INTERCEPT PHARMACEUTICALS, INC.
Form 10-Q
August 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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: 001-35668

INTERCEPT PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**22-3868459**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

10 Hudson Yards, 37th Floor

New York, NY 10001

(Address of Principal Executive Office and Zip Code)

(646) 747-1000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	¨		

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

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

As of June 30, 2018, there were 29,564,684 shares of common stock, $0.001 par value per share, outstanding.

Intercept Pharmaceuticals, Inc.

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Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to "we," "our," "us" and the "Company" refer, collectively, to Intercept Pharmaceuticals, Inc., a Delaware corporation, and its consolidated

subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, including, but not limited to, statements regarding the progress, timing and results of our clinical trials, including our clinical trials for the treatment of nonalcoholic steatohepatitis ("NASH"), the safety and efficacy of our approved product, Ocaliva (obeticholic acid or "OCA"), the potential approval of OCA for indications other than primary biliary cholangitis ("PBC"), the timing and potential commercial success of OCA and any other product candidates we may develop and our strategy, future operations, future financial position, future revenue, projected costs, financial guidance, prospects, plans, objectives of management and expected market growth.

These statements constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "targe "will," "would," "could," "should," "possible," "continue" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, and we undertake no obligation to update any forward-looking statement except as required by law. These forward-looking statements are based on estimates and assumptions by our management that, although believed to be reasonable, are inherently uncertain and subject to a number of risks.

The following represent some, but not necessarily all, of the factors that could cause actual results to differ materially from historical results or those anticipated or predicted by our forward-looking statements:

- our ability to successfully commercialize Ocaliva for PBC;
- our ability to maintain our regulatory approval of Ocaliva for PBC in the United States, Europe, Canada, Israel, Australia and other jurisdictions in which we have or may receive marketing authorization;
- the initiation, timing, cost, conduct, progress and results of our research and development activities, preclinical studies and clinical trials, including any issues, delays or failures in identifying patients, enrolling patients, treating patients or completing and timely reporting the results of our NASH or PBC clinical trials;
- our ability to timely and cost-effectively obtain regulatory approval of our product candidates, including OCA for NASH;
- conditions that may be imposed by regulatory authorities on our marketing approvals for our products and product candidates, such as the need for clinical outcomes data (and not just results based on achievement of a surrogate endpoint), and any related restrictions, limitations and/or warnings contained in the label of any of our products or product candidates;
- any potential side effects associated with Ocaliva for PBC or our product candidates that could delay or prevent approval, require that an approved product be taken off the market, require the inclusion of safety warnings or precautions or otherwise limit the sale of such product or product candidate;
-

our ability to maintain our relationships with, and the performance of, third-party vendors upon whom we are substantially dependent, including contract research organizations for our clinical trials and our third-party suppliers and manufacturers;

- our ability to identify, develop and commercialize our products and product candidates;
- our ability to obtain and maintain intellectual property protection for our products and product candidates;
- our ability to successfully commercialize our product candidates, if approved;
- the size and growth of the markets for our products and product candidates and our ability to serve those markets;
- the degree of market acceptance of Ocaliva for PBC and, if approved, our product candidates, which may be affected by the ability of patients and healthcare providers to obtain coverage or reimbursement from payors for our products and the extent to which such coverage or reimbursement is provided;
- our ability to establish and maintain an effective sales and marketing infrastructure directly or through collaborations with third parties;
- competition from existing drugs or new drugs that become available;
- our ability to prevent system failures, data breaches or violations of data protection laws;
- costs and outcomes relating to any securities, intellectual property, employment, product liability or other litigation;
- our collaborators' election to pursue research, development and commercialization activities;
- our ability to attract and maintain collaborators with development, regulatory and commercialization expertise;
- our need for and ability to obtain additional financing;
- our estimates regarding expenses, revenues and capital requirements and the accuracy thereof;
- our use of cash and short-term investments;
- our ability to acquire, license and invest in businesses, technologies, product candidates and products;
- our ability to attract and retain key personnel to manage our business effectively;
- our ability to manage the growth of our operations, infrastructure, personnel, systems and controls;
- our ability to obtain and maintain adequate insurance coverage; and

the other risks and uncertainties identified under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q and in our other periodic filings filed with the U.S. Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE REGARDING TRADEMARKS

The Intercept Pharmaceuticals® name and logo and the Ocaliva® name and logo are either registered or unregistered trademarks or trade names of the Company in the United States and/or other countries. All other trademarks, trade names and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Quarterly Report on Form 10-Q may appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or that the applicable owner will not assert its rights to these trademarks and trade names.

PART I

Item 1. Financial Statements.

INTERCEPT PHARMACEUTICALS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$77,720	$70,013
Investment securities, available-for-sale	460,618	344,904
Accounts receivable, net	19,509	16,501
Prepaid expenses and other current assets	19,893	16,889
Total current assets	577,740	448,307
Fixed assets, net	12,453	16,184
Inventory, net	5,813	3,480
Security deposits	8,908	16,376
Total assets	$604,914	$484,347
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$79,606	$94,777
Short-term interest payable	7,475	7,475
Short-term portion of deferred revenue	1,622	1,782
Total current liabilities	88,703	104,034
Long-term liabilities:		
Long-term debt	363,300	355,677
Long-term other liabilities	4,713	5,578
Long-term portion of deferred revenue	1,622	2,672
Total liabilities	458,338	467,961
Stockholders' equity:		
Common stock par value $0.001 per share; 45,000,000 shares authorized; 29,564,684 and 25,172,678 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	29	25
Additional paid-in capital	1,774,955	1,486,690
Accumulated other comprehensive loss, net	(2,082)	(786)
Accumulated deficit	(1,626,326)	(1,469,543)

Total stockholders' equity	146,576	16,386
Total liabilities and stockholders' equity	$604,914	$484,347

See accompanying notes to the condensed consolidated financial statements.

INTERCEPT PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Product revenue, net	$43,169	$30,441	$78,327	$51,044
Licensing revenue	406	446	1,211	891
Total revenue	43,575	30,887	79,538	51,935
Operating expenses:				
Cost of sales	713	279	993	376
Selling, general and administrative	65,224	66,925	127,691	128,007
Research and development	47,415	44,192	96,087	88,024
Total operating expenses	113,352	111,396	224,771	216,407
Operating loss	(69,777)	(80,509)	(145,233)	(164,472)
Other income (expense):				
Interest expense	(7,589)	(7,279)	(15,098)	(14,486)
Other income, net	2,173	1,224	3,548	2,464
	(5,416)	(6,055)	(11,550)	(12,022)
Net loss	$(75,193)	$(86,564)	$(156,783)	$(176,494)
Net loss per common and potential common share:				
Basic and diluted	$(2.58)	$(3.46)	$(5.75)	$(7.07)
Weighted average common and potential common shares outstanding:				
Basic and diluted	29,199	25,028	27,265	24,980

See accompanying notes to the condensed consolidated financial statements.

INTERCEPT PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net loss	$(75,193)	$(86,564)	$(156,783)	$(176,494)
Other comprehensive loss:				
Unrealized gains (losses) on securities:				
Unrealized holding (losses) gains arising during the period	(125)	291	249	705
Net unrealized (losses) gains on marketable investment securities	$(125)	$291	$249	$705
Foreign currency translation adjustments	(1,559)	362	(1,042)	567
Comprehensive loss	$(76,877)	$(85,911)	$(157,576)	$(175,222)

See accompanying notes to the condensed consolidated financial statements.

INTERCEPT PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$ (156,783)	$ (176,494)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	26,421	28,347
Amortization of investment premium	533	1,926
Amortization of deferred financing costs	754	694
Depreciation	2,428	1,874
Loss on disposal of fixed assets	1,331	-
Accretion of debt discount	6,869	6,317
Unrealized loss on investments	249	-
Changes in operating assets:		
Prepaid expenses and other current assets	(3,004)	(5,671)
Accounts receivable	(3,008)	(4,104)
Inventory	(2,333)	(403)
Security deposits	7,468	-
Changes in operating liabilities:		
Accounts payable, accrued expenses and other current liabilities	(15,171)	7,709
Long-term other liabilities	(865)	6,540
Interest payable	-	208
Deferred revenue	(1,210)	252
Net cash used in operating activities	(136,321)	(132,805)
Cash flows from investing activities:		
Purchases of investment securities	(294,537)	(80,698)
Refund of security deposits	-	970
Sales of investment securities	178,041	236,913
Purchases of equipment, leasehold improvements, and furniture and fixtures	(45)	(8,238)
Net cash (used in) provided by investing activities	(116,541)	148,947
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	261,357	-
Proceeds from exercise of options, net	486	1,647
Net cash provided by financing activities	261,843	1,647
Effect of exchange rate changes	(1,274)	567
Net increase in cash and cash equivalents	7,707	18,356
Cash and cash equivalents – beginning of period	70,013	43,675

Cash and cash equivalents – end of period	$ 77,720	$ 62,031

See accompanying notes to the condensed consolidated financial statements.

INTERCEPT PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Overview of Business

Intercept Pharmaceuticals, Inc. (the "Company") is a biopharmaceutical company focused on the development and commercialization of novel therapeutics to treat progressive non-viral liver diseases, including primary biliary cholangitis ("PBC"), nonalcoholic steatohepatitis ("NASH"), primary sclerosing cholangitis ("PSC") and biliary atresia. The Company currently has one marketed product, Ocaliva (obeticholic acid or "OCA"). Founded in 2002 in New York, the Company has operations in the United States, Europe and Canada.

2. Basis of Presentation

The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated. Certain information that is normally required by U.S. GAAP has been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission ("SEC"). Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any future period or for the year ending December 31, 2018. In the opinion of management, these unaudited condensed consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of these interim unaudited condensed consolidated financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2017, included in the Company's 2017 Annual Report on Form 10-K filed with the SEC.

Use of Estimates

The preparation of these unaudited consolidated condensed financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses, revenues and related disclosures. Significant estimates include: clinical trial accruals, revenues and stock-based compensation expense. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results

may differ from those estimates or assumptions.

3. Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 3 of Notes to Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Product Revenue, Net

The Company commenced its commercial launch of Ocaliva for the treatment of PBC in the United States in June 2016. In December 2016, the European Commission granted conditional approval for Ocaliva for the treatment of PBC and the Company commenced its European commercial launch in January 2017. Since January 2017, Ocaliva has also received regulatory approval in several of the Company's target markets outside the United States and Europe, including Canada, Israel and Australia. The Company sells Ocaliva to a limited number of specialty pharmacies which dispense the product directly to patients. The specialty pharmacies are referred to as the Company's customers.

The Company provides the right of return to its customers for unopened product for a limited time before and after its expiration date. Prior to July 2017, given the Company's limited sales history for Ocaliva and the inherent uncertainties in estimating product returns, the Company determined that the shipments of Ocaliva made to its customers did not meet the criteria for revenue recognition at the time of shipment. Accordingly, the Company recognized revenue when the product was sold through by its customers, provided all other revenue recognition criteria were met. The Company invoiced its customers upon shipment of Ocaliva to them and recorded accounts receivable, with a corresponding liability for deferred revenue equal to the gross invoice price. The Company then recognized revenue when Ocaliva was sold through as specialty pharmacies dispensed product directly to the patients (sell-through basis).

The Company re-evaluated its revenue recognition policy in the third quarter of 2017, which included the accumulation and review of customer-related transactions since the Company's commercial launch in the second quarter of 2016. The Company concluded it had accumulated sufficient data to reasonably estimate product returns and, therefore, began to recognize revenue at the time of shipment to its customers (sell-in basis). During the third quarter of 2017, the Company recorded an adjustment related to this change in estimate to recognize previously deferred revenue. The net effect was an increase in net sales of Ocaliva of $4.1 million for the nine months ended September 30, 2017. The Company also established a new reserve of $0.7 million during the third quarter of 2017 related to future returns from its customers.

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Effective January 1, 2018, the Company began recognizing revenue under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct).

- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

Under ASC 606, the Company has written contracts with each of its customers that have a single performance obligation – to deliver products upon receipt of a customer order – and these obligations are satisfied when delivery occurs and the customer receives Ocaliva. The Company evaluates the creditworthiness of each of its customers to determine whether collection is reasonably assured. The Company estimates variable revenue by calculating gross product revenues based on the wholesale acquisition cost that the Company charges its customers for Ocaliva, and then estimating its net product revenues by deducting (i) trade allowances, such as invoice discounts for prompt payment and customer fees, (ii) estimated government rebates and discounts related to Medicare, Medicaid and other government programs, and (iii) estimated costs of incentives offered to certain indirect customers including patients.

Trade Allowances

The Company provides invoice discounts on Ocaliva sales to certain of its customers for prompt payment and records these discounts as a reduction to gross product revenues. These discounts are based on contractual terms.

Rebates and Discounts

The Company contracts with Centers for Medicare & Medicaid Services (“CMS”) and other government agencies to make Ocaliva available to eligible patients. As a result, the Company estimates any rebates and discounts and deducts these estimated amounts from its gross product revenues at the time the revenues are recognized. The Company’s estimates of rebates and discounts are based on the government mandated discounts, which are statutorily-defined and applicable to these government funded programs. These estimates are recorded in accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheet.

Other Incentives

Other incentives that the Company offers to indirect customers include co-pay assistance cards provided by the Company for PBC patients who reside in states that permit co-pay assistance programs. The Company’s co-pay assistance program is intended to reduce each participating patient’s portion of the financial responsibility for Ocaliva purchase price to a specified dollar amount. The Company estimates the amount of co-pay assistance provided to eligible patients based on the terms of the program when product is dispensed by the specialty pharmacies to the patients. These estimates are based on redemption information provided by third-party claims processing organizations and are recorded in accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheet.

Because the Company changed its revenue recognition polices to the sell-in basis during the third quarter of 2017, the adoption of ASU 2014-09 (as defined below), via a modified retrospective approach applied to all contracts not completed at January 1, 2018, did not result in an adjustment to amounts previously recognized as revenue under ASC Topic 605, *Revenue Recognition* ("ASC 605"), and there were no other significant changes impacting the timing or measurement of the Company's revenue or the Company's business processes and controls.

Licensing Revenue

Under ASC 606, the Company accounts for the development, regulatory and sales milestones within an arrangement as variable consideration that is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Because the achievement of the milestones triggering these payments is highly susceptible to factors outside the entity's influence, and the uncertainty about the amount of consideration for some of the milestones is not expected to be resolved for a long period of time, the Company does not expect to record the associated revenue until achievement of each milestone is imminent or has already occurred. Adoption of ASC 606 did not result in any adjustment to licensing revenue previously recognized under ASC 605.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), and subsequently issued modifications or clarifications in ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." The revenue recognition principle in ASU 2014-09 and the related guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 prescribes a five-step process for evaluating contracts and determining revenue recognition. In addition, new and enhanced disclosures are required. Companies may adopt the new standard using either the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. The Company adopted the new standard on January 1, 2018, using the modified retrospective approach, applied only to contracts that were not completed as of January 1, 2018.

In January 2016, FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment

of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2016-01 on January 1, 2018 and its adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") which supersedes ASC Topic 840, *Leases*. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on their balance sheets for all the leases with terms greater than twelve months. Based on certain criteria, leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients primarily focused on leases that commenced before the effective date of Topic 842, including continuing to account for leases that commence before the effective date in accordance with previous guidance, unless the lease is modified. The Company is evaluating the impact of the adoption of the standard on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"), which clarifies when to account for a change to the terms or conditions of a stock-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. It is effective prospectively for the annual period ending December 31, 2018 and interim periods within that annual period. Early adoption is permitted. The Company adopted ASU 2017-09 on January 1, 2018 and its adoption did not have a material impact on the consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception” (“ASU 2017-11”). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating ASC Topic 480, *Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the potential impact of adopting ASU 2017-11 on its financial statements and related disclosures, but does not expect it to have a significant impact.

In June 2018, the FASB issued ASU No. 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting”, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under this ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity’s adoption date of ASC 606. The Company is currently evaluating the impact of adopting this standard on its financial statements and related disclosures.

4. Significant Agreements

Sumitomo Dainippon Pharma Co., Ltd.

In March 2011, the Company entered into an exclusive license agreement (the “Original License Agreement”) with Sumitomo Dainippon Pharma Co., Ltd. (“Sumitomo Dainippon”), pursuant to which the Company granted to Sumitomo Dainippon an exclusive license to research, develop and commercialize OCA for the treatment of PBC and NASH in Japan and China (excluding Taiwan) and an option to research, develop and commercialize OCA in certain countries outside of such territories (the “Country Option”). The Company received an upfront payment from Sumitomo Dainippon of $15.0 million under the terms of the Original License Agreement. In May 2014, Sumitomo Dainippon exercised the Country Option in part to add Korea as part of its licensed territories and paid the Company a $1.0 million upfront fee in connection therewith. In February 2018, the Company and Sumitomo Dainippon entered into

Amendment No. 3 (the "Sumitomo Amendment") to the Original License Agreement (as amended, the "License Agreement"). Pursuant to the Sumitomo Amendment, (i) Sumitomo Dainippon agreed to return the rights to develop and commercialize OCA in Japan and Korea and waived its rights to the Country Option, (ii) the Company agreed to forego any further milestone or royalty payments relating to the development and commercialization of OCA in Japan and Korea and (iii) certain milestone payment obligations with respect to the development and commercialization of OCA were adjusted. In addition, the Company and Sumitomo Dainippon agreed that if certain clinical development milestones in China are not met by December 31, 2020, Sumitomo Dainippon may choose either to make a milestone payment to the Company or terminate the License Agreement. As of June 30, 2018, the Company had achieved $6.0 million of development milestones under the License Agreement. The Company may be eligible to receive additional milestone payments under the License Agreement in an aggregate amount of up to approximately $23.0 million based on the occurrence of certain clinical trial and regulatory-related events and tiered royalty payments up to the mid-twenties in percentage terms based on net sales of OCA products in China (excluding Taiwan). Sumitomo Dainippon is responsible for the costs of developing and commercializing OCA in its territory.

The Company has concluded that Sumitomo Dainippon does not represent a customer of the Company, and therefore the License Agreement is outside of the scope of ASC 606. The Company has accounted, and continues to account, for this agreement under the legacy accounting guidance. Under ASC 605, the Company evaluated this agreement and determined that it is a revenue arrangement with multiple deliverables, or performance obligations. The Company's substantive performance obligations under this agreement include an exclusive license to its technology, technical and scientific support to the development plan and participation on a joint steering committee. The Company determined that these performance obligations represent a single unit of accounting, since, initially, the license does not have stand-alone value to Sumitomo Dainippon without the Company's technical expertise and steering committee participation during the development of OCA. The development period is currently estimated as continuing through June 2020 and, as such, the $15.0 million upfront payment is being recognized ratably over this period. During the three months ended June 30, 2018 and 2017, the Company recorded licensing revenue of approximately $0.4 million and $0.4 million, respectively, under this agreement. During the six months ended June 30, 2018 and 2017, the Company recorded licensing revenue of approximately $1.2 million and $0.9 million, respectively, under this agreement. Included in licensing revenue for the six months ended June 30, 2018 is $0.4 million related to the accelerated recognition, as a result of the Sumitomo Amendment, of the remaining portion of deferred revenue associated with the $1.0 million upfront payment that the Company received under the Original License Agreement in connection with Sumitomo Dainippon's exercise of the Country Option with respect to Korea.

The Company recognizes milestone payments when the associated milestones are achieved. As of June 30, 2018, and December 31, 2017, the Company had recorded deferred revenues of $3.2 million and $4.5 million, respectively, under this agreement.

5. Cash, Cash Equivalents and Investments

The following table summarizes the Company's cash, cash equivalents and investments as of June 30, 2018 and December 31, 2017:

	As of June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash and money market funds	$77,720	$ -	$ -	$77,720
Investment securities:				
Commercial paper	84,031	-	(75)	83,956
Corporate debt securities	371,623	-	(932)	370,691
U.S. government and agency securities	5,996	-	(25)	5,971
Total investments	461,650	-	(1,032)	460,618
Total cash, cash equivalents and investments	$539,370	$ -	$ (1,032)	$538,338

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Cash and cash equivalents:				
Cash and money market funds	$70,013	$ -	$ -	$70,013
Investment securities:				
Commercial paper	2,986	-	(3)	2,983
Corporate debt securities	333,958	-	(752)	333,206
U.S. government and agency securities	8,743	-	(28)	8,715
Total investments	345,687	-	(783)	344,904
Total cash, cash equivalents and investments	$415,700	$ -	$ (783)	$414,917

As of June 30, 2018, the Company held a total of fifteen positions that were in a continuous unrealized loss position for more than twelve months. The Company has determined that the unrealized losses are deemed to be temporary impairments as of June 30, 2018. The Company believes that the unrealized losses generally are caused by increases in the risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, it does not consider the investments to be other-than-temporarily impaired at June 30, 2018.

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6. Fixed Assets, Net

Fixed assets are stated at cost and depreciated or amortized using the straight-line method based on useful lives as follows:

	Useful lives (Years)	June 30, 2018	December 31, 2017
		(In thousands)	
Office equipment and software	3	$3,967	$ 5,048
Leasehold improvements	Over life of lease	14,429	14,665
Furniture and fixtures	7	3,895	5,257
Subtotal		22,291	24,970
Less: accumulated depreciation		(9,838)	(8,786)
Fixed assets, net		$12,453	$ 16,184

7. Inventory, Net

Inventories are stated at the lower of cost or market. Inventories consisted of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Work-in-process	$5,627	$ 3,249
Finished goods	186	231
Inventory, net	$5,813	$ 3,480

8. Accounts Payable, Accrued Expenses and Other Liabilities

Accounts payable, accrued expenses and other liabilities consisted of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Accounts payable	$9,351	$ 6,965

Accrued contracted services	43,481	51,154
Accrued employee compensation	15,236	27,118
Other liabilities	11,538	9,540
Accounts payable, accrued expenses and other liabilities	$79,606	$ 94,777

9. Fair Value Measurements

The carrying amounts of the Company's receivables and payables approximate their fair value due to their short maturities.

Accounting principles provide guidance for using fair value to measure assets and liabilities. The guidance includes a three-level hierarchy of valuation techniques used to measure fair value, defined as follows:

- Unadjusted Quoted Prices — The fair value of an asset or liability is based on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1).

- Pricing Models with Significant Observable Inputs — The fair value of an asset or liability is based on information derived from either an active market quoted price, which may require further adjustment based on the attributes of the financial asset or liability being measured, or an inactive market transaction (Level 2).
- Pricing Models with Significant Unobservable Inputs — The fair value of an asset or liability is primarily based on internally derived assumptions surrounding the timing and amount of expected cash flows for the financial instrument. Therefore, these assumptions are unobservable in either an active or inactive market (Level 3).

The Company considers an active market as one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Conversely, the Company views an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate, non-performance risk, or that of a counterparty, is considered in determining the fair values of liabilities and assets, respectively.

The Company's cash deposits and money market funds are classified within Level 1 of the fair value hierarchy because they are valued using bank balances or quoted market prices. Investments are classified as Level 2 instruments based on market pricing and other observable inputs.

Financial assets carried at fair value are classified in the tables below in one of the three categories described above:

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
	(In thousands)			
June 30, 2018				
Assets:				
Money market funds (included in cash and cash equivalents)	$44,941	$ 44,941	$ -	$ -
Available for sale securities:				
Commercial paper	83,956	-	83,956	-
Corporate debt securities	370,691	-	370,691	-
U.S. government and agency securities	5,971	-	5,971	-
Total financial assets:	$505,559	$ 44,941	$ 460,618	$ -
December 31, 2017				
Assets:				
Money market funds (included in cash and cash equivalents)	$13,361	$ 13,361	$ -	$ -
Available for sale securities:				
Commercial paper	2,983	-	2,983	-
Corporate debt securities	333,206	-	333,206	-

U.S. government and agency securities	8,715	-	8,715	-
Total financial assets	$358,265	$ 13,361	$ 344,904	$ -

The estimated fair value of marketable debt securities (commercial paper, corporate debt securities and U.S. government and agency securities), by contractual maturity, are as follows:

	Fair Value as of	
	June 30, 2018	December 31, 2017
	(In thousands)	
Due in one year or less	$379,737	$ 282,159
Due after 1 year through 2 years	80,881	62,745
Total investments in debt securities	$460,618	$ 344,904

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

10. Long-Term Debt

Debt, net of discounts and deferred financing costs, consists of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Long-term debt	$363,300	$ 355,677
Less current portion	-	-
Long-term debt outstanding	$363,300	$ 355,677

On July 6, 2016, the Company issued $460.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2023 (the "Convertible Notes"). The Company received net proceeds of $447.6 million after deducting underwriting discounts and estimated offering expenses of approximately $12.4 million. The Company used approximately $38.4 million of the net proceeds from the offering to fund the payment of the cost of the Capped Call Transactions (as defined below) that were entered into in connection with the issuance of the Convertible Notes.

The Convertible Notes are senior unsecured obligations of the Company. Interest is payable semi-annually on January 1 and July 1 of each year, beginning on January 1, 2017. The Convertible Notes mature on July 1, 2023, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible at the option of holders, under certain circumstances and during certain periods, into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The initial conversion rate of the Convertible Notes is 5.0358 shares of the Company's common stock per $1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of approximately $198.58 per share of the Company's common stock. The conversion rate is subject to adjustment upon the occurrence of certain events. The Company may redeem for cash all or part of the Convertible Notes, at its option, on or after July 6, 2021, under certain circumstances at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

On June 30, 2016, in connection with the pricing of the Convertible Notes, the Company entered into privately-negotiated capped call transactions (the "Base Capped Call Transactions") with each of Royal Bank of Canada, UBS AG, London Branch, and Credit Suisse Capital LLC (the "Option Counterparties"). On July 1, 2016, in connection with the underwriters' exercise of their over-allotment option in full, the Company entered into additional capped call transactions (the "Additional Capped Call Transactions" and, together with the Base Capped Call

Transactions, the "Capped Call Transactions") with the Option Counterparties. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions, which initially corresponds to the conversion price of the Convertible Notes, and is subject to anti-dilution adjustments generally similar to those applicable to the conversion rate of the Convertible Notes. The cap price of the Capped Call Transactions is initially $262.2725 per share, and is subject to certain adjustments under the terms of the Capped Call Transactions. If, however, the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, there would nevertheless be dilution upon conversion of the Convertible Notes to the extent that such market price exceeds the cap price of the Capped Call Transactions.

In accordance with ASC Subtopic 470-20, "Debt with Conversion and Other Options," the Company used an effective interest rate of 8.4% to determine the liability component of the Convertible Notes. This resulted in the recognition of $334.4 million as the liability component of the Convertible Notes and the recognition of the residual $113.1 million as the debt discount with a corresponding increase to additional paid-in capital for the equity component of the Convertible Notes.

Interest expense was $7.6 million and $7.3 million for the three months ended June 30, 2018 and 2017, respectively, and $15.1 million and $14.5 million for the six months ended June 30, 2018 and 2017, respectively, related to the Convertible Notes. Accrued interest on the Convertible Notes was approximately $7.5 million and $7.5 million as of June 30, 2018 and December 31, 2017, respectively. The Company recorded debt issuance costs of $12.4 million, which are being amortized using the effective interest method. As of June 30, 2018, $9.7 million of debt issuance costs are recorded on the unaudited condensed consolidated balance sheet in long-term debt, in accordance with ASU No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." As of June 30, 2018, $460.0 million aggregate principal amount of the Convertible Notes was outstanding.

11. Product Revenue, Net

The Company recognized net sales of Ocaliva of $43.2 million and $30.4 million for the three months ended June 30, 2018 and 2017, respectively, and $78.3 million and $51.0 million for the six months ended June 30, 2018 and 2017, respectively.

The table below summarizes consolidated product revenue, net by region:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Product revenue, net:				
U.S.	$34,500	$27,876	$ 63,013	$ 47,653
ex-U.S.	8,669	2,565	15,314	3,391
Total product revenue, net	$43,169	$30,441	$ 78,327	$ 51,044

12. Stockholders' Equity

On April 9, 2018, the Company issued and sold (i) 2,695,313 shares of common stock in a registered public offering (including 351,563 shares issued and sold upon the exercise in full of the underwriters' option to purchase additional shares), at a price to the public of $64.00 per share (the "Public Offering") and (ii) 1,562,500 shares of common stock (the "Private Placement Shares") in a private placement (the "Concurrent Private Placement") exempt from the registration requirements of the Securities Act of 1933, as amended, at a purchase price per share equivalent to the price to the public set in the Public Offering and pursuant to a securities purchase agreement (the "Securities Purchase Agreement") that the Company entered into with the purchasers in the Concurrent Private Placement (the "Private Placement Purchasers"). Pursuant to the Securities Purchase Agreement, the Company granted to the Private Placement Purchasers certain registration rights requiring the Company, upon request of the Private Placement Purchasers (and/or certain affiliate transferees thereof) on or after June 5, 2018 and subject to certain terms and conditions, to register the resale by such Private Placement Purchasers (and/or such affiliates) of the Private Placement Shares held by them. As of the date of this Quarterly Report on Form 10-Q, no Private Placement Purchaser has exercised any such registration rights.

The net proceeds to the Company from the Public Offering and the Concurrent Private Placement were approximately $261.4 million, after deducting underwriting discounts, commissions and estimated offering expenses of approximately $11.1 million.

13. Stock Compensation

The Company's 2012 Equity Incentive Plan ("2012 Plan") became effective upon the pricing of its initial public offering in October 2012. At the same time, the Company's 2003 Stock Incentive Plan ("2003 Plan") was terminated and 555,843 shares available under the 2003 Plan were added to the 2012 Plan.

On January 1, 2018, the number of shares available for issuance under the 2012 Plan increased by 1,010,693 shares, as a result of the automatic increase provisions thereof.

The estimated fair value of the options granted in the six months ended June 30, 2018 was determined utilizing the Black-Scholes option-pricing model at the date of grant. The fair value of the restricted stock units ("RSUs") and restricted stock awards ("RSAs") granted in the six months ended June 30, 2018 was determined utilizing the closing price of the Company's common stock on the date of grant. The fair value of the performance stock units ("PSUs") and performance share awards ("PSAs") granted in the six months ended June 30, 2018 was determined utilizing the Monte Carlo pricing model.

The following table summarizes stock option activity during the six months ended June 30, 2018:

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2017	1,808	$ 114.70	7.4	$ 14,648
Granted	648	$ 61.18	-	$ -
Exercised	(19)	$ 25.04	-	$ -
Cancelled/forfeited	(205)	$ 109.26	-	$ -
Expired	(140)	$ 175.22	-	$ -
Outstanding at June 30, 2018	2,092	$ 94.17	7.6	$ 39,796
Expected to vest	1,101	$ 86.12	9.1	$ 15,590
Exercisable	986	$ 103.15	6.0	$ 24,206

As of June 30, 2018, there was approximately $48.4 million of total unrecognized compensation expense related to the unvested stock options shown in the table above, which is expected to be recognized over a weighted average period of 1.5 years.

The fair value of the Company's option awards were estimated using the assumptions below:

	Six Months Ended June 30,	
	2018	**2017**
Volatility	60.9 - 73.3	60.9 - 65.4%
Expected term (in years)	6.0 - 6.0	6.0 - 9.9
Risk-free rate	1.8 - 2.7%	1.8 - 2.4%
Expected dividend yield	—%	—%

The following table summarizes the aggregate RSU, RSA, PSU and PSA activity during the six months ended June 30, 2018:

	Number of Awards (In thousands)	Weighted Average Fair Value

Non-vested shares outstanding, December 31, 2017	493	$ 113.60
Granted	557	$ 61.68
Vested	(134)	$ 127.56
Forfeited	(102)	$ 96.86
Non-vested shares outstanding, June 30, 2018	814	$ 77.44

As of June 30, 2018, there was approximately $54.6 million of total unrecognized compensation expense related to unvested RSUs, RSAs, PSUs and PSAs, which is expected to be recognized over a weighted average period of 1.6 years.

During the six months ended June 30, 2018, the Company granted a total of 51,200 PSUs and 4,300 PSAs to certain of the Company's executive officers. The performance criterion for such PSUs and PSAs is based on the Total Shareholder Return ("TSR") of the Company's common stock relative to the TSR of the companies comprising the S&P Biotechnology Select Industry Index (the "TSR Peer Group") over a 3-year performance period and is accounted for as a market condition under ASC Topic 718, *Compensation – Stock Compensation*. The TSR for the Company or a member of the TSR Peer Group is calculated by dividing (a) the difference of the ending average stock price minus the beginning average stock price by (b) the beginning average stock price. The beginning average stock price equals the average closing stock price over the one calendar month period prior to the beginning of the performance period, after adjusting for dividends, as applicable. The ending average stock price equals the average closing price over the one calendar month period ending on the last day of the performance period, after adjusting for dividends, as applicable. The Company's relative TSR is then used to calculate the payout percentage, which may range from zero percent (0%) to one hundred and fifty percent (150%) of the target award. The Company utilized a Monte Carlo Simulation to determine the grant date fair value of such PSUs and PSAs. The Company recorded approximately $637,000 of stock-based compensation related to such PSUs and PSAs during the six months ended June 30, 2018.

The Company accounts for forfeitures when they occur. Ultimately, the actual expense recognized over the vesting period will be for only those shares that vest and are not forfeited. The Company has in the past, and may in the future, grant performance-based awards with vesting terms based on the achievement of specified goals. To the extent such awards do not contain a market condition, the Company recognizes no expense until achievement of the performance requirement is deemed probable.

Stock-based compensation expense has been reported in our condensed consolidated statements of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Selling, general and administrative	$10,763	$9,915	$ 19,439	$ 18,889
Research and development	3,353	4,371	6,982	9,458
Total stock-based compensation	$14,116	$14,286	$ 26,421	$ 28,347

14. Net Loss Per Share

The following table presents the historical computation of basic and diluted net loss per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Historical net loss per share				
Numerator:				
Net loss	$(75,193)	$(86,564)	$ (156,783)	$ (176,494)
Denominator:				
Weighted average shares used in calculating net loss per share - basic and diluted	29,199	25,028	27,265	24,980
Net loss per share:				
Basic and diluted	$(2.58)	$(3.46)	$ (5.75)	$ (7.07)

The following potentially dilutive securities have been excluded from the computations of diluted weighted average shares outstanding as the inclusion would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Convertible Notes	2,316	2,316	2,316	2,316
Options	2,092	1,870	2,092	1,870
Restricted stock units	417	497	417	497
Total	4,825	4,683	4,825	4,683

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

You should read the following discussion and analysis together with our condensed consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "Annual Report"). This discussion and analysis contains forward-looking statements, which involve risks and uncertainties. As a result of many factors, such as those described under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a biopharmaceutical company focused on the development and commercialization of novel therapeutics to treat progressive non-viral liver diseases with high unmet medical need utilizing our proprietary bile acid chemistry. Our one marketed product, Ocaliva (obeticholic acid or "OCA"), and portfolio of clinical product candidates have the potential to treat orphan and more prevalent liver diseases for which, currently, there are limited therapeutic solutions.

OCA was approved in the United States in May 2016 for use in patients with primary biliary cholangitis ("PBC"), under the brand name Ocaliva® (obeticholic acid). OCA is a bile acid analog, a chemical substance that has a structure based on a naturally occurring human bile acid, that selectively binds to and activates the farnesoid X receptor. We believe OCA has broad liver-protective properties and may effectively counter a variety of chronic insults to the liver that cause fibrosis, or scarring, which can eventually lead to cirrhosis, liver transplant and death. We commenced sales and marketing of Ocaliva in the United States shortly after receiving marketing approval, and Ocaliva is now available to patients primarily through a network of specialty pharmacy distributors. In December 2016, the European Commission granted conditional approval for Ocaliva for the treatment of PBC and we commenced our European commercial launch in January 2017. We have submitted dossiers and obtained, or are otherwise being reviewed for, reimbursement from a number of national authorities in the European Union. Since January 2017, Ocaliva has also received regulatory approval in several of our target markets outside the United States and Europe, including Canada, Israel and Australia. We are also pursuing marketing authorization for OCA for PBC in other target markets.

We are currently evaluating our future development strategy for OCA for other indications, including a variety of other progressive non-viral liver diseases such as nonalcoholic steatohepatitis ("NASH"), primary sclerosing cholangitis ("PSC") and biliary atresia.

OCA achieved the primary endpoint in a Phase 2b clinical trial for the treatment of NASH, known as the FLINT trial, which was sponsored by the U.S. National Institute of Diabetes and Digestive and Kidney Diseases, a part of the National Institutes of Health. The FLINT trial was completed in late July 2014. We have an ongoing Phase 3 clinical trial in non-cirrhotic NASH patients with liver fibrosis, known as the REGENERATE trial. REGENERATE includes a pre-planned histology-based interim analysis after 72 weeks of treatment. We completed enrollment of the interim analysis cohort for the REGENERATE trial in 2017 and anticipate top-line results from the interim analysis in the first half of 2019. We have also completed a Phase 2 clinical trial, known as the CONTROL trial, the goal of which was to characterize the lipid metabolic effects of OCA and cholesterol management effects of concomitant statin administration in NASH patients. We announced that this trial met its primary endpoint in July 2017. We continue to work towards expanding our overall NASH development program with additional trials and studies, including our ongoing Phase 3 trial in NASH patients with compensated cirrhosis, known as the REVERSE trial.

In addition to PBC and NASH, we continue to invest in research of OCA for additional patient populations with other liver diseases. For example, in July 2017, we announced top-line results of our Phase 2 AESOP trial in PSC which evaluated the effects of 24 weeks of treatment with varying doses of OCA compared to placebo. This trial achieved its primary endpoint, which we believe establishes a proof-of-concept of OCA in a second cholestatic liver disease. We plan to discuss these results with regulatory authorities to formulate our future development plans for OCA for PSC. OCA has received orphan drug designation in the United States and the European Union for the treatment of PBC and PSC and breakthrough therapy designation from the U.S. Food and Drug Administration (the “FDA”) for the treatment of NASH patients with liver fibrosis.

Recent Developments

Public Offering and Concurrent Private Placement

In April 2018, we issued and sold (i) 2,695,313 shares of common stock in a registered public offering (including 351,563 shares issued and sold upon the exercise in full of the underwriters’ option to purchase additional shares), at a price to the public of $64.00 per share (the “Public Offering”) and (ii) 1,562,500 shares of common stock (the “Private Placement Shares”) in a private placement (the “Concurrent Private Placement”) exempt from the registration requirements of the Securities Act of 1933, as amended, at a purchase price per share equivalent to the price to the public set in the Public Offering and pursuant to a securities purchase agreement (the “Securities Purchase Agreement”) that we entered into with the purchasers in the Concurrent Private Placement (the “Private Placement Purchasers”). Pursuant to the Securities Purchase Agreement, we granted to the Private Placement Purchasers certain registration rights requiring us, upon request of the Private Placement Purchasers (and/or certain affiliate transferees thereof) on or after June 5, 2018 and subject to certain terms and conditions, to register the resale by such Private Placement Purchasers (and/or such affiliates) of the Private Placement Shares held by them. As of the date of this Quarterly Report on Form 10-Q, no Private Placement Purchaser has exercised any such registration rights.

We received net proceeds from the Public Offering and the Concurrent Private Placement of approximately $261.4 million, after deducting underwriting discounts, commissions and estimated offering expenses of approximately $11.1 million.

Financial Overview

Revenue

We commenced our commercial launch of Ocaliva for the treatment of PBC in the United States in June 2016. In December 2016, the European Commission granted conditional approval for Ocaliva for the treatment of PBC and we commenced our European commercial launch in January 2017. Since January 2017, Ocaliva has also received regulatory approval in several of our target markets outside the United States and Europe, including Canada, Israel and Australia. We sell Ocaliva to a limited number of specialty pharmacies which dispense the product directly to patients. The specialty pharmacies are referred to as our customers.

Effective January 1, 2018, we began recognizing revenue under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of this new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

Product Revenue, Net

We provide the right of return to our customers for unopened product for a limited time before and after its expiration date. Prior to July 2017, given our limited sales history for Ocaliva and the inherent uncertainties in estimating product returns, we determined that the shipments of Ocaliva made to our customers did not meet the criteria for revenue recognition at the time of shipment. Accordingly, we recognized revenue when the product was sold through by our customers, provided all other revenue recognition criteria were met. We invoiced our customers upon shipment

of Ocaliva to them and recorded accounts receivable, with a corresponding liability for deferred revenue equal to the gross invoice price. We then recognized revenue when Ocaliva was sold through as specialty pharmacies dispensed product directly to the patients (sell-through basis). We re-evaluated our revenue recognition policy in the third quarter of 2017, which included the accumulation and review of customer-related transactions since our commercial launch in the second quarter of 2016. We concluded we had accumulated sufficient data to reasonably estimate product returns and, therefore, began to recognize revenue at the time of shipment to our customers (sell-in basis). During the third quarter of 2017, we recorded an adjustment related to this change in estimate to recognize previously deferred revenue. The net effect was an increase in net sales of Ocaliva of $4.1 million for the nine months ended September 30, 2017. We also established a new reserve of $0.7 million during the third quarter of 2017 related to future returns from our customers.

Under ASC 606, we have written contracts with each of our customers that have a single performance obligation – to deliver products upon receipt of a customer order – and these obligations are satisfied when delivery occurs and the customer receives Ocaliva. We evaluate the creditworthiness of each of our customers to determine whether collection is reasonably assured. We estimate variable revenue by calculating gross product revenues based on the wholesale acquisition cost that we charge our customers for Ocaliva, and then estimating our net product revenues by deducting (i) trade allowances, such as invoice discounts for prompt payment and customer fees, (ii) estimated government rebates and discounts related to Medicare, Medicaid and other government programs, and (iii) estimated costs of incentives offered to certain indirect customers including patients.

We recognized net sales of Ocaliva of $43.2 million and $30.4 million for the three months ended June 30, 2018 and 2017, respectively, and $78.3 million and $51.0 million for the six months ended June 30, 2018 and 2017, respectively.

Licensing Revenue

In March 2011, we entered into an exclusive license agreement (the "Original License Agreement") with Sumitomo Dainippon Pharma Co., Ltd. ("Sumitomo Dainippon"), pursuant to which we granted to Sumitomo Dainippon an exclusive license to research, develop and commercialize OCA for the treatment of PBC and NASH in Japan and China (excluding Taiwan) and an option to research, develop and commercialize OCA in certain countries outside of such territories (the "Country Option"). We received an upfront payment from Sumitomo Dainippon of $15.0 million under the terms of the Original License Agreement. In May 2014, Sumitomo Dainippon exercised the Country Option in part to add Korea as part of its licensed territories and paid us a $1.0 million upfront fee in connection therewith. In February 2018, we and Sumitomo Dainippon entered into Amendment No. 3 (the "Sumitomo Amendment") to the Original License Agreement (as amended, the "License Agreement"), pursuant to which (i) Sumitomo Dainippon agreed to return the rights to develop and commercialize OCA in Japan and Korea and waived its rights to the Country Option, (ii) we agreed to forego any further milestone or royalty payments relating to the development and commercialization of OCA in Japan and Korea and (iii) certain milestone payment obligations with respect to the development and commercialization of OCA were adjusted. In addition, we and Sumitomo Dainippon agreed that if certain clinical development milestones in China are not met by December 31, 2020, Sumitomo Dainippon may choose either to make a milestone payment to us or terminate the License Agreement. As of June 30, 2018, we had achieved $6.0 million of development milestones under the License Agreement. We may be eligible to receive additional milestone payments under the License Agreement in an aggregate amount of up to approximately $23.0 million based on the occurrence of certain clinical trial and regulatory-related events and tiered royalty payments up to the mid-twenties in percentage terms based on net sales of OCA products in China (excluding Taiwan).

For accounting purposes, the upfront payments were recorded as deferred revenue and amortized over time and milestone payments are recognized once earned. For the six months ended June 30, 2018 and 2017, we recognized $1.2 million and $0.9 million, respectively, in licensing revenue related to the amortization of upfront payments under the License Agreement. Included in licensing revenue for the six months ended June 30, 2018 is $0.4 million related to the accelerated recognition, as a result of the Sumitomo Amendment, of the remaining portion of deferred revenue associated with the $1.0 million upfront payment that we received under the Original License Agreement in connection with Sumitomo Dainippon's exercise of the Country Option with respect to Korea. We anticipate that we will recognize revenue of approximately $1.6 million per year through June 2020, related to the amortization of upfront payments under the License Agreement.

Selling, General and Administrative Expenses

We have incurred and expect to continue to incur significant selling, general and administrative expenses as a result of, among other initiatives, the launch and commercialization of Ocaliva for PBC in the United States, Europe and our other target markets, the preparation for the potential commercialization of OCA for NASH, if approved, and our other future approved products, if any, the build-out of our general and administrative infrastructure in the United States and abroad and our operations as a public company.

Research and Development Expenses

Since our inception, we have focused significant resources on our research and development activities, including conducting preclinical studies and clinical trials, pursuing regulatory approvals and engaging in other product development activities. We recognize research and development expenses as they are incurred.

We have incurred and expect to continue to incur significant research and development expenses as a result of, among other initiatives, our clinical development programs for OCA for PBC and NASH, our other earlier stage research programs and our regulatory approval efforts.

Results of Operations

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

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

	Three Months Ended June 30,		Dollar Change
	2018	2017	
	(In thousands)		
Revenue:			
Product revenue, net	$43,169	$30,441	$ 12,728
Licensing revenue	406	446	(40)
Total revenue	43,575	30,887	12,688
Operating expenses:			
Cost of sales	713	279	434
Selling, general and administrative	65,224	66,925	(1,701)
Research and development	47,415	44,192	3,223
Total operating expenses	113,352	111,396	1,956
Operating loss	(69,777)	(80,509)	10,732
Other income (expense):			
Interest expense	(7,589)	(7,279)	(310)
Other income, net	2,173	1,224	949
	(5,416)	(6,055)	639
Net loss	$(75,193)	$(86,564)	$ 11,371

Revenues

Product revenue, net was $43.2 million and $30.4 million for the three months ended June 30, 2018 and 2017, respectively. For the three months ended June 30, 2018 and 2017, product revenue, net was comprised of U.S. Ocaliva net sales of $34.5 million and $27.9 million, respectively, and ex-U.S. Ocaliva net sales of $8.7 million and $2.6 million, respectively. We commenced our commercial launch of Ocaliva for the treatment of PBC in the United States and certain European countries in June 2016 and January 2017, respectively. Since January 2017, Ocaliva has also received regulatory approval in several of our target markets outside the United States and Europe, including Canada, Israel and Australia. For the three months ended June 30, 2018 and 2017, licensing revenue was approximately $0.4 million and $0.4 million, respectively, in each case, related to the amortization of upfront payments under the License Agreement.

Cost of sales

Cost of sales was $0.7 million and $0.3 million for the three months ended June 30, 2018 and 2017, respectively. Prior to the FDA's approval of Ocaliva, we expensed costs related to the manufacturing and buildup of our Ocaliva commercial launch supplies. As a result, our cost of sales for the quarters ended June 30, 2018 and 2017 included only packaging and labeling expenses incurred during the quarter. We expect our cost of sales to remain negligible until the previously expensed supplies of Ocaliva are sold.

Selling, general and administrative expenses

Selling, general and administrative expenses were $65.2 million and $66.9 million for the three months ended June 30, 2018 and 2017, respectively. The $1.7 million net decrease between periods is primarily due to a decrease in consultant spend of $3.2 million and a decrease of $3.7 million in legal and other expenses. The decrease was partially offset by an increase in personnel-related costs of $3.9 million to support our continued commercial and international initiatives, a net increase of $0.8 million related to commercialization, market research and medical affairs activities and a loss related to sub-leases and disposal of fixed assets of $0.5 million.

Research and development expenses

Research and development expenses were $47.4 million and $44.2 million for the three months ended June 30, 2018 and 2017, respectively, representing a net increase of $3.2 million. The net increase in research and development expenses primarily reflects increases in OCA research and development activities of approximately $9.1 million, partially offset by decreased expenses of approximately $3.4 million in compensation-related costs and $2.5 million in other costs.

Interest expense

Interest expense was $7.6 million and $7.3 million for the three months ended June 30, 2018 and 2017, respectively, in each case, related to the $460.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2023 (the “Convertible Notes”) that we issued in July 2016.

Other income, net

Other income, net was $2.2 million and $1.2 million in the three months ended June 30, 2018 and 2017, respectively. Such income is primarily attributable to interest income earned on cash, cash equivalents and investment securities.

Income taxes

For the three months ended June 30, 2018 and 2017, no income tax expense or benefit was recognized. Our deferred tax assets are comprised primarily of net operating loss carryforwards. We maintain a full valuation allowance on our deferred tax assets since we have not yet achieved sustained profitable operations. As a result, we have not recorded any income tax benefit since our inception.

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

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

	Six Months Ended June 30,		Dollar Change
	2018	2017	
	(In thousands)		
Revenue:			
Product revenue, net	$78,327	$51,044	$ 27,283
Licensing revenue	1,211	891	320
Total revenue	79,538	51,935	27,603
Operating expenses:			
Cost of sales	993	376	617
Selling, general and administrative	127,691	128,007	(316)
Research and development	96,087	88,024	8,063
Total operating expenses	224,771	216,407	8,364
Operating loss	(145,233)	(164,472)	19,239
Other income (expense):			
Interest expense	(15,098)	(14,486)	(612)
Other income, net	3,548	2,464	1,084
	(11,550)	(12,022)	472
Net loss	$(156,783)	$(176,494)	$ 19,711

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Revenues

Product revenue, net was $78.3 million and $51.0 million for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, product revenue, net was comprised of U.S. Ocaliva net sales of $63.0 million and $47.7 million, respectively, and ex-U.S. Ocaliva net sales of $15.3 million and $3.4 million, respectively. We commenced our commercial launch of Ocaliva for the treatment of PBC in the United States and certain European countries in June 2016 and January 2017, respectively. Since January 2017, Ocaliva has also received regulatory approval in several of our target markets outside the United States and Europe, including Canada, Israel and Australia. For the six months ended June 30, 2018 and 2017, licensing revenue was approximately $1.2 million and $0.9 million, respectively, in each case, related to the amortization of upfront payments under the License Agreement. The increase in licensing revenue related to the accelerated recognition of certain upfront payments under the License Agreement resulting from the Sumitomo Amendment, which was entered into in the first quarter of 2018.

Cost of sales

Cost of sales was $1.0 million and $0.4 million for the six months ended June 30, 2018 and 2017, respectively. Prior to the FDA's approval of Ocaliva, we expensed costs related to the manufacturing and buildup of our Ocaliva commercial launch supplies. As a result, our cost of sales for the six months ended June 30, 2018 and 2017 included only packaging and labeling expenses incurred during the period. We expect our cost of sales to remain negligible until the previously expensed supplies of Ocaliva are sold.

Selling, general and administrative expenses

Selling, general and administrative expenses were $127.7 million and $128.0 million for the six months ended June 30, 2018 and 2017, respectively. The $0.3 million net decrease between periods is primarily due to a net decrease of $3.5 million related to commercialization, market research and medical affairs activities, a decrease in consultant spend of $1.8 million and a net decrease of $2.7 million in legal and other expenses, partially offset by a loss related to sub-leases and disposal of fixed assets of $1.8 million and an increase in personnel-related costs of $5.9 million to support our commercial and international initiatives.

Research and development expenses

Research and development expenses were $96.1 million and $88.0 million for the six months ended June 30, 2018 and 2017, respectively, representing a net increase of $8.1 million. The net increase in research and development expenses primarily reflects increases in OCA research and development activities of approximately $19.3 million, partially offset by decreased expenses of approximately $7.9 million in compensation-related costs and $3.3 million in other costs.

Interest expense

Interest expense was $15.1 million and $14.5 million for the six months ended June 30, 2018 and 2017, respectively, in each case, related to the Convertible Notes.

Other income, net

Other income, net was $3.5 million and $2.5 million in the six months ended June 30, 2018 and 2017, respectively. Such income is primarily attributable to interest income earned on cash, cash equivalents and investment securities.

Income taxes

For the six months ended June 30, 2018 and 2017, no income tax expense or benefit was recognized. Our deferred tax assets are comprised primarily of net operating loss carryforwards. We maintain a full valuation allowance on our deferred tax assets since we have not yet achieved sustained profitable operations. As a result, we have not recorded any income tax benefit since our inception.

Liquidity and Capital Resources

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods indicated:

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ (136,321)	$ (132,805)
Investing activities	(116,541)	148,947
Financing activities	261,843	1,647
Effect of exchange rate changes	(1,274)	567
Net (decrease) increase in cash and cash equivalents	7,707	18,356

Operating Activities. Net cash used in operating activities of approximately $136.3 million during the six months ended June 30, 2018 was primarily a result of our $156.8 million net loss and a net decrease in operating assets and liabilities of $18.1 million, partially offset by $26.4 million in stock-based compensation, $6.9 million for accretion of the discount on the Convertible Notes, $0.5 million for the amortization of investment premium, $1.3 million for the loss on disposal of fixed assets and $2.4 million of depreciation.

Net cash used in operating activities of approximately $132.8 million during the six months ended June 30, 2017 was primarily a result of our $176.5 million net loss, partially offset by a net increase in operating assets and liabilities of $4.5 million, $28.3 million in stock-based compensation, $6.3 million for accretion of the discount on the Convertible Notes, $1.9 million for the amortization of investment premium and $1.9 million of depreciation.

Investing Activities. For the six months ended June 30, 2018, net cash used in investing activities primarily reflects the purchase of investment securities of $294.5 million, partially offset by the sale of investment securities of $178.0 million.

For the six months ended June 30, 2017, net cash provided by investing activities primarily reflects the sale of investment securities of $236.9 million, partially offset by the purchase of investment securities of $80.7 million and $8.2 million of capital expenditures related to the build out of our new corporate office.

Financing Activities. Net cash provided by financing activities in the six months ended June 30, 2018 consisted primarily of net proceeds from the Public Offering and Concurrent Private Placement of $261.4 million and $0.5 million from the exercise of options to purchase common stock.

Net cash provided by financing activities in the six months ended June 30, 2017 consisted primarily of $1.6 million from the exercise of options to purchase common stock.

Future Funding Requirements

As of June 30, 2018, we had $538.3 million in cash, cash equivalents and investment securities. We currently expect to incur significant operating expenses in the fiscal year ending December 31, 2018. These expenses are planned to support, among other initiatives, the continued commercialization of Ocaliva for PBC in the United States and our other markets, our continued clinical development of OCA for PBC and NASH and our other earlier stage research programs. Although we believe that our existing capital resources, together with our net sales of Ocaliva for PBC, will be sufficient to fund our anticipated operating requirements for the next twelve months, we may need to raise additional capital to fund our operating requirements beyond that period. Furthermore, in light of the numerous risks and uncertainties associated with pharmaceutical product development and commercialization, any delays in, or unanticipated costs associated with, our development, regulatory or commercialization efforts could significantly increase the amount of capital required by us to fund our operating requirements. Accordingly, we may seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. Our forecast regarding the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results, including the costs to maintain our currently planned operations, could vary materially.

Our forecasts regarding the period of time that our existing capital resources will be sufficient to meet our operating requirements and the timing of our future funding requirements, both near and long-term, will depend on a variety of factors, many of which are outside of our control. Such factors include, but are not limited to:

- our ability to successfully commercialize Ocaliva for PBC;
- our ability to maintain our regulatory approval of Ocaliva for PBC in the United States, Europe, Canada, Israel, Australia and other jurisdictions in which we have or may receive marketing authorization;
- the initiation, timing, cost, conduct, progress and results of our research and development activities, preclinical studies and clinical trials, including any issues, delays or failures in identifying patients, enrolling patients, treating patients or completing and timely reporting the results of our NASH or PBC clinical trials;
- our ability to timely and cost-effectively obtain regulatory approval of our product candidates, including OCA for NASH;
- conditions that may be imposed by regulatory authorities on our marketing approvals for our products and product candidates, such as the need for clinical outcomes data (and not just results based on achievement of a surrogate endpoint), and any related restrictions, limitations and/or warnings contained in the label of any of our products or product candidates;
- any potential side effects associated with Ocaliva for PBC or our product candidates that could delay or prevent approval, require that an approved product be taken off the market, require the inclusion of safety warnings or precautions or otherwise limit the sale of such product or product candidate;
- our ability to maintain our relationships with, and the performance of, third-party vendors upon whom we are substantially dependent, including contract research organizations for our clinical trials and our third-party suppliers and manufacturers;
- our ability to identify, develop and commercialize our products and product candidates;
- our ability to obtain and maintain intellectual property protection for our products and product candidates;
- our ability to successfully commercialize our product candidates, if approved;
- the size and growth of the markets for our products and product candidates and our ability to serve those markets;
- the degree of market acceptance of Ocaliva for PBC and, if approved, our product candidates, which may be affected by the ability of patients and healthcare providers to obtain coverage or reimbursement from payors for our products and the extent to which such coverage or reimbursement is provided;
- our ability to establish and maintain an effective sales and marketing infrastructure directly or through collaborations with third parties;
- competition from existing drugs or new drugs that become available;
- our ability to prevent system failures, data breaches or violations of data protection laws;
- costs and outcomes relating to any securities, intellectual property, employment, product liability or other litigation;
- our collaborators' election to pursue research, development and commercialization activities;
- our ability to attract and maintain collaborators with development, regulatory and commercialization expertise;
- our need for and ability to obtain additional financing;
- our estimates regarding expenses, revenues and capital requirements and the accuracy thereof;
- our use of cash and short-term investments;
- our ability to acquire, license and invest in businesses, technologies, product candidates and products;
- our ability to attract and retain key personnel to manage our business effectively;
- our ability to manage the growth of our operations, infrastructure, personnel, systems and controls;
- our ability to obtain and maintain adequate insurance coverage; and
- the other risks and uncertainties identified under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q and in our other periodic filings filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report.

We have no committed external sources of funding and additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available to us, we may not be able to make

scheduled debt payments on a timely basis, or at all, and may be required to delay, limit, reduce or cease our operations.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments” in our Annual Report.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements as defined under the rules of the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates and there have been no material changes to our market risk from that disclosed under the caption “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) required by Rules 13a-15(b) or 15d-15(b) of the Exchange Act, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in various legal disputes, investigations and proceedings in the normal course of our business, including intellectual property litigation, employment litigation and other litigation. The outcome of such matters is uncertain, and we may from time to time enter into settlements to resolve such matters.

On September 27, 2017, a purported shareholder class action, initially styled DeSmet v. Intercept Pharmaceuticals, Inc., et al, was filed in the United States District Court for the Southern District of New York, naming us and certain of our officers as defendants. The Court appointed lead plaintiffs in the lawsuit on June 1, 2018, and the lead plaintiffs filed an amended complaint on July 31, 2018, captioned Hou Liu and Amy Fu v. Intercept Pharmaceuticals, Inc., et al. The lead plaintiffs claim to be suing on behalf of anyone who purchased or otherwise acquired our common stock between June 9, 2016 and September 20, 2017. This lawsuit alleges that material misrepresentations and/or omissions of material fact were made in our public disclosures during the period from June 9, 2016 to September 20, 2017, in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The alleged improper disclosures relate to statements regarding Ocaliva dosing, use and pharmacovigilance-related matters, as well as our operations, financial performance and prospects. The plaintiffs seek unspecified monetary damages on behalf of the putative class, an award of costs and expenses, including attorney's fees, and rescissory damages. On January 5, 2018, a follow-on derivative suit, styled Davis v. Pruzanski et al., was filed in New York state court by shareholder Gregg Davis based on substantially the same allegations as those set forth in the securities case. On December 1, 2017, a purported shareholder demand was made on the Company based on substantially the same allegations as those set forth in the securities case.

While we believe that we have a number of valid defenses to the claims described above and intend to vigorously defend ourselves, the matters are in the early stages of litigation and no assessment can be made as to the likely outcome of the matters or whether they will be material to us. Accordingly, an estimate of the potential loss, or range of loss, if any, to us relating to the matters is not possible at this time.

In May 2018, we received a subpoena from the SEC requesting information in connection with our patient assistance program and certain of our commercial activities. The SEC's letter enclosing the subpoena states that the investigation and the subpoena do not mean that we or anyone else has broken the law, or that the SEC has a negative opinion of any person, entity or security. We are cooperating fully with the SEC in this matter. At this time, we are unable to predict whether any proceeding may be instituted in connection with the subpoena, or the outcome of any such proceeding, if instituted.

Item 1A. Risk Factors.

Investing in our securities involves a high degree of risk. The following risk factors and other information included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 should be carefully considered before deciding whether to invest in shares of our common stock or the Convertible Notes. The risks and uncertainties described below and in our other filings are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks, or such unknown risks, occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected. In that case, the market price of our securities could decline, and you may lose all or part of your investment.

Risks Related to Our Financial Position and Need for Additional Capital

We are currently dependent on the successful commercialization of Ocaliva for PBC. To the extent Ocaliva is not commercially successful, our business, financial condition and results of operations may be materially adversely affected and the price of our common stock may decline.

Ocaliva is our only drug that has been approved for sale and it has only been approved for the treatment of PBC in combination with ursodeoxycholic acid (or ursodiol) in adults with an inadequate response to ursodiol or as monotherapy in adults unable to tolerate ursodiol.

Our ability to generate profits from operations and become profitable currently depends on the commercial success of Ocaliva for PBC. However, the successful commercialization of Ocaliva for PBC is subject to many risks. We have not launched or commercialized a drug before, and there is no guarantee that we will be able to do so successfully. There are numerous examples of unsuccessful product launches and commercial efforts, as well as failures to meet expectations of market potential, including by pharmaceutical companies with greater experience and resources than us.

The commercial success of Ocaliva for PBC depends on the extent to which patients, physicians and payers accept and adopt Ocaliva as a treatment for PBC, and we do not know whether our or others' estimates in this regard will be accurate. As such, there is significant uncertainty in the degree of market acceptance that Ocaliva will have for PBC. For example, if the patient population suffering from PBC is smaller than we estimate, or even if the patient population matches our estimates but Ocaliva is not widely accepted as a treatment for PBC, the commercial potential of Ocaliva for PBC will be limited. Physicians may not prescribe Ocaliva and patients may be unwilling to use Ocaliva if coverage is not provided or reimbursement is inadequate to cover a significant portion of the cost. Additionally, the use of Ocaliva in a non-trial setting may result in the occurrence of unexpected or a greater incidence of side effects, adverse reactions or misuse that may negatively affect the commercial prospects of Ocaliva for PBC. Furthermore, any negative development in any other development program for OCA or our failure to satisfy the post-marketing regulatory commitments and requirements to which we are or may become subject, including the completion of our Phase 4 COBALT trial, may materially and adversely impact the commercial results and potential of Ocaliva for PBC. See "—Risks Related to the Commercialization of Our Products" and "—Risks Related to the Development and the Regulatory Review and Approval of Our Products and Product Candidates" below.

As a result, it is uncertain whether Ocaliva net sales for PBC will in the future sustain our operations and it may take a significant amount of time before Ocaliva net sales for PBC sustain our operations even if Ocaliva becomes accepted as a therapy for PBC. Furthermore, Ocaliva may not receive regulatory approval for PBC in jurisdictions beyond those in which it is currently approved, which may also limit our prospects. If the commercialization of Ocaliva for PBC is unsuccessful or perceived to be unsuccessful, the long-term prospects of Ocaliva for PBC, as well as the long-term

prospects of our company, may be materially and adversely affected.

We have never been profitable. We expect to incur losses for the foreseeable future, and we may never achieve or sustain profitability.

We have never been profitable and do not expect to be profitable in the foreseeable future. We incurred net losses of $360.4 million, $412.8 million and $226.4 million for the years ended December 31, 2017, 2016 and 2015, respectively, and $156.8 million and $176.5 million for the six months ended June 31, 2018 and 2017, respectively. To date, we have financed our operations primarily through public and private securities offerings, sales of product and payments received under our licensing and collaboration agreements. At June 30, 2018, we had $538.3 million in cash, cash equivalents and investment securities.

We have devoted substantially all of our resources to the development of our product candidates, including the conduct of our clinical trials, the launch and commercialization of Ocaliva for PBC, preparation for the potential launch of OCA for NASH and general and administrative operations, including the protection of our intellectual property.

We expect to continue to incur losses for the foreseeable future, and we expect these losses to be significant as we, among other things, continue to commercialize Ocaliva for PBC, develop and seek regulatory approvals for OCA for NASH and other indications, and build-out the infrastructure in the United States and internationally necessary to support our product development and commercialization efforts and operations as a public company. We believe our prospects and ability to significantly grow revenues will be dependent on our ability to successfully develop and commercialize OCA for indications other than PBC, such as NASH and PSC. As a result, we expect a significant amount of resources to continue to be devoted to our development programs for OCA.

As part of our product development activities, we anticipate that we will continue our Phase 4 COBALT trial of OCA for PBC, our Phase 3 clinical program of OCA for NASH, including our Phase 3 REGENERATE trial in non-cirrhotic NASH patients with liver fibrosis and our Phase 3 REVERSE trial for NASH patients with compensated cirrhosis, and the development of OCA for PSC. We also expect to continue the development of OCA for additional diseases, such as biliary atresia, a rare pediatric disease characterized by deficient bile duct development. Our overall development program for OCA for NASH is expected to include a number of trials, including clinical trials required to submit a New Drug Application (“NDA”) for NASH. Our expenses could increase if we are required by the FDA or the European Medicines Agency (“EMA”) to perform studies or trials in addition to those currently expected, or if there are any delays in completing our clinical trials or the development of any of our product candidates.

If OCA or any of our other product candidates fails in clinical trials or does not gain regulatory approval, or if OCA or any of our other product candidates does not achieve market acceptance, we may never become profitable. Our net losses and negative cash flows have had, and will continue to have, an adverse effect on our stockholders’ equity and working capital. Because of the numerous risks and uncertainties associated with pharmaceutical product development

and commercialization, we are unable to predict with certainty the timing or amount of our expenses, whether such expenses may increase, or when, or if, we will be able to achieve profitability. The amount of our future net losses will depend, in part, on our future expenses, whether and by how much such expenses increase and our ability to generate revenues.

We will require substantial additional funding, which may not be available to us on acceptable terms, if at all. If adequate funds are not available to us, we may be required to delay, limit, reduce or cease our operations.

We are currently advancing OCA through clinical development for multiple indications, including NASH, and other product candidates through various stages of clinical and preclinical development. Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. If, for example, the FDA requires that we perform additional studies beyond those that we currently expect, our expenses could increase materially beyond what we currently anticipate, and the timing of any potential product approval may be delayed.

In addition, we have incurred and anticipate that we will continue to incur significant product sales, marketing, manufacturing and distribution expenses relating to the commercialization of Ocaliva for PBC. As part of our longer-term strategy, we anticipate that we will incur significant expenses in connection with our research and development efforts, the commercialization of our approved products other than Ocaliva for PBC, the build-out of our general and administrative infrastructure in the United States and abroad and our operations as a public company. We may also engage in business development activities that involve potential in- or out-licensing of products or technologies or acquisitions of other products, technologies or businesses.

As of June 30, 2018, we had $538.3 million in cash, cash equivalents and investment securities. We currently expect to incur significant operating expenses in the fiscal year ending December 31, 2018. These expenses are planned to support, among other initiatives, the continued commercialization of Ocaliva for PBC in the United States and our other markets, our continued clinical development of OCA for PBC and NASH and our other earlier stage research programs. Although we believe that our existing capital resources, together with our net sales of Ocaliva for PBC, will be sufficient to fund our anticipated operating requirements for the next twelve months, we may need to raise additional capital to fund our operating requirements beyond that period. Furthermore, in light of the numerous risks and uncertainties associated with pharmaceutical product development and commercialization, any delays in, or unanticipated costs associated with, our development, regulatory or commercialization efforts could significantly increase the amount of capital required by us to fund our operating requirements. Accordingly, we may seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time. Our forecast regarding the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results, including the costs to maintain our currently planned operations, could vary materially.

Our forecasts regarding the period of time that our existing capital resources will be sufficient to meet our operating requirements and the timing of our future funding requirements, both near and long-term, will depend on a variety of factors, many of which are outside of our control. Such factors include, but are not limited to:

- our ability to successfully commercialize Ocaliva for PBC;

- our ability to maintain our regulatory approval of Ocaliva for PBC in the United States, Europe, Canada, Israel, Australia and other jurisdictions in which we have or may receive marketing authorization;

- the initiation, timing, cost, conduct, progress and results of our research and development activities, preclinical studies and clinical trials, including any issues, delays or failures in identifying patients, enrolling patients, treating patients or completing and timely reporting the results of our NASH or PBC clinical trials;

- our ability to timely and cost-effectively obtain regulatory approval of our product candidates, including OCA for NASH;

- conditions that may be imposed by regulatory authorities on our marketing approvals for our products and product candidates, such as the need for clinical outcomes data (and not just results based on achievement of a surrogate endpoint), and any related restrictions, limitations and/or warnings contained in the label of any of our products or product candidates;

- any potential side effects associated with Ocaliva for PBC or our product candidates that could delay or prevent approval, require that an approved product be taken off the market, require the inclusion of safety warnings or precautions or otherwise limit the sale of such product or product candidate;

- our ability to maintain our relationships with, and the performance of, third-party vendors upon whom we are substantially dependent, including contract research organizations for our clinical trials and our third-party suppliers and manufacturers;

- our ability to identify, develop and commercialize our products and product candidates;

- our ability to obtain and maintain intellectual property protection for our products and product candidates;

- our ability to successfully commercialize our product candidates, if approved;

- the size and growth of the markets for our products and product candidates and our ability to serve those markets;

- the degree of market acceptance of Ocaliva for PBC and, if approved, our product candidates, which may be affected by the ability of patients and healthcare providers to obtain coverage or reimbursement from payors for our products and the extent to which such coverage or reimbursement is provided;

- our ability to establish and maintain an effective sales and marketing infrastructure directly or through collaborations with third parties;
- competition from existing drugs or new drugs that become available;
- our ability to prevent system failures, data breaches or violations of data protection laws;
- costs and outcomes relating to any securities, intellectual property, employment, product liability or other litigation;
- our collaborators' election to pursue research, development and commercialization activities;
- our ability to attract and maintain collaborators with development, regulatory and commercialization expertise;
- our need for and ability to obtain additional financing;
- our estimates regarding expenses, revenues and capital requirements and the accuracy thereof;
- our use of cash and short-term investments;
- our ability to acquire, license and invest in businesses, technologies, product candidates and products;
- our ability to attract and retain key personnel to manage our business effectively;
- our ability to manage the growth of our operations, infrastructure, personnel, systems and controls;
- our ability to obtain and maintain adequate insurance coverage; and
- the other risks and uncertainties identified under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q and in our other periodic filings filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017.

We have no committed external sources of funding and additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available to us, we may not be able to make scheduled debt payments on a timely basis, or at all, and may be required to delay, limit, reduce or cease our operations.

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

Unless and until we generate sufficient cash flow from sales of our products, including Ocaliva for PBC and, if approved, OCA for NASH, we expect to finance our future cash needs through public or private equity offerings, debt financings, government or other third-party funding, marketing and distribution arrangements or other collaborations, strategic alliances and licensing arrangements, or a combination of these sources. Additional funding may not be available to us on acceptable terms, if at all.

The terms of any future financing may adversely affect the interests of our existing securityholders. For example, to the extent that we raise additional capital through the sale of equity or convertible debt securities, our stockholders' ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. We also could be required to seek funds through arrangements with licensing or collaborative partners or otherwise that may require us to relinquish rights to some of our technologies or product candidates or otherwise agree to terms unfavorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate 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.

We have a limited operating history as a commercial organization, which may make it difficult to predict our future performance, and we expect to continue to face a number of factors that may cause operating results to fluctuate.

We are a biopharmaceutical company with a limited operating history as a commercial organization. Prior to the launch and commercialization of Ocaliva for PBC, our operations were limited to developing our technology, undertaking preclinical studies and clinical trials of our product candidates and preparing for the commercial launch of Ocaliva for PBC. Other than Ocaliva for PBC, none of our other product candidates have received regulatory approval. Consequently, any predictions regarding our future success or viability may not be as accurate as they could be if we had a longer operating history or greater experience commercializing approved products.

The commercialization of Ocaliva for an orphan disease such as PBC is, and will continue to be, expensive and time-consuming, and we cannot be certain that we will be able to generate sufficient revenues from sales of Ocaliva for PBC in our target markets to offset such costs. Furthermore, our financial condition and operating results have varied significantly in the past and are expected to continue to significantly fluctuate from quarter-to-quarter and year-to-year due to a variety of factors, many of which are outside of our control. Such factors include, but are not limited to:

- our ability to successfully commercialize Ocaliva for PBC;
- our ability to maintain our regulatory approval of Ocaliva for PBC in the United States, Europe, Canada, Israel, Australia and other jurisdictions in which we have or may receive marketing authorization;
- the initiation, timing, cost, conduct, progress and results of our research and development activities, preclinical studies and clinical trials, including any issues, delays or failures in identifying patients, enrolling patients, treating patients or completing and timely reporting the results of our NASH or PBC clinical trials;
- our ability to timely and cost-effectively obtain regulatory approval of our product candidates, including OCA for NASH;
- conditions that may be imposed by regulatory authorities on our marketing approvals for our products and product candidates, such as the need for clinical outcomes data (and not just results based on achievement of a surrogate endpoint), and any related restrictions, limitations and/or warnings contained in the label of any of our products or product candidates;
- any potential side effects associated with Ocaliva for PBC or our product candidates that could delay or prevent approval, require that an approved product be taken off the market, require the inclusion of safety warnings or precautions or otherwise limit the sale of such product or product candidate;
- our ability to maintain our relationships with, and the performance of, third-party vendors upon whom we are substantially dependent, including contract research organizations for our clinical trials and our third-party suppliers and manufacturers;
- our ability to identify, develop and commercialize our products and product candidates;
- our ability to obtain and maintain intellectual property protection for our products and product candidates;

- our ability to successfully commercialize our product candidates, if approved;
- the size and growth of the markets for our products and product candidates and our ability to serve those markets;
- the degree of market acceptance of Ocaliva for PBC and, if approved, our product candidates, which may be affected by the ability of patients and healthcare providers to obtain coverage or reimbursement from payors for our products and the extent to which such coverage or reimbursement is provided;
- our ability to establish and maintain an effective sales and marketing infrastructure directly or through collaborations with third parties;
- competition from existing drugs or new drugs that become available;
- our ability to prevent system failures, data breaches or violations of data protection laws;
- costs and outcomes relating to any securities, intellectual property, employment, product liability or other litigation;
- our collaborators' election to pursue research, development and commercialization activities;
- our ability to attract and maintain collaborators with development, regulatory and commercialization expertise;
- our need for and ability to obtain additional financing;
- our estimates regarding expenses, revenues and capital requirements and the accuracy thereof;
- our use of cash and short-term investments;
- our ability to acquire, license and invest in businesses, technologies, product candidates and products;
- our ability to attract and retain key personnel to manage our business effectively;
- our ability to manage the growth of our operations, infrastructure, personnel, systems and controls;
- our ability to obtain and maintain adequate insurance coverage; and

the other risks and uncertainties identified under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q and in our other periodic filings filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017.

Risks Related to the Development and the Regulatory Review and

Approval of Our Products and Product Candidates

We cannot be certain whether Ocaliva will receive full approval for PBC in jurisdictions where it has previously received accelerated or conditional approval, or that Ocaliva will be approved for PBC in any jurisdictions beyond those in which it is currently approved. Furthermore, OCA may not be approved for NASH or any other indication beyond PBC and we may not receive regulatory approval for any other product candidate. Without regulatory approval, we will not be able to market and commercialize our product candidates.

The development, testing, manufacture, labeling, packaging, storage, approval, promotion, advertising, distribution, marketing and export and import, among other things, of our products and product candidates are subject to extensive regulation by the FDA in the United States, the EMA in Europe and various regulatory authorities in other countries, with regulations differing from country to country. We are not permitted to market our product candidates in the United States or Europe until we receive approval of an NDA, from the FDA, or a Marketing Authorization Application ("MAA"), from the EMA, respectively. Currently, our ability to generate product sales depends on the successful marketing of Ocaliva for PBC in the jurisdictions in which it has received regulatory approval. In the future, our ability to generate product sales in addition to those of Ocaliva for PBC will depend on whether we are successful in obtaining regulatory approval of our other product candidates, including OCA for NASH.

Ocaliva is our only drug that has been approved for sale and it has only been approved for the treatment of PBC in combination with ursodiol in adults with an inadequate response to ursodiol or as monotherapy in adults unable to tolerate ursodiol. In the United States, Ocaliva was approved for PBC under the accelerated approval pathway. Accelerated approval was granted for OCA for PBC based on a reduction in alkaline phosphatase ("ALP"); however, an improvement in survival or disease-related symptoms has not yet been established. Continued approval of Ocaliva for PBC in the United States may be contingent upon the verification and description of clinical benefit in confirmatory trials. Our Phase 4 COBALT confirmatory outcomes trial may fail to show a clinical benefit for OCA for PBC or may not satisfy applicable regulatory requirements for other reasons. As specified by the applicable post-marketing requirements, our COBALT trial includes subjects across the spectrum of PBC disease, including early and advanced PBC. We have agreed to evaluate the safety and efficacy of Ocaliva in patients with moderate to severe hepatic impairment and as a monotherapy in patients with PBC. Finally, we have agreed to develop and characterize a lower dose formulation of Ocaliva to allow for once daily dosing in patients with moderate or advanced hepatic impairment.

We commenced our commercial launch of Ocaliva for PBC in certain European countries in 2017 following the European Commission's grant of conditional approval in December 2016. Our marketing authorization in the European Union is conditioned on the completion of the COBALT trial and a trial evaluating the safety and efficacy of Ocaliva in patients with moderate to severe hepatic impairment.

Since January 2017, Ocaliva has also received regulatory approval in several of our target markets outside the United States and Europe, including Canada, Israel and Australia, and we are pursuing marketing approval of Ocaliva for PBC in certain other international markets. If obtained, continued approval of Ocaliva for PBC in such jurisdictions may be contingent upon the verification and description of clinical benefit in confirmatory trials.

Other than Ocaliva for PBC, we currently have no products approved for sale and we cannot guarantee that we will ever have additional marketable products or that our products will be approved for use in additional indications such as NASH. NDAs and MAAs must include extensive preclinical and clinical data and supporting information to establish the product candidate's safety and effectiveness for each desired indication. NDAs and MAAs must also include significant information regarding the chemistry, manufacturing and controls for the product. Obtaining approval of an NDA or an MAA is a lengthy, expensive and uncertain process, and we may not be successful in obtaining approval. The FDA and the EMA review processes can take years to complete and approval is never guaranteed. Even after the submission of an NDA to the FDA, the FDA must decide whether to accept or reject the submission for filing. In addition, in June 2016, eligible members of the electorate in the United Kingdom decided by referendum to leave the European Union, in what is often referred to as Brexit. Since a significant proportion of the regulatory framework in the United Kingdom is derived from European Union directives and regulations, the referendum could materially change the regulatory regime applicable to our operations, including with respect to Ocaliva for PBC or our product candidates.

Approvals may also be conditional upon the completion of one or more clinical trials. In addition, delays in approvals or rejections of marketing applications in the United States, Europe or other countries may be based upon many factors, including regulatory requests for additional analyses, reports, data, preclinical studies and clinical trials, regulatory questions regarding safety, different interpretations of data and results, changes in regulatory policy during the period of product development and the emergence of new information regarding our product candidates or approved products. Regulatory approval is also dependent on successfully passing regulatory inspection requirements applicable to our company, clinical sites and key vendors, including requirements that we and such parties comply with applicable good clinical, laboratory and manufacturing practices regulations. Critical findings could jeopardize or delay the approval of our NDAs or MAAs.

Prior to receiving regulatory approval, we must finalize the product label for each of our product candidates in each jurisdiction in which we seek regulatory approval. Even if our product is approved, the FDA, EMA or other applicable regulatory authority may limit the indications or uses for which our product may be marketed, require extensive warnings on the product labeling or require expensive and time-consuming clinical trials, risk mitigation programs or reporting as a condition of approval. Also, regulatory approval for our approved products may be withdrawn. Obtaining regulatory approval for the marketing of our product in one country does not ensure that we will be able to obtain regulatory approval for such product in any other country.

In order to obtain regulatory approval for OCA for indications other than PBC, we will need to complete a number of additional clinical trials and studies. For example, in connection with our Phase 3 clinical program of OCA for NASH, we are currently conducting our Phase 3 REGENERATE trial in non-cirrhotic NASH patients with liver fibrosis and our Phase 3 REVERSE trial for NASH patients with compensated cirrhosis. We may also conduct additional trials in NASH. Our ability to obtain the regulatory approvals necessary to commercialize OCA for indications other than PBC, including NASH, will depend on our ability to successfully conduct and complete these trials, as well as our ability to prepare and submit complex regulatory filings in accordance with applicable regulatory requirements.

There can be no assurance that OCA will receive marketing approval for PBC in jurisdictions where it has not yet been approved or for NASH in any jurisdiction, or that any of our other product candidates will receive marketing approval for any indication in any jurisdiction. We cannot predict whether our clinical trials and studies for our product candidates, including OCA for PBC, NASH or any other indication, will be successful, whether regulatory authorities will agree with our conclusions relating to the clinical trials and studies we conduct, or whether such regulatory authorities will require us to conduct additional clinical trials or studies. For example, while OCA received breakthrough therapy designation from the FDA in January 2015 for the treatment of NASH patients with liver fibrosis, we do not know if one pivotal clinical trial will be sufficient for marketing approval in the United States or if the FDA will approve OCA for NASH patients with liver fibrosis on an accelerated basis, or at all. The design of our Phase 3 REGENERATE trial differs in important ways from the Phase 2b clinical trial for the treatment of NASH, known as the FLINT trial, sponsored by the U.S. National Institute of Diabetes and Digestive and Kidney Diseases (“NIDDK”), a part of the National Institutes of Health. For example, the primary endpoint for the interim analysis for our Phase 3 REGENERATE trial may be achieved based on: (i) the proportion of OCA-treated patients relative to placebo achieving at least one stage of liver fibrosis improvement with no worsening of NASH or (ii) the proportion of OCA-treated patients relative to placebo achieving NASH resolution with no worsening of liver fibrosis. Furthermore, we selected a definition for NASH resolution that defines a responder as a patient achieving a histologic score of 0 for ballooning and 0 or 1 for inflammation. Our Phase 3 REGENERATE trial will also remain blinded after the interim analysis and continue to follow patients until the occurrence of a pre-specified number of adverse liver-related clinical events, including progression to cirrhosis, to confirm clinical benefit on a post-marketing basis, if approved.

Furthermore, the Phase 2 dose ranging trial of OCA in 200 adult NASH patients in Japan conducted by our collaborator, Sumitomo Dainippon, did not meet statistical significance for the primary endpoint. In this trial, there was a dose dependent, although not statistically significant, increase in the percentage of OCA treated patients compared to placebo who achieved the primary endpoint (p=0.053). In addition, no difference was seen in fibrosis improvement in the OCA groups compared to placebo. The baseline characteristics between the patients in the Japanese Phase 2 dose ranging trial conducted by Sumitomo Dainippon were distinct in a number of ways from those of the Western patients included in the Phase 2b FLINT trial conducted by NIDDK. For example, differences were observed among the patient population at baseline in relation to gender mix and metabolic factors like weight, diabetes status, dyslipidemia and hypertension. While our Phase 3 REGENERATE trial was designed based on the results of the FLINT trial and is anticipated to enroll a predominantly Western NASH patient population, the results of the Phase 2b FLINT trial may not be replicated in our Phase 3 REGENERATE trial. There is no assurance that Sumitomo Dainippon will initiate any registrational trials in NASH and the results of any additional trial conducted by Sumitomo Dainippon may not result in an improvement when compared to the results of its Phase 2 dose ranging trial in Japanese NASH patients.

If we are unable to obtain regulatory approval for OCA for PBC in the jurisdictions in which it is not currently approved or obtain regulatory approval for our other product candidates, including OCA for NASH, in any jurisdiction, we will may not be able to generate sufficient revenue to become profitable or to continue our operations.

We are developing product candidates for the treatment of rare diseases or diseases for which there are no or limited therapies, such as PBC, NASH and PSC, and for some of which there is little clinical experience, and our development approach involves new endpoints and methodologies. As a result, there is a heightened risk that we will not be able to gain agreement with regulatory authorities regarding an acceptable development plan, the outcome of our clinical trials will not be favorable or that, even if favorable, regulatory authorities may not find the results of our clinical trials to be sufficient for marketing approval.

We are focused on developing therapeutics for the treatment of rare diseases and diseases for which there are no or limited treatments. As a result, the design and conduct of our clinical trials for these indications is subject to heightened risk.

In the United States, the FDA generally requires two adequate and well-controlled pivotal clinical trials to approve an NDA. Furthermore, for full approval of an NDA, the FDA requires a demonstration of efficacy based on a clinical benefit endpoint. The FDA may grant accelerated approval based on a surrogate endpoint reasonably likely to predict clinical benefit. Even if the results of our pivotal clinical trials for a specific indication, such as our Phase 3 REGENERATE trial of OCA for non-cirrhotic NASH patients with liver fibrosis, are highly significant and reasonably believed by us to be likely to predict clinical benefit, the FDA may not accept the results of such trials or approve our product candidate on an accelerated basis, or at all. It is also possible that any NDA we submit for regulatory approval in the United States will not be accepted by the FDA for review and, even if accepted for review, there may be delays in the FDA’s review process and the FDA may determine that such NDA does not merit the approval of the product candidate. In such a case, the FDA may require that we conduct and/or complete additional clinical trials and preclinical studies before it will reconsider our application for approval.

Even if we receive accelerated approval for any of our product candidates, we may be required to conduct a post-approval clinical outcomes trial to confirm the clinical benefit of such product candidates by demonstrating the correlation of the surrogate endpoint therapeutic response in patients with a significant reduction in adverse clinical outcomes over time. For example, we received accelerated approval for OCA for PBC in the United States, but must also conduct a clinical outcomes study with respect to OCA for PBC. Following discussions with regulatory authorities, we initiated our COBALT clinical outcomes confirmatory trial for PBC in December 2014 prior to the approval of Ocaliva for PBC. The COBALT trial includes subjects across the spectrum of PBC disease, including early and advanced PBC. We have agreed to evaluate the safety and efficacy of Ocaliva in patients with moderate to severe hepatic impairment and as a monotherapy in patients with PBC. There can be no assurance that our COBALT trial or other trials conducted as part of our post-marketing obligations will confirm that the surrogate endpoint used for accelerated approval of Ocaliva for PBC will eventually show an adequate correlation with clinical outcomes. If any such trial fails to show such adequate correlation, we may not be able to maintain our previously granted marketing approval of Ocaliva for PBC. Similarly, continued approval of any other product candidates approved based on a surrogate endpoint may be contingent upon the verification and description of clinical benefit in confirmatory trials.

Our marketing authorization in the European Union for Ocaliva for the treatment of PBC is not a full approval. Instead, it is conditional on the conduct of certain post-approval studies. Our ability to maintain conditional marketing authorization of Ocaliva for PBC in the European Union is limited to specific circumstances and subject to several conditions and obligations that we may be unable to satisfy in whole or at all, including the completion of one or more clinical outcomes trials to confirm the clinical benefit of Ocaliva for PBC. Conditional marketing authorizations based on incomplete clinical data may be granted for a limited number of listed medicinal products for human use, including products designated as orphan medicinal products under European Union law, if (i) the risk-benefit balance of the product is positive, (ii) it is likely that the applicant will be in a position to provide the required comprehensive clinical trial data, (iii) unmet medical needs will be fulfilled and (iv) the benefit to public health of the immediate availability on the market of the medicinal product outweighs the risk inherent in the fact that additional data are still required. Specific obligations, including obligations relating to the successful completion of ongoing or new studies and the collection of pharmacovigilance data, may be specified in the conditional marketing authorization. Conditional marketing authorizations are valid for one year, and may be renewed annually, if the risk-benefit balance remains positive, and after an assessment of the need for additional or modified conditions.

Our ongoing Phase 3 REGENERATE trial of OCA for non-cirrhotic NASH patients with liver fibrosis incorporates an interim primary surrogate endpoint that may serve as the basis for a regulatory submission for accelerated approval in the United States and approval in Europe. Accelerated approval in the United States and conditional approval in the European Union for OCA for NASH are subject to similar risks as discussed above in relation to OCA for PBC. The primary endpoint in the Phase 2b FLINT trial of OCA for NASH patients was based on liver biopsy data and was defined as an improvement of two or more points in the Nonalcoholic Fatty Liver Disease Activity Score (“NAS”), with no worsening of liver fibrosis. In contrast, the primary endpoint for the interim analysis for our Phase 3 REGENERATE trial may be achieved based on: (i) the proportion of OCA-treated patients relative to placebo achieving at least one stage of liver fibrosis improvement with no worsening of NASH or (ii) the proportion of OCA-treated patients relative to placebo achieving NASH resolution with no worsening of liver fibrosis. Furthermore, we selected a definition for NASH resolution for the trial that defines a responder as a patient achieving a histologic score of 0 for ballooning and 0 or 1 for inflammation. We do not know if one pivotal clinical trial will be sufficient for

marketing approval in the United States or if the FDA will approve OCA for NASH patients with liver fibrosis on an accelerated basis, or at all.

It is possible that if we seek marketing approval of OCA for non-cirrhotic NASH patients with liver fibrosis based on the interim results of our Phase 3 REGENERATE trial, our regulatory submission may not be accepted by the FDA for review and, even if accepted for review, there may be delays in the FDA's review process or the FDA may determine that our submission does not merit the approval of OCA for the treatment of non-cirrhotic NASH patients. The FDA may also require that we continue our Phase 3 REGENERATE trial until completion to assess the potential benefits of OCA treatment on liver-related and other clinical outcomes. Our regulatory pathway for OCA for the treatment of NASH will depend upon our discussions with the FDA and EMA. As a result, we may face difficulty in designing an acceptable registration strategy with respect to our Phase 3 REGENERATE trial, as well as other trials we may conduct in other subpopulations of NASH patients. In addition, since the design of our Phase 3 REGENERATE trial deviates from that of the FLINT trial, there is a heightened risk that the results of our Phase 3 REGENERATE trial may differ from the results of the FLINT trial.

If we continue the development of OCA for PSC, we may seek marketing approval based on a surrogate endpoint. Neither the FDA nor the EMA has validated a surrogate endpoint as a basis for seeking approval in PSC and any surrogate endpoint we select may ultimately not be accepted by the FDA, EMA or other applicable regulatory authorities.

Prior to any approval of OCA for PBC in jurisdictions in which it is not currently approved or our other product candidates, including OCA for NASH, the FDA, EMA or other applicable regulatory authorities may require additional preclinical studies and/or clinical trials, which may be expensive and time consuming to conduct and complete. Consequently, any such requirement that we conduct additional preclinical studies or clinical trials could materially and adversely affect our business, financial condition and results of operations. Furthermore, even if we receive such approval, the relevant labeling may include restrictions, limitations and/or warnings that could impact the commercial success of OCA or other product candidate in the applicable markets.

Delays or difficulties in the commencement, enrollment and completion of our clinical trials and studies could increase our product development costs and delay, limit or prevent us from obtaining regulatory approval for OCA and our other product candidates.

Delays or difficulties in the commencement, enrollment and completion of our clinical trials and studies could increase our product development costs and limit or prevent us from obtaining regulatory approval for OCA and our other product candidates. We are currently conducting a number of clinical trials, including our Phase 4 COBALT clinical outcomes confirmatory trial of OCA for PBC, our Phase 3 REGENERATE trial of OCA for non-cirrhotic NASH patients with liver fibrosis and our REVERSE trial of OCA for NASH patients with compensated cirrhosis. The results from these clinical trials and our other clinical trials and studies may not be available when we expect and we may be required to conduct additional clinical trials or studies not currently planned in order for our product candidates, including OCA for PBC, NASH and PSC, to be approved. In addition, our clinical programs are subject to a number of risks and uncertainties, such as the results of other trials, patient enrollment, safety issues or regulatory interactions that result in a change of trial design or timing. Consequently, we do not know whether our current or future clinical trials or studies in OCA or our other product candidates will begin or be completed on schedule, if at all.

The commencement, enrollment and completion of our clinical trials and studies may be delayed or suspended for a variety of reasons, including:

- our inability to obtain sufficient funds to complete or continue our clinical trials;
- our inability to reach agreements on acceptable terms with prospective contract research organizations ("CROs") and trial sites, the terms of which may be subject to extensive negotiation and may vary significantly among our various CROs and trial sites;
- clinical holds, other regulatory objections to our commencing or continuing a clinical trial or our inability to obtain regulatory approval to commence clinical trials in countries that require such approvals;
- our discussions with the FDA or non-U.S. regulatory authorities, including discussions subsequent to the initiation of our clinical trials, regarding, among other matters, the scope or design of our clinical trials;
- our inability to identify and maintain a sufficient number of trial sites, many of which may already be engaged in other clinical trial programs, including some that may be for the same indications targeted by our product candidates;
- any delay in receiving results from, or failure to achieve the necessary results in, other clinical trials;

- our inability to obtain approval from institutional review boards to conduct a clinical trial at their respective sites;

- severe or unexpected drug-related adverse events experienced by patients or any determination that a clinical trial presents unacceptable health risks;

- any breach of the terms of any relevant agreement by us, our current or future collaborators that have responsibility for the clinical development of any of our product candidates, including Sumitomo Dainippon, or investigators conducting clinical trials on our product candidates;

- our inability to timely manufacture sufficient quantities of our product candidate required for our clinical trials; and

- any difficulty recruiting, enrolling or retaining patients in our clinical trials based on, among other factors, the enrollment criteria for our clinical trials, the rarity of the disease, the characteristics of the population being studied, the risks of the procedures that may be required as part of the clinical trials, such as a liver biopsy, or competition from other clinical trial programs recruiting patients for the same indications as our product candidates.

For example, our Phase 3 REGENERATE trial is a large and complicated clinical trial in a disease without any approved therapies and involves serial liver biopsies over many years. While we completed enrollment of the interim analysis cohort in 2017, there can be no assurance that we will retain a sufficient number of patients or complete the interim analysis and trial on a timely basis. As we engage in other large and complicated trials and trials in advanced disease populations, we may experience a number of complications that may negatively delay or otherwise affect our plans and development programs.

Additionally, we have in the past occasionally experienced difficulties retaining patients after enrollment in our clinical trials. Difficulty retaining patients may delay our clinical trials or result in negative or inconclusive outcomes, and we or our collaborators may decide, or regulatory authorities may require us, to conduct additional clinical trials or preclinical studies. Any delay or compromises with respect to the validity of our clinical trials may have a material adverse effect on our business or decrease our competitive position relative to other biotechnology or pharmaceutical companies with whom we compete.

In addition, if we or any of our collaborators are required to conduct additional clinical trials or other preclinical studies of our product candidates beyond those contemplated, our ability to obtain regulatory approval of these product candidates and generate revenue from their sales would be similarly harmed.

Clinical failure can occur at any stage of clinical development. The results of earlier clinical trials are not necessarily predictive of future results and any product candidate we or our collaborators advance through clinical trials may not have favorable results in later clinical trials or receive regulatory approval.

Clinical failure can occur at any stage of clinical development. Clinical trials may produce negative or inconclusive results, and we or our collaborators may decide, or regulators may require us, to conduct additional clinical trials or preclinical studies. In addition, data obtained from trials and studies are susceptible to varying interpretations, and regulators may not interpret our data as favorably as we do, which may delay, limit or prevent regulatory approval. Success in preclinical studies and early clinical trials does not ensure that subsequent clinical trials will generate the same or similar results or otherwise provide adequate data to demonstrate the efficacy and safety of our product candidates. A number of companies in the pharmaceutical industry, including those with greater resources and experience than us, have suffered significant setbacks in Phase 3 clinical trials and at other stages of clinical development, even after seeing promising results in earlier clinical trials.

In addition, the design of a clinical trial can determine whether its results will support approval of a product and flaws in the design of a clinical trial may not become apparent until the clinical trial is well-advanced. We may be unable to design and execute a clinical trial to support regulatory approval. Further, clinical trials of product candidates often reveal that it is not practical or feasible to continue development efforts. If OCA or our other product candidates are found to be unsafe or lack efficacy for any indication, we will not be able to obtain regulatory approval for them, and our prospects and business may be materially and adversely affected.

In some instances, there may be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including changes or differences in trial protocols, differences in composition of the patient populations, differences in adherence to the dosing regimen and other trial protocols and differences in the rate of dropout among clinical trial participants. We do not know whether any Phase 2, Phase 3 or other clinical trials we or any of our collaborators may conduct will demonstrate consistent or adequate efficacy and safety or be approved by regulatory authorities. If we are unable to bring any of our current or future product candidates to market, or to acquire any previously approved products, our ability to create long-term stockholder value will be limited.

Although Ocaliva for PBC has received accelerated approval in the United States and conditional approval in the European Union, its full approval depends on the results of post-marketing clinical trials, including our Phase 4 COBALT trial. We cannot assure you that these trials will demonstrate a correlation of the surrogate endpoint therapeutic response in patients taking Ocaliva for PBC with a significant reduction in adverse clinical outcomes over time.

In December 2014, we received comprehensive datasets from the Phase 2b FLINT trial for the treatment of NASH, which met its primary endpoint with statistical significance. In October 2015, we announced that the Phase 2 dose ranging trial of OCA in 200 adult NASH patients in Japan conducted by our collaborator, Sumitomo Dainippon, did not meet its primary endpoint with statistical significance. In the Sumitomo Dainippon trial, there was a dose dependent, although not statistically significant, increase in the percentage of OCA treated patients compared to placebo who achieved the primary endpoint (p=0.053). In addition, no difference was seen in fibrosis improvement in the OCA groups compared to placebo. The Sumitomo Dainippon Phase 2 trial involved different doses of OCA being administered to the trial subjects than those utilized in the Phase 2b FLINT trial. Furthermore, the baseline characteristics between the patients in the Japanese Phase 2 dose ranging trial conducted by Sumitomo Dainippon were distinct in a number of ways from those of the Western patients included in the Phase 2b FLINT trial. While our Phase 3 REGENERATE trial is anticipated to enroll a predominantly Western NASH patient population, the results of the Phase 2b FLINT trial may not be replicated in our Phase 3 REGENERATE trial. In addition, since the design of our Phase 3 REGENERATE trial deviates in certain ways from that of the Phase 2b FLINT trial, there is a risk that the results of our Phase 3 REGENERATE trial will differ from the results of the Phase 2b FLINT trial. Even though OCA has been granted breakthrough therapy designation by the FDA, we do not know if one pivotal clinical trial will be sufficient for marketing approval or if regulatory authorities in the United States, Europe or our other target markets will approve OCA for NASH patients with liver fibrosis on an accelerated or conditional basis, or at all. As a result, it may take longer than anticipated to initiate and complete our Phase 3 REGENERATE trial or our Phase 3 program in NASH for other patient subpopulations.

Our product candidates may have undesirable side effects which may delay or prevent marketing approval, or, if approval is received, require that our products be taken off the market or include new or additional safety warnings. Any such events may limit our existing and future product sales and materially and adversely affect our business, financial condition and results of operations.

OCA has been shown to be a potent farnesoid X receptor (“FXR”) agonist. With the exception of the endogenous human bile acid chenodeoxycholic acid and cholic acid, there are no approved FXR agonists and the adverse effects from long-term exposure to this drug class are unknown. Unforeseen side effects from any of our product candidates could arise either during clinical development or, if approved, after the approved product has been marketed.

The most common side effects observed in clinical trials of OCA for PBC were pruritus, or itching, fatigue, headaches, nausea, constipation and diarrhea. In our Phase 3 POISE trial, pruritus, generally mild to moderate, was the most frequently reported adverse event associated with OCA treatment for PBC and was observed in 38% of patients on placebo, 70% of patients in the 10 mg OCA group and 56% of patients in the OCA titration group (5 mg to 10 mg). Eight patients discontinued due to pruritus, of whom none were in the placebo group, seven (10%) were in the 10 mg OCA group and one (1%) was in the OCA titration group. Pruritus also has been observed in other clinical trials of OCA. Decreases in HDL cholesterol were also observed during treatment in our Phase 3 POISE trial. In our Phase 2 trials for OCA for PBC, a dose-response relationship was observed in the occurrence of liver-related adverse reactions, including jaundice, ascites and primary biliary cholangitis flare with dosages of OCA of 10 mg once daily to 50 mg once daily (up to 5-times the highest recommended dosage), as early as one month after starting treatment with OCA. The European label for Ocaliva also notes that elevations in alanine amino transferase and aspartate aminotransferase were observed in patients treated with OCA.

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In the course of our post-marketing pharmacovigilance activities, deaths have been reported in PBC patients with moderate or severe hepatic impairment. In an analysis performed by us and in consultation with the FDA, we concluded that certain of these patients were prescribed once daily doses of Ocaliva, which is seven times higher than the recommended weekly dose in such patients. As a result, in September 2017, we issued a Dear Health Care Provider ("DHCP") letter, and the FDA also subsequently issued its own safety communication to reinforce recommended label dosing. Both communications remind healthcare providers of the importance of the recommended reduced dosing of Ocaliva in PBC patients with moderate or severe hepatic impairment, while reiterating the importance of monitoring PBC patients for progression of their disease and the occurrence of liver-related adverse reactions. In addition to the DHCP letter, we have taken actions to enhance education about appropriate use of Ocaliva. These initiatives include: reeducating physicians on the label, with a focus on ensuring appropriate dosing for patients with moderate or severe hepatic impairment; enhancing monitoring of patients for liver-related adverse reactions; and completing adjudication of all reported cases of serious liver injury, including in patients with no or mild hepatic impairment. In February 2018, we announced that the Ocaliva label in the United States had been updated by the FDA to include a boxed warning and a dosing table that reinforce the existing dosing schedule for patients with Child-Pugh Class B or C or decompensated cirrhosis. In addition, the FDA issued an updated drug safety communication to accompany the revised label. We remain focused on the safety of all of the patients using Ocaliva within and outside of our ongoing clinical studies and have engaged with relevant regulatory authorities, including the EMA, to ensure that the Ocaliva label in all applicable jurisdictions sufficiently reinforces the importance of appropriate dosing in patients with advanced cirrhosis. These events and any safety concerns associated with Ocaliva, perceived or real, may adversely affect the successful development and commercialization of our product candidates and lead to a loss of revenues.

Ocaliva is contraindicated for PBC patients with complete biliary obstruction in the United States and the European Union. For PBC patients with HDL reductions and no response to Ocaliva after one year at the maximum tolerated dose, the U.S. label asks prescribing physicians to weigh the risks against the benefits of continuing treatment.

With respect to OCA for NASH, based on information in the manuscript for the Phase 2b FLINT trial published in November 2014, pruritus occurred more frequently in the OCA treatment group than in the placebo treatment group (23% vs. 6%, $p < 0.001$) and at a higher grade (predominately moderate pruritus). In the Phase 2b FLINT trial, OCA treatment was associated with changes in serum lipid levels, including increases in total cholesterol and LDL cholesterol and a decrease in HDL cholesterol, that were observed within 12 weeks of initiating treatment, peaked and then decreased in magnitude while on treatment, and reversed further during the 24-week post-treatment period. As previously disclosed, these changes in cholesterol levels, along with the achievement of pre-defined efficacy criteria, played a role in the decision of the FLINT data and safety monitoring board to terminate the treatment phase of the Phase 2b FLINT trial, and the publication of the FLINT results has noted the need for further study of these changes. There were two patient deaths in the Phase 2b FLINT trial, and neither death was considered related to OCA treatment.

In December 2015, we initiated our Phase 2 clinical trial, known as our CONTROL trial, to characterize the lipid metabolic effects of OCA and cholesterol management effects of concomitant statin administration in NASH patients. CONTROL enrolled 80 NASH patients who were naïve to statin therapy or had undergone a statin washout period.

The study included a 16-week double-blind phase followed by an optional two-year long-term safety extension ("LTSE") phase of the trial. In our Phase 2 CONTROL trial, OCA treatment in the absence of statin therapy over the first four weeks resulted in an increase in LDL across all OCA treatment groups, while the placebo group was relatively unchanged. Treatment with atorvastatin beginning at week four and continuing through week 16 reversed OCA-related increases in LDL to below baseline levels in all OCA treatment groups. Dose-dependent pruritus was the most common adverse event in patients treated with OCA, occurring in 5% of patients on placebo, 5% of patients in the 5 mg OCA group, 10% of patients in the 10 mg OCA group and 55% of patients in the 25 mg OCA group. All events were mild to moderate and two patients discontinued treatment in the 25 mg OCA group due to pruritus. Over 95% of the patients completing the double-blind phase of CONTROL enrolled in the LTSE phase of the trial.

During the LTSE phase of CONTROL, there has been one patient death. This patient was a 64 year-old male with a history of NASH associated liver cirrhosis, morbid obesity (BMI >40) and type 2 diabetes. At baseline, this patient had blood tests consistent with impaired liver function (e.g., low LDL and low platelets). The patient was randomized to placebo for the double-blind phase of the study. Early in the double-blind phase, the patient had serum biochemistry changes consistent with worsening hepatic impairment (e.g., albumin decline and bilirubin was increasing). Atorvastatin was started per protocol and then stopped early due to the patient's persistently low LDL levels. The patient later enrolled in the LTSE phase and began receiving 25 mg OCA treatment. Over the following four months, the patient's serum biochemistry remained consistent with ongoing hepatic impairment. Approximately five months after starting the LTSE phase, the patient developed severe protracted diarrhea, which resulted in weight loss of 30 pounds over the ensuing one-month period. Both an infectious cause and possible inflammatory bowel disease were suspected, and the patient subsequently was started on broad spectrum antibiotics and steroid therapy. Due to the diarrhea, the principal investigator stopped treatment with OCA and discontinued the patient from the study. Concurrently, the patient reported jaundice and was found to have significantly elevated serum bilirubin and ALP, while other liver enzymes remained relatively stable. Over the ensuing two-week period, various diagnostic tests and procedures were performed (e.g., magnetic resonance cholangiopancreatography to investigate possible gallstone bile duct obstruction) and the patient continued receiving a number of other medications, including the ongoing course of steroid therapy. During this time, the patient continued to deteriorate and was hospitalized with acute renal and liver failure, complicated by severe metabolic acidosis. The patient rapidly progressed to multi-organ system failure, sepsis and death.

The principal investigator determined that the events leading to the patient's death were unlikely related to OCA. Despite the numerous confounding factors in this case, given the contemporaneous administration of OCA during the patient's ongoing deterioration, we determined that it could not be ruled out that these events were possibly related to treatment. Subsequent to our determination, the independent data safety monitoring committee separately evaluated the case and determined that the events leading to the patient's death were unlikely related to OCA.

In our Phase 2 AESOP trial of OCA for PSC, pruritus was the most common adverse event, occurring in 46% of patients on placebo, 60% of patients in the 1.5 mg to 3 mg OCA group and 67% of patients in the 5 mg to 10 mg OCA group, with the severity increasing with dose. One (4%) patient in the 1.5 mg to 3 mg OCA group and three (12%) patients in the 5 mg to 10 mg OCA group discontinued OCA due to pruritus compared to none in the placebo group.

Additional or unforeseen side effects relating to OCA or any of our other product candidates could arise either during clinical development or, if approved, after the approved product has been marketed. With the approval of Ocaliva for PBC in the United States, Europe and certain of our other target markets, OCA will be used in an environment that is less rigorously controlled than in clinical studies. If new side effects are found, if known side effects are shown to be more severe than previously observed or if OCA is shown to have other unexpected characteristics, we may need to abandon our development of OCA for PBC, NASH, PSC and other potential indications. Furthermore, our commercial sales of Ocaliva for PBC may be materially and adversely affected.

The range and potential severity of possible side effects from systemic therapies is significant. The results of future clinical trials may show that our product candidates cause undesirable or unacceptable side effects, which could interrupt, delay or halt clinical trials, and result in delay of, or failure to obtain, marketing approval from the FDA and other regulatory authorities, or result in marketing approval from the FDA and other regulatory authorities with restrictive label warnings.

In addition, our product candidates are being developed as potential treatments for severe, life threatening diseases and, as a result, our trials will necessarily be conducted in patient populations that will be more prone than the general population to exhibit certain disease states or adverse events. For example, our Phase 3 REVERSE trial in NASH patients with compensated cirrhosis has expanded our NASH development program into advanced patient populations in NASH and accordingly imposes certain eligibility requirements for uptitration, as well as certain monitoring requirements thereafter. Ocaliva is prescribed in patients suffering from various stages of PBC, which can be life threatening, and patients may suffer from other concomitant illnesses that may increase the likelihood of certain adverse events. It may be difficult to discern whether certain events or symptoms observed during our clinical trials or by patients using our approved products are related to our product candidates or approved products or some other factor. As a result, we and our development programs may be negatively affected even if such events or symptoms are ultimately determined to be unlikely related to our product candidates or approved products. We further cannot assure you that additional or more severe adverse side effects related to OCA or our other product candidates will not be observed in our future clinical trials or commercial use, which could delay or preclude regulatory approval of OCA or limit its commercial use.

If we or others later identify undesirable or unacceptable side effects caused by our product candidates or products:

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we may be required to modify or include additional dosage and administration instructions, warnings and precautions, contraindications, boxed warnings, limitations, restrictions or other statements in the product label for our approved products, or issue field alerts to physicians and pharmacies;