company.

F-16
Dividends

The holders of the Redeemable Preferred Stock, in order of preference, were entitled to receive noncumulative dividends when and if declared by the Company’s board of directors. The Company could not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Company unless the holders of the Redeemable Preferred Stock then outstanding first received, or simultaneously received, a dividend on each outstanding share of Redeemable Preferred Stock in an amount at least equal to the greater of (i) $0.08 per share for Series A redeemable convertible preferred stock (“Series A preferred stock”), $0.104 per share for Series A-1 redeemable convertible preferred stock (“Series A-1 preferred stock”), $0.03251 per share for Series B redeemable convertible preferred stock (“Series B preferred stock”), $0.09437 per share for Series C-1 redeemable convertible preferred stock (“Series C-1 preferred stock”), $0.09437 per share for Series C-2 redeemable convertible preferred stock (“Series C-2 preferred stock”), $0.09437 per share for Series D redeemable convertible preferred stock (“Series D preferred stock”), Series E preferred stock and Series E-2 preferred stock, $0.40 per share for Series D-1 redeemable convertible preferred stock (“Series D-1 preferred stock”), $0.1088 per share for Series E-1 preferred stock, Series E-3 preferred stock and Series F preferred stock and (ii) (A) in the case of a dividend on common stock or any class or series of stock that is convertible into common stock, that dividend per share of Redeemable Preferred Stock as would equal the product of (1) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into common stock and (2) the number of shares of common stock issuable upon conversion of each share of Redeemable Preferred Stock, or (B) in the case of a dividend on any class or series that is not convertible into common stock, at a rate per share of Redeemable Preferred Stock determined by (1) dividing the amount of the dividend payable on each share of such class or series of capital stock by the Original Issue Price (as defined below) of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination of or other similar recapitalization affecting such shares) and (2) multiplying such fraction by an amount equal to the Original Issue Price of each series of Redeemable Preferred Stock. If the Company declared, paid or set aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Company, the dividend payable to the holders of the Redeemable Preferred Stock would be calculated based upon the dividend on the class or series of capital stock that would result in the highest Redeemable Preferred Stock dividend. Stockholders were not entitled to any accruing dividends. No dividends have been declared or paid during the year ended December 31, 2017 or 2016.

The Original Issue Price per share was $1.00 for Series A, $1.30 for Series A-1, $0.4064 for Series B, $1.179633 for Series C-1, $1.179633 for Series C-2, $1.179633 for Series D, $5.50 for Series D-1, $1.179633 for Series E, $1.36 for Series E-1, $1.179633 for Series E-2, $1.36 for Series E-3 and $1.36 for Series F preferred stock, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Redeemable Preferred Stock.

Liquidation Preference

In the event of any liquidation event, voluntary or involuntary, dissolution or winding up of the Company or Deemed Liquidation Event (as defined below), the holders of the then outstanding Series F preferred stock were entitled to receive, prior and in preference to any distributions to the holders of the common stock and other preferred stock, $1.36 per share, plus any dividends declared but unpaid on the Series F preferred stock.

After the payment of all preferential amounts to the holders of Series F preferred stock, then, to the extent available, the holders of the Series E-2 and Series E-3 preferred stock would have been paid $1.179633 per share and $1.36 per share, respectively, plus any dividends declared but unpaid on the Series E-2 and Series E-3 preferred stock, prior and in preference to any distributions to the holders of common stock, Series E, Series E-1, Series D and Series D-1 preferred stock and Junior Preferred Stock.

After the payment of all preferential amounts to the holders of Series E-2 and Series E-3 preferred stock, then, to the extent available, the holders of the Series E preferred stock and the Series E-1 preferred stock would have been entitled to receive, prior and in preference to any distributions to the holders of the common stock and other preferred stock, $1.179633 per share and $1.36 per share, respectively, plus any dividends declared but unpaid on the Series E and Series E-1 preferred stock, prior and in preference to any distributions to the holders of common stock, Series D and Series D-1 preferred stock and Junior Preferred Stock.
After the payment of all preferential amounts to the holders of Series E and Series E-1 preferred stock, then, to the extent available, the holders of the Series D and Series D-1 preferred stock would have been paid $1.179633 per share and $5.50 per share, respectively, plus any dividends declared but unpaid on the Series D and Series D-1 preferred stock, prior and in preference to any distributions to the holders of common stock and Junior Preferred Stock.

After the payment of all preferential amounts to the holders of the Senior Preferred Stock, then, to the extent available, the holders of Series C-1 and Series C-2 preferred stock would have been paid $1.179633 per share and $5.50 per share, respectively, plus any dividends declared but unpaid on the Series C-1 and Series C-2 preferred stock, prior and in preference to any distributions to the holders of common stock and Junior Preferred Stock.

After the payment of all preferential amounts to the holders of the Senior Preferred Stock, Series C-1 and Series C-2 preferred stock, then, to the extent available, the holders of Series B preferred stock would have been paid $0.4064 per share plus any dividends declared but unpaid on the Series B preferred stock, prior and in preference to any distributions to the holders of common stock and Series A and Series A-1 preferred stock.

After the payment of all preferential amounts to the holders of the Senior Preferred Stock, Series C-1, Series C-2 and Series B preferred stock, then, to the extent available, the holders of Series A and Series A-1 preferred stock would have been paid $1.00 and $1.30 per share, respectively, plus any dividends declared but unpaid on the Series A and A-1 preferred stock, prior and in preference to any distributions to the holders of common stock.

After payments have been made in full to the holders of the Redeemable Preferred Stock, then, to the extent available, the remaining amounts would have been distributed among the holders of the shares of preferred stock and common stock, pro rata based on the number of shares held by each holder, treating for this purpose all such securities as if they had been converted to common stock immediately prior to such dissolution, liquidation or winding up of the Company.

Unless 55% of the holders of the Senior Preferred Stock, voting together as a single class, elected otherwise, a Deemed Liquidation Event would have included a merger or consolidation (other than one in which stockholders of the Company own a majority by voting power of the outstanding shares of the surviving or acquiring corporation) or a sale, lease, transfer, exclusive license or other disposition of substantially all of the assets of the Company.

Conversion

Each share of Redeemable Preferred Stock was convertible, at the option of the holder, at any time, and without the payment of additional consideration, or would have automatically converted into shares of common stock at the applicable conversion ratio then in effect (i) upon the closing of a firm commitment underwritten public offering at a price per share to the public, which when multiplied by the total number of shares of common stock then outstanding or then issuable upon conversion of outstanding Redeemable Preferred Stock immediately prior to the consummation of the offering, exceeded $150,000 and with at least $50,000 of gross proceeds to the Company or (ii) upon the vote or written consent of the holders of at least 55% of the outstanding shares of the Senior Preferred Stock, voting together as a single class. All shares that were required to be surrendered per the provisions above would have been deemed to have been retired and canceled and would not be reissued as shares of preferred stock.

The conversion ratio of each series of Redeemable Preferred Stock was determined by dividing the Original Issue Price of each series of preferred stock by the Conversion Price of each series, except for Series D-1 preferred stock. The conversion ratio for Series D-1 was determined by dividing $11.722013 by the Series D Conversion Price. The Conversion Price was $99.37 for Series A, $129.181 for Series A-1, $4.038397 for Series B, $11.722013 for Series C-1, Series C-2, Series D, Series E and Series E-2, and $13.51432 for Series E-1, Series E-3 and Series F. The Conversion Price was subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization and other adjustments as set forth in the Company’s certificate of incorporation, as amended and restated.
Redemption Rights

At the written election of at least 55% of the holders of the Senior Preferred Stock, voting together as a single class, the shares of Redeemable Preferred Stock outstanding were redeemable, at any time on or after December 22, 2020, in three equal annual installments commencing 60 days after receipt of the required vote, in an amount equal to the Original Issue Price per share of each series of Redeemable Preferred Stock plus all declared but unpaid dividends thereon.

8. Preferred Stock

On July 5, 2017, in connection with the closing of the Company’s IPO, the Company filed its amended and restated certificate of incorporation, which authorizes the Company to issue up to 5,000,000 shares of preferred stock, $0.001 par value per share. As of December 31, 2017 and 2016, the Company had no shares of preferred stock issued or outstanding. The preferred stock was classified under stockholders’ equity as of December 31, 2017.

9. Common Stock

As of December 31, 2016, the Company’s certificate of incorporation, as amended and restated, authorized the Company to issue up to 143,500,000 shares of $0.001 par value common stock. On July 5, 2017, the Company filed the amended and restated certificate of incorporation which increased the authorized number of shares of common stock to 150,000,000 shares.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company’s stockholders. Common stockholders are entitled to receive dividends, as may be declared by the Company’s board of directors, if any, subject to the preferential dividend rights of the preferred stock. As of December 31, 2017 and 2016, no dividends had been declared.

As of December 31, 2017, the Company had reserved 3,114,279 shares for the exercise of outstanding stock options and grant of future awards under the Company’s stock incentive plans (see Note 10).

10. Stock-Based Awards

2017 Stock Incentive Plan

The Company’s 2017 Stock Incentive Plan (the “2017 Plan”) was approved by the Company’s stockholders on June 16, 2017 and became effective on June 28, 2017. Under the 2017 Plan, the Company may grant incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, awards of restricted stock units and other stock-based awards. The Company’s employees, officers, directors, consultants and advisors are eligible to receive awards under the 2017 Plan; however, incentive stock options may only be granted to employees. The 2017 Plan is administered by the board of directors or, at the discretion of the board of directors, by a committee of the board. The number of shares of common stock covered by options and the date those options become exercisable, type of options to be granted, exercise prices, vesting and other restrictions are determined at the discretion of the board of directors, or its committee if so delegated.

Stock options granted under the 2017 Plan with service-based vesting conditions generally vest over four years and may not have a duration in excess of ten years, although options have been granted with vesting terms of less than four years.

The total number of shares of common stock that may be issued under the 2017 Plan was 1,674,501 as of December 31, 2017, of which 868,046 shares remained available for grant. The Company initially reserved 1,244,816 shares of common stock plus the number of shares equal to the sum of the number of shares of common stock then available for issuance under the 2016 Plan, which was 424,601 shares, and the number of shares of common stock subject to outstanding awards under the 2006 Plan and the 2016 Plan that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right. The number of shares of common stock that may be issued under the 2017 Plan will automatically increase on January 1 of each year, beginning with the fiscal year ending December 31, 2018 and continuing for each fiscal year until, and including, the fiscal year ending December 31, 2027, equal to the least of (i) 1,244,816 shares of common stock, (ii) 4% of the outstanding shares of common stock on such date and (iii) an amount determined by the Company’s board of directors.
During the year ended December 31, 2017, pursuant to the terms of the 2017 Plan, the Company granted options to employees and directors to purchase 1,253,728 shares of common stock at a weighted average exercise price of $10.49 per share.

Shares that are expired, terminated, surrendered or canceled without having been fully exercised will be available for future awards. In addition, shares of common stock that are tendered to the Company by a participant to exercise an award are added to the number of shares of common stock available for the grant of awards.

The exercise price for stock options granted may not be less than the fair market value of the common stock as of the date of grant.

2017 Employee Stock Purchase Plan

On June 16, 2017, the Company’s stockholders approved the 2017 Employee Stock Purchase Plan (the “2017 ESPP”), which became effective on June 28, 2017. A total of 150,000 shares of common stock are reserved for issuance under the 2017 ESPP. The number of shares of common stock that may be issued under the 2017 ESPP automatically increase on each January 1 and continuing for each fiscal year until, and including, the fiscal year ending December 31, 2027, equal to the least of (i) 622,408 shares, (ii) 1% of the outstanding shares of common stock on such date and (iii) an amount determined by the Company’s board of directors.

2016 Stock Incentive Plan

The Company’s 2016 Stock Incentive Plan (the “2016 Plan”) provided for the Company to grant incentive stock options or nonqualified stock options, restricted stock, restricted stock units and other equity awards to employees, directors and consultants of the Company. The 2016 Plan was administered by the board of directors or, at the discretion of the board of directors, by a committee of the board. The exercise prices, vesting and other restrictions were determined at the discretion of the board of directors, or its committee if so delegated.

Stock options granted under the 2016 Plan with service-based vesting conditions vest over four years and expire after ten years.

After the effective date of the 2017 Plan, no stock options or other awards were made under the 2016 Plan. No shares remained available for future issuance as of December 31, 2017.

Shares that are expired, terminated, surrendered or canceled without having been fully exercised will be available for future awards under the 2017 Plan. In addition, shares of common stock that are tendered to the Company by a participant to exercise an award are added to the number of shares of common stock available for the grant of awards under the 2017 Plan.

2006 Stock Incentive Plan

The Company’s 2006 Stock Incentive Plan, as amended, (the “2006 Plan”) provided for the Company to grant incentive stock options or nonqualified stock options, restricted stock, restricted stock units and other equity awards to employees, directors and consultants of the Company. The 2006 Plan was administered by the board of directors or, at the discretion of the board of directors, by a committee of the board. The exercise prices, vesting and other restrictions were determined at the discretion of the board of directors, or its committee if so delegated.

Stock options granted under the 2006 Plan with service-based vesting conditions generally vest over four years and expire after ten years, although options have been granted with vesting terms of less than four years.


Shares that are expired, terminated, surrendered or canceled without having been fully exercised will be available for future awards under the 2017 Plan. In addition, shares of common stock that are tendered to the Company by a participant to exercise an award are added to the number of shares of common stock available for the grant of awards under the 2017 Plan.
Stock Option Valuation

The assumptions that the Company used to determine the grant-date fair value of the stock options granted to employees and directors during the year ended December 31, 2017, 2016 and 2015 were as follows, presented on a weighted average basis:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.16%</td>
</tr>
<tr>
<td>Expected term (in years)</td>
<td>6.1</td>
</tr>
<tr>
<td>Expected volatility</td>
<td>80.4%</td>
</tr>
<tr>
<td>Expected dividend yield</td>
<td>0%</td>
</tr>
</tbody>
</table>

Stock Options

The following table summarizes the Company’s stock option activity since January 1, 2017:

<table>
<thead>
<tr>
<th></th>
<th>Number of Shares</th>
<th>Weighted Average Exercise Price</th>
<th>Weighted Average Remaining Contractual Term (in years)</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at December 31, 2016</td>
<td>920,731</td>
<td>$4.36</td>
<td>6.4</td>
<td>$1,297</td>
</tr>
<tr>
<td>Granted</td>
<td>1,253,728</td>
<td>10.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>(31,631)</td>
<td>3.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td>(46,595)</td>
<td>5.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at December 31, 2017</td>
<td>2,096,233</td>
<td>$8.02</td>
<td>8.0</td>
<td>$7,332</td>
</tr>
<tr>
<td>Options exercisable at December 31, 2017</td>
<td>784,190</td>
<td>$4.71</td>
<td>6.0</td>
<td>$4,667</td>
</tr>
<tr>
<td>Options vested and expected to vest at December 31, 2017</td>
<td>2,030,629</td>
<td>$7.96</td>
<td>7.9</td>
<td>$7,198</td>
</tr>
</tbody>
</table>

The weighted average grant-date fair value of stock options granted during the year ended December 31, 2017, 2016 and 2015 was $7.49, $3.24 and $3.69, respectively.

The aggregate fair value of stock options that vested during the year ended December 31, 2017, 2016 and 2015 was $1,268, $784 and $442, respectively.

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company’s common stock for those stock options that had exercise prices lower than the fair value of the Company’s common stock. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2017, 2016 and 2015 was $165, $12 and $300, respectively.

Stock-Based Compensation

The Company recorded stock-based compensation expense related to stock options in the following expense categories of its statements of operations and comprehensive loss:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>$611</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>1,138</td>
</tr>
<tr>
<td></td>
<td>$1,749</td>
</tr>
</tbody>
</table>

As of December 31, 2017, the Company had an aggregate of $8,776 of unrecognized stock-based compensation expense, which it expects to recognize over a weighted average period of 3.3 years.
11. Net Loss per Share

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numerator:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(22,604)</td>
<td>(18,123)</td>
<td>(12,878)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>(41)</td>
<td>(75)</td>
<td>(71)</td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>(22,645)</td>
<td>(18,198)</td>
<td>(12,949)</td>
</tr>
<tr>
<td>Denominator:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average common shares outstanding—basic and diluted</td>
<td>7,443,078</td>
<td>429,686</td>
<td>400,713</td>
</tr>
<tr>
<td>Net loss per share attributable to common stockholders—basic and diluted</td>
<td>(3.04)</td>
<td>(42.35)</td>
<td>(32.31)</td>
</tr>
</tbody>
</table>

The Company’s potential dilutive securities, which include stock options as of December 31, 2017 and include stock options and redeemable convertible preferred stock as of December 31, 2016 and 2015, have been excluded from the computation of diluted net loss per share attributable to common stockholders whenever the effect of including them would be to reduce the net loss per share. In periods where there is a net loss, the weighted average number of shares of common stock outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The following potential shares of common stock, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options to purchase common stock</td>
<td>2,096,233</td>
<td>920,731</td>
<td>973,777</td>
</tr>
<tr>
<td>Redeemable convertible preferred stock (as converted to common stock)</td>
<td>10,461,117</td>
<td>8,080,596</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,096,233</td>
<td>11,381,848</td>
<td>9,054,373</td>
</tr>
</tbody>
</table>

12. Commitments and Contingencies

Operating Leases

In February 2010, the Company entered into an operating lease agreement for office and laboratory space, which, as amended, expires in May 2018. Upon entering into the agreement, the Company was required to maintain a security deposit of $776, which was recorded as restricted cash in the Company’s balance sheet. In connection with an amendment to the operating lease agreement in January 2015, the required security deposit was reduced from $776 to $63, and $713 of restricted cash was released to the Company.

In connection with an amendment to the operating lease agreement in June 2011, the landlord agreed to fund up to $752 in improvements to the leased facility, which was recorded as a liability and is being recognized as a reduction of rent expense over the remaining lease term.

The agreement requires future minimum lease payments for the year ending December 31, 2018 of $202.

The Company recognizes rent expense on a straight-line basis over the lease period and has recorded deferred rent for rent expense incurred but not yet paid. Rental expense under operating leases totaled $494, $432 and $258 for the years ended December 31, 2017, 2016 and 2015, respectively.
**Intellectual Property Licenses**

**Harvard and Dana-Farber Agreement**

In August 2006, the Company entered into an exclusive license agreement with President and Fellows of Harvard College (“Harvard”) and Dana-Farber Cancer Institute (“DFCI”). The agreement granted the Company an exclusive worldwide license, with the right to sublicense, under specified patents and patent applications to develop, obtain regulatory approval for and commercialize specified product candidates based on stapled peptides. Under the agreement, the Company is obligated to use commercially reasonable efforts to develop and commercialize one or more licensed products and to achieve specified milestone events by specified dates. In connection with entering into the agreement, the Company paid an upfront license fee and issued to Harvard and DFCI shares of its common stock.

In February 2010, the agreement was amended and restated (the “Harvard/DFCI agreement”) under which additional patent rights were added to the scope of the license agreement and the annual license maintenance fees were increased. Under the Harvard/DFCI agreement, the Company is obligated to make aggregate milestone payments of up to $7,700 per licensed therapeutic product upon the Company’s achievement of specified clinical, regulatory and sales milestones with respect to such product and up to $700 per licensed diagnostic product upon the Company’s achievement of specified regulatory and sales milestones with respect to such product. In addition, the Company is obligated to pay royalties of low single-digit percentages on annual net sales of licensed products sold by the Company, its affiliates or its sublicensees. The royalties are payable on a product-by-product and country-by-country basis, and may be reduced in specified circumstances. In addition, the agreement obligates the Company to pay a percentage, up to the mid-twenties, of fees received by the Company in connection with its sublicense of the licensed products. In accordance with the terms of the agreement, the Company’s sublicense payment obligations may be subject to specified reductions.

The Harvard/DFCI agreement requires the Company to pay annual license maintenance fees of $145 each year. Any payments made in connection with the annual license maintenance fees will be credited against any royalties due.

The Company incurred annual license fees of $145 during each of the years ended December 31, 2017, 2016 and 2015. In addition, the Company paid aggregate milestone payments of $150 during the year ended December 31, 2016 related to a specified milestone achieved in the Phase 2 clinical trial for one of its product candidates. The Company did not make any milestone payments during the years ended December 31, 2017 and 2015. As of December 31, 2017, no additional milestones had been achieved and no liabilities for additional milestone payments had been recorded in the Company’s financial statements. Through December 31, 2017, the Company had made non-refundable cash payments, consisting of license and maintenance fees, milestone payments and sublicense fees, totaling $4,428.

As of December 31, 2017, the Company had not developed a commercial product using the licensed technologies and no royalties under the agreement had been paid or were due.

Under the Harvard/DFCI agreement, the Company is responsible for all patent expenses related to the prosecution and maintenance of the licensed patents and applications in-licensed under the agreement as well as cost reimbursement of amounts incurred for all documented patent-related expenses. The agreement will expire on a product-by-product and country-by-country basis upon the last to expire of any valid patent claim pertaining to licensed products covered under the agreement.

**Materia Agreement**

In December 2006, the Company entered into a license agreement (the “Materia agreement”) with Materia, Inc. (“Materia”), under which it was granted a non-exclusive worldwide license, with the right to sublicense, under specified patent and patent applications to utilize Materia’s catalysts to develop, obtain regulatory approval for and commercialize specified peptides owned or controlled by Materia and the right to manufacture specified compositions owned or controlled by Materia.
Under the Materia agreement, the Company is obligated to make aggregate milestone payments to Materia of up to $6,400 upon the Company’s achievement of specified clinical, regulatory and sales milestones with respect to each licensed product. In addition, the Company is obligated to pay tiered royalties ranging in the low single-digit percentages on annual net sales of licensed products sold by the Company or its sublicensees. The royalties are payable on a product-by-product and country-by-country basis, and may be reduced in specified circumstances.

The Materia agreement requires the Company to pay annual license fees of $50. The Company incurred annual license fees of $50 during the years ended December 31, 2017, 2016 and 2015. In addition, the Company paid Materia a milestone payment of $100 during the year ended December 31, 2016 related to the achievement of a specified regulatory milestone for one of its product candidates. The Company did not make any milestone payments during the years ended December 31, 2017 and 2015. As of December 31, 2017, no additional milestones had been achieved and no liabilities for additional milestone payments had been recorded in the Company’s financial statements.

The agreement expires upon the expiration of the Company’s obligation to pay royalties in each territory covered under the agreement. In February 2017, the Company was advised that the license agreement had been assigned to Umicore, and Umicore agreed to continue to supply the Company under the agreement.

_Scripps Agreement_

In October 2010, the Company entered into a patent license agreement (the “Scripps agreement”) with The Scripps Research Institute (“Scripps”) under which it was granted a license, with the right to sublicense, for the exclusive worldwide rights to utilize Scripps’ “Click” chemistry for therapeutics and non-exclusive worldwide rights for diagnostics with the Company’s stabilized peptide and protein technology platforms.

Under the agreement, the Company is obligated to make aggregate milestone payments to Scripps of up to $1,900 for each licensed peptide product and up to $950 for each licensed protein product upon achieving of specified clinical, regulatory and commercial milestones. In addition, the Company is obligated to pay tiered royalties ranging in the low single-digit percentages on annual net sales of licensed products sold by the Company or its sublicensees. The royalties are payable on a product-by-product and country-by-country basis. The Scripps agreement requires the Company to pay annual license fees of $50. The Company incurred annual license fees of $50 during the years ended December 31, 2017, 2016 and 2015.

As of December 31, 2017, no milestones had been achieved and no liabilities for milestone payments had been recorded in the Company’s financial statements. As of December 31, 2017, the Company had not developed a commercial product using the licensed technologies and no royalties under the agreement had been paid or were due.

The agreement expires upon expiration of the last of any patent rights covered under the agreement.

_Indemnification Agreements_

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and officers that require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. The Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on its financial position, results of operations or cash flows, and it had not accrued any liabilities related to such obligations in its financial statements as of December 31, 2017 or 2016.
13. Income Taxes

There is no provision for income taxes because the Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets. The reported amount of income tax expense for the years differs from the amount that would result from applying domestic federal statutory tax rates to pretax losses primarily because of changes in valuation allowance.

A reconciliation of the U.S. federal statutory income tax rate to the Company’s effective income tax rate is as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory income tax rate</td>
<td>(34.0)%</td>
<td>(34.0)%</td>
<td>(34.0)%</td>
</tr>
<tr>
<td>State taxes, net of federal benefit</td>
<td>(4.3)</td>
<td>(4.2)</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Research and development tax credits</td>
<td>(1.6)</td>
<td>1.4</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Write-off of deferred offering costs</td>
<td>—</td>
<td>3.1</td>
<td>—</td>
</tr>
<tr>
<td>Other permanent items</td>
<td>2.1</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>69.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in deferred tax asset valuation allowance</td>
<td>(31.3)</td>
<td>35.2</td>
<td>38.9</td>
</tr>
<tr>
<td>Effective income tax rate</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

Net deferred tax assets as of December 31, 2017 and 2016 consisted of the following:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net operating loss carryforwards</td>
<td>$35,162</td>
<td>$41,948</td>
</tr>
<tr>
<td>Research and development tax credit carryforwards</td>
<td>2,925</td>
<td>2,392</td>
</tr>
<tr>
<td>Capitalized research and development expenses</td>
<td>74</td>
<td>755</td>
</tr>
<tr>
<td>Accrued expenses and reserves</td>
<td>396</td>
<td>457</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>88</td>
<td>124</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>38,645</td>
<td>45,676</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>(38,645)</td>
<td>(45,676)</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

As of December 31, 2017, the Company had net operating loss carryforwards for federal and state purposes of $129,575 and $125,812, respectively, which begin to expire in 2029 and 2030. As of December 31, 2017, the Company also had available research and development tax credit carryforwards for federal and state income tax purposes of $1,999 and $1,172, respectively, which begin to expire in 2025.

Utilization of the net operating loss carryforwards and research and development tax credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership changes that have occurred previously or that could occur in the future. These ownership changes may limit the amount of carryforwards that can be utilized annually to offset future taxable income. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public groups in the stock of a corporation by more than 50% over a three-year period. The Company has not conducted a study to assess whether a change of control has occurred or whether there have been multiple changes of control since inception due to the significant complexity and cost associated with such a study. If the Company has experienced a change of control, as defined by Section 382, at any time since inception, utilization of the net operating loss carryforwards or research and development tax credit carryforwards would be subject to an annual limitation under Section 382, which is determined by first multiplying the value of the Company’s stock at the time of the ownership change by the applicable long-term tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the net operating loss carryforwards or research and development tax credit carryforwards before utilization. Further, until a study is completed and any limitation is known, no amounts are being presented as an uncertain tax position.

F-25
The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company’s cumulative net losses and its lack of commercialization of any products or generation of any revenue from product sales since inception and has concluded that it is more likely than not that the Company will not realize the benefits of the deferred tax assets. Accordingly, a valuation allowance has been established against the full amount of the net deferred tax assets as of December 31, 2017 and 2016. Management reevaluates the positive and negative evidence at each reporting period.

The decrease in the valuation allowance for deferred tax assets during the year ended December 31, 2017 related primarily to the decrease in corporate tax rate from 34% to 21% starting on January 1, 2018 as described below. The increase in the valuation allowance for deferred tax assets during the years ended December 31, 2016 and 2015 related primarily to an increase in net operating loss carryforwards, partially offset by the reversal of temporary differences for capitalized research and development expenses. Changes in the valuation allowance were as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation allowance at beginning of year</td>
<td>$(45,676)</td>
<td>$(39,302)</td>
<td>$(34,293)</td>
</tr>
<tr>
<td>Increases recorded to income tax provision</td>
<td>(8,599)</td>
<td>(6,374)</td>
<td>(5,009)</td>
</tr>
<tr>
<td>Decreases recorded as a benefit to income tax provision</td>
<td>15,630</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Valuation allowance at end of year</td>
<td>$(38,645)</td>
<td>$(45,676)</td>
<td>$(39,302)</td>
</tr>
</tbody>
</table>

The Company has not recorded any amounts for unrecognized tax benefits as of December 31, 2017, 2016 or 2015.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. There are currently no pending tax examinations. The Company’s tax years are still open under statute from 2013 to the present. Earlier years may be examined to the extent that tax credit or net operating loss carryforwards are used in future periods. The Company’s policy is to record interest and penalties related to income taxes as part of its income tax provision. As of December 31, 2017 and 2016, the Company had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in the Company’s statements of operations and comprehensive loss.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the “TCJA”). This legislation reduced the U.S. corporate tax rate from the existing rate of 34% to 21% for tax years beginning after December 31, 2017. As a result of the enacted law, the Company was required to revalue deferred tax assets and liabilities existing at December 31, 2017 from the 34% federal rate in effect through the end of 2017, to the new 21% rate. This revaluation resulted in a reduction to the Company’s net deferred tax asset of $15.6 million. This amount was offset by a corresponding reduction to the Company’s deferred tax asset valuation allowance. The other provisions of the TCJA did not have a material impact on the December 31, 2017 financial statements. Estimates used to prepare the Company’s income tax expense are based on its initial analysis of the TCJA. Given the complexity of the TCJA and anticipated guidance from the U. S. Treasury regarding implementation of the TCJA, these estimates may be adjusted during fiscal 2018 in accordance with Staff Accounting Bulletin No. 118, to reflect any such guidance provided.

14. 401(k) Plan

The Company has a 401(k) plan available for participating employees who meet certain eligibility requirements. Eligible employees may defer a portion of their salary as defined by the plan. Company contributions to the plan may be made at the discretion of the Company’s board of directors. The Company has not elected to make any employer contributions for the years ended December 31, 2017, 2016 or 2015.
15. Selected Quarterly Financial Data (unaudited)

The following table contains selected quarterly financial information for 2017 and 2016. The Company believes that the following information reflects all normal recurring adjustments necessary for a fair statement of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>2,942</td>
<td>3,161</td>
<td>3,825</td>
<td>4,311</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,647</td>
<td>1,791</td>
<td>2,601</td>
<td>2,730</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>4,589</td>
<td>4,952</td>
<td>6,426</td>
<td>7,041</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(4,589)</td>
<td>(4,952)</td>
<td>(6,426)</td>
<td>(7,041)</td>
</tr>
<tr>
<td>Interest income</td>
<td>32</td>
<td>29</td>
<td>167</td>
<td>176</td>
</tr>
<tr>
<td>Net loss</td>
<td>(4,557)</td>
<td>(4,923)</td>
<td>(6,259)</td>
<td>(6,865)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>(20)</td>
<td>(21)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$ (4,577)</td>
<td>$ (4,944)</td>
<td>$ (6,259)</td>
<td>$ (6,865)</td>
</tr>
<tr>
<td>Net loss per share attributable to common stockholders—basic and diluted</td>
<td>$(10.58)</td>
<td>$(10.98)</td>
<td>$(0.45)</td>
<td>$(0.47)</td>
</tr>
<tr>
<td>Weighted average common shares outstanding—basic and diluted</td>
<td>432,728</td>
<td>450,495</td>
<td>13,939,950</td>
<td>14,720,734</td>
</tr>
<tr>
<td>Comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (4,557)</td>
<td>$ (4,923)</td>
<td>$ (6,259)</td>
<td>$ (6,865)</td>
</tr>
<tr>
<td>Other comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on investments, net of tax of $0</td>
<td>—</td>
<td>—</td>
<td>(6)</td>
<td>(27)</td>
</tr>
<tr>
<td>Total other comprehensive loss</td>
<td>(6)</td>
<td>(27)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>$ (4,557)</td>
<td>$ (4,923)</td>
<td>$ (6,265)</td>
<td>$ (6,892)</td>
</tr>
<tr>
<td>--------------------</td>
<td>---------------</td>
<td>---------------</td>
<td>-------------------</td>
<td>------------------</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>2,493</td>
<td>2,086</td>
<td>2,605</td>
<td>3,092</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,446</td>
<td>3,464</td>
<td>1,627</td>
<td>1,356</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>3,939</td>
<td>5,550</td>
<td>4,232</td>
<td>4,448</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(3,939)</td>
<td>(5,550)</td>
<td>(4,232)</td>
<td>(4,448)</td>
</tr>
<tr>
<td>Interest income</td>
<td>14</td>
<td>16</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Net loss</td>
<td>(3,925)</td>
<td>(5,534)</td>
<td>(4,222)</td>
<td>(4,442)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred stock to redemption value</td>
<td>(18)</td>
<td>(19)</td>
<td>(19)</td>
<td>(19)</td>
</tr>
<tr>
<td>Net loss attributable to common stockholders</td>
<td>$ (3,943)</td>
<td>$ (5,553)</td>
<td>$ (4,241)</td>
<td>$ (4,461)</td>
</tr>
<tr>
<td>Net loss per share attributable to common stockholders—basic and diluted</td>
<td>$ (9.25)</td>
<td>$ (12.95)</td>
<td>$ (9.84)</td>
<td>$ (10.31)</td>
</tr>
<tr>
<td>Weighted average common shares outstanding—basic and diluted</td>
<td>426,487</td>
<td>428,870</td>
<td>430,929</td>
<td>432,413</td>
</tr>
<tr>
<td>Comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (3,925)</td>
<td>$ (5,534)</td>
<td>$ (4,222)</td>
<td>$ (4,442)</td>
</tr>
<tr>
<td>Other comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on investments, net of tax of $0</td>
<td>7</td>
<td>(5)</td>
<td>(3)</td>
<td>1</td>
</tr>
<tr>
<td>Total other comprehensive loss</td>
<td>7</td>
<td>(5)</td>
<td>(3)</td>
<td>1</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>$ (3,918)</td>
<td>$ (5,539)</td>
<td>$ (4,225)</td>
<td>$ (4,441)</td>
</tr>
</tbody>
</table>
**Directors**

Jeffrey A. Bailey
Chairman
Chief Executive Officer
IlluminOss Medical, Inc.

Reinhard J. Ambros, Ph.D.
Retired Global Head of Novartis Venture Funds

Scott B. Kapnick
Chief Executive Officer
HPS Investment Partners, LLC

Joseph A. Yanchik III
Senior Vice President
Manuel C. Aivado, M.D., Ph.D.
Dean Emeritus & George Fisher Baker Professor of Business Administration
Emeritus
Harvard Business School

Jodie P. Morrison
President & CEO
Morrison Advisory

Armen B. Shanafelt, Ph.D.
Partner
Lilly Ventures

Caleb Winder
Managing Director
Excel Venture Management

**Executive Officers**

Joseph A. Yanchik III
President and Chief Executive Officer

Manuel C. Aivado, M.D., Ph.D.
Senior Vice President, Chief Medical Officer
Chief Scientific Officer

Donald V. Dougherty, CFA, CPA
Senior Vice President, Chief Financial Officer

Kira A. Nelson, CPA
Vice President, Finance & Operations

**Transfer Agent and Registrar**

The transfer agent is responsible, among other things, for handling stockholder questions regarding lost stock certificates, address changes, including duplicate mailings, and changes in ownership or name in which shares are held. These requests may be directed to the transfer agent at the following address:

Computershare Trust Company, Inc.
250 Royall Street
Canton, MA 02021
www.computershare.com

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP
101 Seaport Boulevard
Boston, MA 02210
Phone: 617-530-5000

**Corporate Counsel**

Wilmer Cutler Pickering Hale & Dorr LLP
60 State Street
Boston, MA 02109
Phone: 617-526-6000

**Annual Meeting of Stockholders**

Date: Thursday, June 21st, 10:00 am
Location: Wilmer Cutler Pickering Hale & Dorr LLP
60 State Street
Boston, MA 02109

**Stock Listing**

NASDAQ: ALRN

**Form 10-K**

A copy of the Company's 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request to:

Aileron Therapeutics, Inc.
281 Albany Street
Cambridge, MA 02139

**Corporate Headquarters**

Aileron Therapeutics, Inc.
281 Albany Street
Cambridge, MA 02139
Phone: 617-995-0900
Fax: 617-995-2410
Email: info@aileronrx.com
URL: www.aileronrx.com

**Forward-Looking Statements**

Statements in this annual report about Aileron's future expectations, plans and prospects, as well as any other statements regarding matters that are not historical facts, may constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements about the company's cash forecast, the sufficiency of the Company's cash resources and the timing of clinical trial enrollments and data. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including whether Aileron's cash resources will be sufficient to fund its continuing operations for the periods and/or trials anticipated; whether results obtained in preclinical studies and clinical trials will be indicative of results obtained in future clinical trials; whether Aileron's product candidates will advance through the clinical trial process on a timely basis, or at all; whether the results of such trials will warrant submission for approval from the United States Food and Drug Administration or equivalent foreign regulatory agencies; whether Aileron's product candidates will receive approval from regulatory agencies on a timely basis or at all; whether, if product candidates obtain approval, they will be successfully distributed and marketed; and other factors discussed in the "Risk Factors" section of the attached annual report on Form 10-K for the period ended December 31, 2017, which was filed on April 2, 2018, and risks described in other filings that Aileron may make with the Securities and Exchange Commission. Any forward-looking statements contained in this annual report speak only as of the date hereof, and Aileron specifically disclaims any obligation to update any forward-looking statement, whether because of new information, future events or otherwise.