NephroGenex, Inc.
Form 424B2
July 17, 2015

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Filed Pursuant to Rule 424(b)(2)
Registration Statement No. 333-203530

PROSPECTUS

1,500,000 Shares of Common Stock

Warrants to Purchase 1,500,000 Shares of Common Stock

NephroGenex is offering 1,500,000 shares of common stock and warrants to purchase 1,500,000 shares of common stock (and the shares of common stock that are issuable from time to time upon exercise of the warrants). Each share of common stock is being sold together with one warrant to purchase one share of common stock. The warrants will have a per share exercise price of $6.25. The warrants are exercisable immediately and will expire five years from the date of issuance. Our common stock is listed on the NASDAQ Capital Market under the symbol "NRX." On July 15, 2015, the last reported sale price of our common stock on The NASDAQ Capital Market was $6.24 per share. There is no established public trading market for the warrants, and we do not expect a market to develop. In addition, we do not intend to apply for a listing of the warrants on any national securities exchange.

We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act of 2012, and, as such, we have elected to take advantage of certain reduced public company reporting requirements for this prospectus and future filings.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 7 of this prospectus for a discussion of information that should be considered in connection with an investment in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Combined Per Share and Warrant	Total
Public Offering Price	$5.00	$7,500,000
Underwriting discounts and commissions[(1)]	$0.30	$450,000
Offering proceeds to us, before expenses	$4.70	$7,050,000

(1) We have agreed to reimburse the underwriters for certain expenses. See "Underwriting" beginning on page 130 of this prospectus.

We have granted a 45-day option to the representatives of the underwriters to purchase up to 225,000 additional shares of common stock at a purchase price of $4.99 per share and/or additional warrants to purchase up to 225,000 shares of common stock at a purchase price of $0.01 per warrant to cover over-allotments, if any.

The underwriters expect to deliver the shares and warrants to purchasers in this offering on or about July 22, 2015.

Aegis Capital Corp

The date of this prospectus is July 16, 2015

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You should rely only on the information contained in this prospectus. Neither we nor any of the underwriters have authorized anyone to provide you with information different from, or in addition to, that contained in this prospectus or any free writing prospectus prepared by or on behalf of us or to which we may have referred you in connection with this offering. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. Neither we nor any of the underwriters is making an offer to sell or seeking offers to buy these securities in any jurisdiction where, or to any person to whom, the offer or sale is not permitted. The information in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock or warrants, and the information in any free writing prospectus that we may provide you in connection with this offering is accurate only as of the date of that free writing prospectus. Our business, financial condition, results of operations and future growth prospects may have changed since those dates.

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data.

For investors outside the United States: We have not and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus outside the United States.

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PROSPECTUS SUMMARY

This summary provides an overview of selected information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our common stock. You should carefully read this prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our common stock, including the information discussed under "Risk Factors" and our financial statements and notes thereto that appear elsewhere in this prospectus. Unless otherwise indicated herein, the terms "we," "our," "us," or "the Company" refer to NephroGenex, Inc.

We are a pharmaceutical company focused on the development of therapeutics to treat kidney disease, an area of significant unmet medical need. Since our inception, we have collaborated with the world's leading experts in kidney disease and leveraged our knowledge of pathogenic oxidative chemistries to build a strong portfolio of intellectual property and to advance the development of our drug candidates. We believe that our comprehensive effort to develop a new generation of therapeutics that target kidney disease provides us with a leadership position in this large and attractive market.

Pathogenic oxidative chemistries are collectively a group of oxygen-based chemical reactions that occur in the body during stress, injury, or disease, to form compounds that can induce pathological changes in tissues that effect normal physiological function. These include (i) advanced glycation end-products (AGE's), which are oxidative end products of glucose-modified biomolecules which adversely affect their function; (ii) reactive oxygen species (ROS), which are chemically reactive molecules containing oxygen such as oxygen ions and peroxides that when elevated in the body can induce pathology; and (iii) toxic carbonyls which are reactive compounds that can modify biomolecules and affect their function. These chemistries are generally agreed to be involved in the etiology of diabetic nephropathy, a common complication of diabetes, and in cases of acute kidney injury (AKI). We are developing Pyridorin (Pyridorin), a small molecule drug that is a unique and broadly acting inhibitor of the pathogenic oxidative chemistries which are elevated in diabetic patients.

We licensed patents covering methods of use and synthesis of Pyridorin from BioStratum, Inc. in May of 2006. We subsequently acquired Pyridorin-related patents from BioStratum through a Series A financing completed in May of 2007. At the time of acquisition, BioStratum, through its contracted investigators, contract research organizations, and collaborators had completed 5 preclinical efficacy studies, 36 preclinical safety studies, 4 Phase 1 studies and 5 Phase 2 studies with Pyridorin. After the acquisition, we conducted a multi-center, randomized, placebo-controlled Phase 2b study, namely PYR-210 and recently completed the Phase 1 QT/QTc (TQT) cardiac safety study. In addition, we worked with the FDA to establish a new regulatory pathway for Pyridorin approval, as well as received support from the European Medicines Agency (EMA) regarding the pivotal Phase 3 program with Pyridorin in diabetic nephropathy.

Pyridorin has demonstrated preliminary evidence of efficacy in slowing the progression of diabetic nephropathy in relevant patient populations in three Phase 2 clinical studies. Based on these results, Pyridorin entered into a Phase 3 program in 2014 termed the PIONEER trial which was agreed to by the U.S. Food and Drug Administration (FDA), with fast track designation, under a Special Protocol Assessment (SPA). This Phase 3 program is using an events-based endpoint based on end stage renal disease (ESRD) or a 50% increase in serum creatinine (SCr). We believe this change will significantly reduce the cost and time for completion of our Phase 3 program compared to the traditional endpoint used in previous pivotal trials for diabetic nephropathy which is a 100% increase in SCr from baseline or end stage renal disease (ESRD). Based on an analysis of the Irbesartan Type II Diabetic Nephropathy Trial (IDNT) used for the approval of the drug irbesartan, the follow-up time required to reach the new endpoint of a 50% SCr increase would be approximately 50% less than the follow-up time required to reach the traditional endpoint in a similar patient population.

We are also studying the application of an intravenous formulation of Pyridorin to specific types of AKI in patients at increased risk and where pathogenic oxidative chemistries have been identified as a

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possible contributing factor to the severity of this condition. Our preclinical program has shown encouraging results in animal models of ischemia-reperfusion AKI including an observed treatment effect on post injury fibrosis. We expect to complete our preclinical program for an intravenous formulation of AKI in the third quarter of 2015.

Corporate Objectives

There is a large medical need and market opportunity for treatments that can (1) slow the progression of renal disease and thus delay or avoid the onset of ESRD; or (2) reduce the severity of AKI and its associated potential treatment costs and long term complications.

Our principal corporate objective is the maximization of shareholder value by advancing Pyridorin through Phase 3 development and approval. In order to maximize the market potential of Pyridorin, we intend to consider entering into a partnership for the launch and marketing of the product at the end of Phase 3 or possibly earlier, based on interim clinical data. We also intend to consider acquisitions and the development of other clinical candidates as we see appropriate.

We acquired commercial rights to Pyridorin in 2007 and, since then, have been investigating the safety and efficacy of Pyridorin therapy for diseases in which pathogenic oxidative chemistries are an established and/or causative and contributing factor in kidney disease. These include diabetic nephropathy and AKI.

We anticipate seeking corporate partners to aid us in commercialization and market entry.

Our Strategy

We are committed to applying our leadership position in the field of kidney disease to transform the lives of patients with debilitating, costly diseases or conditions. Each of our ongoing and planned development projects addresses kidney diseases or conditions with high unmet medical need that presents a significant market opportunity. The core elements of our strategy include:

- advancing Pyridorin through Phase 3 development for the treatment of diabetic nephropathy in patients with type 2 diabetes;
- submission and approval of a new drug application (NDA) in the United States and a Market Authorization Application (MAA) in Europe;
- commercializing Pyridorin using a highly targeted sales force in the United States and the rest of the world;
- continued development of an intravenous formulation of Pyridorin for AKI, with an investigational new drug application (IND) filing and launch of the initial clinical study during the second half of 2015; and
- deploying capital strategically to develop our portfolio of product candidates and create shareholder value.

Risks Relating to Our Business

We are a biopharmaceutical company, and our business and ability to execute our business strategy are subject to a number of risks of which you should be aware before you decide to buy our common stock. In particular, you should consider the risks discussed in the "Risk Factors" section of this prospectus and in the documents incorporated by reference, including, but not limited to, the following:

- we have never been profitable, have no products approved for commercial sale and to date have not generated any revenue from product sales;

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- we will require substantial additional funding beyond this contemplated offering to complete the development and commercialization of Pyridorin and to continue to advance the development of the intravenous formulation of Pyridorin, and such funding may not be available on acceptable terms or at all;

- Pyridorin may not receive regulatory approval in a timely manner or at all;

- we face competition from other biotechnological and pharmaceutical companies and our operating results will suffer if we fail to compete effectively;

- we depend on third-party contractors for a substantial portion of our operations and may not be able to control their work as effectively as if we performed the function ourselves

- we may be subject to delays in our clinical trials, which could result in increased costs and delays or limit our ability to obtain regulatory approval for our product candidates;

- because the results of earlier studies and clinical trials of our product candidates may not be predictive of future clinical trial results, our product candidates may not have favorable results in future clinical trials, which would delay or limit their future development; and

- we may be unable to maintain and protect our intellectual property assets, which could impair the advancement of our pipeline and commercial opportunities.

Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. See "Risk Factors Risks Relating to Our Common Stock and this Offering We are an 'emerging growth company' and will be able to avail ourselves of reduced disclosure requirements applicable to emerging growth companies, which could make our common stock less attractive to investors." These provisions include:

- only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;

- reduced disclosure about our executive compensation arrangements;

- no non-binding advisory votes on executive compensation or golden parachute arrangements; and

- exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We may take advantage of these provisions until December 31, 2019. However, if certain events occur prior to December 31, 2019, including if we become a "large accelerated filer," our annual gross revenues exceed $1.0 billion or we issue more than $1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company before such date.

We have elected to take advantage of certain of the reduced disclosure obligations and may elect to take advantage of other reduced reporting requirements in future filings. As a result, the information that we provide to our stockholders may be different than the information

you might receive from other public reporting companies in which you hold equity interests.

We refer to the Jumpstart Our Business Startups Act of 2012 in this prospectus as the "JOBS Act," and references in this prospectus to "emerging growth company" have the meaning associated with it in the JOBS Act.

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Notwithstanding the above, we are also currently a "smaller reporting company" meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than $75 million and annual revenues of less than $50 million during the most recently completed fiscal year. In the event that we are still considered a smaller reporting company, at such time as we cease being an emerging growth company, the disclosure we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered either an emerging growth company or a smaller reporting company. Specifically, similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports.

Corporate Information

We were incorporated in the State of Delaware on May 25, 2004. Our principal executive offices are located at 3200 Beechleaf Court, Suite 900, Raleigh, NC 27604 and our telephone number is (609) 986-1780. Our website address is *www.nephrogenex.com.* The information contained on, or that can be accessed through, our website is not part of this prospectus.

We have obtained a registered trademark for Pyridorin in the United States. This prospectus contains references to our trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this prospectus, including logos, artwork and other visual displays, may appear without the ® or symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other company.

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THE OFFERING

Common stock offered by us	1,500,000 shares
Warrants offered by us	Warrants to purchase 1,500,000 shares of common stock. Each share of common stock is being sold together with one warrant to purchase one share of common stock. Each warrant will have an exercise price equal to $6.25, will be immediately exercisable and will expire on the fifth anniversary of the original issuance date.
Common stock to be outstanding after this offering	10,363,614 shares, or 11,863,614 shares if the warrants sold in this offering are exercised in full.
Over-allotment option	We have granted the underwriters a 45-day option to purchase up to 225,000 additional shares of our common stock at a purchase price of $4.99 per share and/or warrants to purchase up to 225,000 additional shares of common stock from us at a purchase price of $0.01 per warrant.
Use of proceeds	We intend to use the net proceeds received from this offering for working capital and general corporate purposes. See "Use of Proceeds."
Risk Factors	See the section entitled "Risk Factors" beginning on page 7 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
Nasdaq Capital Market symbol	NRX. We do not intend to list the warrants on The NASDAQ Capital Market, any other national securities exchange or any other nationally recognized trading system.

The number of shares of our common stock to be outstanding after this offering is based on 8,863,614 shares of our common stock outstanding as of March 31, 2015 and excludes as of such date:

- 1,271,321 shares of our common stock issuable upon the exercise of stock options, with a weighted average exercise price of $4.16 per share;
- 15,500 shares of our common stock issuable upon the settlement of outstanding restricted stock units;
- 118,603 shares of our common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $9.86 per share;
- shares issuable upon exercise of warrants sold in this offering;
- any shares of our common stock issuable upon exercise of the underwriters' over-allotment option; and
- other shares of our common stock reserved for future issuance under our Amended and Restated 2007 Equity Incentive Plan, as amended.

Unless otherwise indicated, all information contained in this prospectus assumes no exercise by the underwriters of their over-allotment option to purchase up to an additional 225,000 shares of our common stock or additional warrants to purchase up to 225,000 shares of our common stock.

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SUMMARY FINANCIAL DATA

The following tables set forth a summary of our historical financial data as of, and for the periods ended on, the dates indicated. We have derived the statement of operations data for the years ended December 31, 2014 and 2013 from our audited financial statements incorporated by reference in this prospectus. We have derived the statement of operations data for the three months ended March 31, 2015 and 2014 and the balance sheet data as of March 31, 2015 from our unaudited financial statements incorporated by reference in this prospectus. The unaudited financial statements have been prepared on the same basis as our audited financial statements and include, in the opinion of management, all adjustments necessary for a fair presentation of the financial information set forth in those statements. You should read this data together with our financial statements and related notes appearing elsewhere in this prospectus and the sections in this prospectus entitled "Risk Factors," "Capitalization," "Selected Financial Data," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our historical results for any prior period are not necessarily indicative of our future results.

	Years ended December 31,		Three months ended March 31,	
	2014	2013	2015 (unaudited)	2014 (unaudited)
	(in thousands, except share and per share data)			
Statement of Operations Data:				
Expenses:				
Research and development	$ 11,264	$ 1,480	$ 3,369	$ 457
General and administrative	5,323	1,026	1,670	1,035
Total expenses	16,587	2,506	5,039	1,492
Loss from operations	(16,587)	(2,506)	(5,039)	(1,492)
Other income (expense):				
Change in value of preferred stock warrants	(140)	(3,417)		(140)
Interest expense	(140)	(383)	(143)	(78)
Interest income	47	1	9	10
Net loss	$ (16,820)	$ (6,305)	$ (5,173)	$ (1,700)
Net loss per share, basic and diluted	$ (2.15)	$ (19.71)	$ (0.58)	$ (0.37)
Weighted average shares outstanding, basic and diluted	7,827,519	319,882	8,863,103	4,587,498

	As of March 31, 2015 (Unaudited)	As Adjusted(1) (Unaudited)
	(in thousands)	
Balance Sheet Data		
Cash and cash equivalents	$ 16,362	$ 22,992
Short-term investments	7,603	7,603
Total assets	25,109	31,739
Current portion of note payable	880	880

Note payable, less current portion	5,897	5,897
Total liabilities	10,676	10,676
Total stockholders' equity	14,433	21,062

(1) The as adjusted balance sheet data gives effect to our receipt of estimated net proceeds from this offering.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus, including our financial statements and related notes, before deciding whether to invest in shares of our common stock, and the risk factors described in our periodic reports filed with the SEC which are incorporated by reference in the prospectus. The occurrence of any of the adverse developments described in the following risk factors could materially and adversely harm our business, financial condition, results of operations or prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to this Offering

There is no public market for the warrants to purchase shares of our common stock being offered in this offering.

There is no established public trading market for the warrants being offered in this offering, and we do not expect a market to develop. In addition, we do not intend to apply to list the warrants on any national securities exchange or other nationally recognized trading system, including The NASDAQ Capital Market. Without an active market, the liquidity of the warrants will be limited.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the net tangible book value per share of shares of our common stock based on the total value of our tangible assets less our total liabilities immediately following this offering. As a result, investors purchasing common stock in this offering will incur immediate dilution of $2.97 per share, based on the public offering price of $5.00 per share (the last reported sale price of our common stock on the Nasdaq Capital Market on July 15, 2015) and our net tangible book value as of March 31, 2015. In the event that you exercise your warrants, you will experience additional dilution to the extent that the exercise price of the warrants is higher than the tangible book value per share of our common stock. For information on how the foregoing amounts were calculated, see "Dilution."

In addition, we have a significant number of stock options and warrants outstanding. To the extent that outstanding stock options or warrants, including the warrants offered in the prospectus, have been or may be exercised or other shares issued, you may experience further dilution.

Management will have broad discretion over the use of the net proceeds received by us in this offering and may apply them to uses that do not improve our operating results or the value of your securities.

Our management will have broad discretion in the application of the net proceeds we receive in this offering, including for any of the purposes described in the section of this prospectus entitled "Use of Proceeds," and you will not have the opportunity as part of your investment decision to assess whether our management is using the net proceeds appropriately. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business and cause the price of our common stock to decline. Pending their use, we may invest our net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

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A substantial number of shares of common stock may be sold in the market following this offering, which may depress the market price for our common stock.

Sales of a substantial number of shares of our common stock (including shares issued upon the exercise of options and warrants) in the public market following this offering could cause the market price of our common stock to decline. A substantial majority of the outstanding shares of our common stock are, and the shares of common stock sold in this offering upon issuance will be, freely tradable without restriction or further registration under the Securities Act of 1933, as amended.

Holders of our warrants will have no rights as a common stockholder until they acquire our common stock.

Until you acquire shares of our common stock upon exercise of your warrants, you will have no rights with respect to shares of our common stock issuable upon exercise of your warrants. Upon exercise of your warrants, you will be entitled to exercise the rights of a common stockholder only as to matters for which the record date occurs after the exercise date.

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

We have never declared or paid cash dividends on our capital stock. We anticipate that we will retain our earnings, if any, for future growth and therefore do not anticipate paying cash dividends in the future. As a result, only appreciation of the price of our common stock will provide a return to stockholders.

The warrants may not have any value.

The warrants sold in this offering will have an exercise price of $6.25 per share and will expire on the fifth anniversary of the date they first become exercisable. In the event our common stock price does not exceed the exercise price of the warrants during the period when the warrants are exercisable, the warrants may not have any value.

You may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock. We cannot assure you that we will be able to sell shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock or other securities convertible into or exchangeable for our common stock in future transactions may be higher or lower than the price per share in this offering.

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Risks Relating to Our Financial Position and Need for Additional Capital

We will require substantial additional funding, which may not be available to us on acceptable terms, or at all, and, if not so available, may require us to delay, limit, reduce or cease our operations.

We are currently advancing Pyridorin through clinical development for diabetic nephropathy and an intravenous formulation of Pyridorin for AKI through preclinical development. Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. We will require substantial additional future capital in order to complete clinical development and commercialize Pyridorin. If the FDA or EMA requires that we perform additional nonclinical studies or clinical trials, our expenses would further increase beyond what we currently expect and the anticipated timing of any potential NDA or MAA would likely be delayed. Further, there can be no assurance that the costs to obtain regulatory approval of Pyridorin as a treatment for diabetic nephropathy in patients with type 2 diabetes or as a treatment for AKI will not increase.

We will continue to require substantial additional capital to continue our clinical development and commercialization activities. Because successful development of our product candidates is uncertain, we are unable to estimate the actual funds we will require to complete research and development and commercialize our products under development.

The amount and timing of our future funding requirements will depend on many factors, including but not limited to:

- the progress, costs, results of and timing of our Phase 3 Pyridorin PIONEER program for the treatment of diabetic nephropathy in patients with type 2 diabetes, and the preclinical and clinical development of an intravenous formulation of Pyridorin for AKI
- the outcome, costs and timing of seeking and obtaining FDA, EMA and any other regulatory approvals;
- the number and characteristics of product candidates that we pursue;
- the ability of our product candidates to progress through clinical development successfully;
- our need to expand our research and development activities;
- the costs associated with securing and establishing commercialization and manufacturing capabilities;
- market acceptance of our product candidates;
- the costs of acquiring, licensing or investing in businesses, products, product candidates and technologies;
- our ability to maintain, expand and enforce the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;
- our need and ability to hire additional management and scientific and medical personnel;

the effect of competing drug candidates and new product approvals;

our need to implement additional internal systems and infrastructure, including financial and reporting systems; and

the economic and other terms, timing of and success of our existing licensing arrangements and any collaboration, licensing or other arrangements into which we may enter in the future.

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Some of these factors are outside of our control. Based upon our currently expected level of operating expenditures, we believe that we will be able to fund our operations into early 2016. This period could be shortened if there are any significant increases in planned spending on development programs or more rapid progress of development programs than anticipated. We do not expect our existing capital resources to be sufficient to enable us to complete the commercialization of Pyridorin, if approved, or to initiate any clinical trials or additional development work needed for any other product candidates, other than as described above. Accordingly, we expect that we will need to raise additional funds in the future.

We may seek additional funding through a combination of equity offerings, debt financings, government or other third-party funding, commercialization, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements. Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. In addition, the issuance of additional shares by us, or the possibility of such issuance, may cause the market price of our shares to decline.

If we are unable to obtain funding on a timely basis, we may be required to significantly curtail one or more of our research or development programs. We also could be required to seek funds through arrangements with 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.

We have never been profitable. Currently, we have no products approved for commercial sale, and to date we have not generated any revenue from product sales. As a result, our ability to reduce our losses and reach profitability is unproven, 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 have not yet submitted any product candidates for approval by regulatory authorities in the United States or elsewhere for our lead indication, the treatment of diabetic nephropathy in patients with type 2 diabetes, or any other indication. We have incurred net losses in each year since our inception, including net losses of $5.2 million and $1.7 million for the three months ended March 31, 2015 and 2014, respectively. We had an accumulated deficit of approximately $63.0 million as of March 31, 2015.

To date, we have devoted most of our financial resources to our corporate overhead and research and development, including our drug discovery research, preclinical development activities and clinical trials. We have not generated any revenues from product sales. We expect to continue to incur losses for the foreseeable future, and we expect these losses to increase as we continue our development of, and seek regulatory approvals for Pyridorin, prepare for and begin the commercialization of any approved products, and add infrastructure and personnel to support our continuing product development efforts. We anticipate that any such losses could be significant for the next several years as we continue our Phase 3 clinical program of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes, which we call the PIONEER program, and related activities required for regulatory approval of Pyridorin and pursuing an intravenous formulation of Pyridorin for AKI in clinical trials. If Pyridorin or any of our other product candidates fails in clinical trials or does not gain regulatory approval, or if our product candidates do not achieve market acceptance, we may never become profitable. As a result of the foregoing, we expect to continue to experience net losses and negative cash flows for the foreseeable future. These 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, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. In addition, our expenses could increase if we are required by the FDA or the 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. The amount

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of future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenues.

Borrowings under our credit facility may not be available to us to operate our business and successfully develop and commercialize our primary product candidate.

On November 20, 2014, we entered into a Loan and Security Agreement with East West Bank (East West) for a term loan (the Initial Term Loan) with an aggregate principal amount of $7.0 million and, subject to the terms and conditions set forth in the agreement, a second term loan (the Second Term Loan) with an aggregate principal amount of $5.0 million. As security for our obligations under the Loan Agreement, we granted East West a lien in substantially all of our assets, including owned and licensed intellectual property. At the Company's option, the Company could have borrowed the Second Term Loan on or before May 29, 2015, if the Company met certain clinical milestones. As of the date hereof, the Company has not met the clinical milestones for the Second Term Loan. However, the Company has made a proposal to East West to amend the clinical milestones necessary for incurrence of the Second Term Loan.

Our loan agreement contains customary affirmative and negative covenants, indemnification provisions and events of default. The affirmative covenants include, among others, covenants requiring us to maintain our legal existence and governmental approvals, deliver certain financial reports and maintain certain intellectual property rights. The negative covenants include, among others, restrictions on transferring or licensing our assets, changing our business, incurring additional indebtedness, engaging in mergers or acquisitions, paying dividends or making other distributions, and creating other liens on our assets, in each case subject to customary exceptions. If we default under the Loan Agreement, East West may accelerate all of our repayment obligations and take control of our pledged assets, potentially requiring us to renegotiate the Loan Agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, East West has the right to repayment would be senior to the rights of the holders of our common shares to receive any proceeds from the liquidation. East West could declare a default under the Loan Agreement upon the occurrence of any event that East West interprets as a material adverse change as defined under the Loan Agreement, thereby requiring us to repay the loan immediately or to attempt to reverse the declaration of default through negotiation or litigation. Any declaration by our lender of an event of default could significantly harm our business and prospects and could cause the price of our common shares to decline. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

We have a limited operating history and we expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

We are a development stage pharmaceutical company with a limited operating history. Our operations to date have been limited to developing our technology and undertaking preclinical studies and clinical trials of our product candidates. We have not yet obtained regulatory approvals for any of our product candidates. Consequently, any predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history or approved products on the market. Our financial condition and operating results have varied significantly in the past and are expected to continue to significantly fluctuate from quarter-to-quarter or year-to-year due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include:

- any delays in regulatory review and approval of our product candidates in clinical development, including our ability to receive approval from the FDA and the EMA for Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes based on our Phase 3 Pyridorin program, and our other completed and planned clinical trials and nonclinical studies and other work, as the basis for review and approval of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes;

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delays in the commencement, enrollment and timing of clinical trials;

difficulties in identifying and randomizing patients suffering from our target indications, and kidney disease in patients with type 2 diabetes in particular;

the success of our clinical trials through all phases of clinical development, including our Phase 3 trial of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes;

potential side effects of our product candidate that could delay or prevent approval or cause an approved drug to be taken off the market;

our ability to obtain additional funding to develop product candidates;

our ability to identify and develop additional product candidates;

market acceptance of our product candidates;

our ability to establish an effective sales and marketing infrastructure directly or through collaborations with third parties;

competition from existing products or new products that continue to emerge;

the ability of patients or healthcare providers to obtain coverage or sufficient reimbursement for our products;

our ability to adhere to clinical trial requirements directly or with third parties such as contract research organizations (CROs);

our dependency on third-party manufacturers to manufacture our products and key ingredients;

our ability to establish or maintain collaborations, licensing or other arrangements;

the costs to us, and our ability and our third-party collaborators' ability to obtain, maintain and protect our intellectual property rights;

costs related to and outcomes of potential intellectual property litigation;

our ability to adequately support future growth;

our ability to attract and retain key personnel to manage our business effectively; and

potential product liability claims.

Accordingly, the results of any quarterly or annual periods should not be relied upon as indications of future operating performance.

Our recurring losses from operations may raise substantial doubt regarding our ability to continue as a going concern.

Our recurring losses from operations may raise substantial doubt about our ability to continue as a going concern. There is no assurance that sufficient financing will be available when needed to allow us to continue as a going concern. The perception that we may not be able to continue as a going concern may cause others to choose not to deal with us due to concerns about our ability to meet our contractual obligations.

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Risks Relating to Regulatory Review and Approval of Our Product Candidates

We cannot be certain that Pyridorin will receive regulatory approval, and without regulatory approval we will not be able to market Pyridorin.

Our business currently depends entirely on the successful development and commercialization of Pyridorin. Our ability to generate revenue related to product sales, if ever, will depend on the successful development and regulatory approval of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes or an intravenous formulation of Pyridorin for AKI.

We currently have no products approved for sale and we cannot guarantee that we will ever have marketable products. The development of a product candidate and issues relating to its approval and marketing are subject to extensive regulation by the FDA in the United States, the EMA in Europe and 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 a NDA from the FDA or a MAA from the EMA, respectively. We have not submitted any marketing applications for any of our product candidates.

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 a NDA or a 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. If we submit a NDA to the FDA, the FDA must decide whether to accept or reject the submission for filing. We cannot be certain that any submissions will be accepted for filing and review by the FDA. Regulators in other jurisdictions, such as the EMA, have their own procedures for approval of product candidates. Even if a product is approved, the FDA or the EMA, as the case may be, may limit the indications for which the product may be marketed, require extensive warnings on the product labeling or require expensive and time-consuming clinical trials or reporting as conditions of approval. Regulatory authorities in countries outside of the United States and Europe also have requirements for approval of drug candidates with which we must comply with prior to marketing in those countries. Obtaining regulatory approval for marketing of a product candidate in one country does not ensure that we will be able to obtain regulatory approval in any other country. 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 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 other products. Also, regulatory approval for any of our product candidates may be withdrawn.

We have completed three Phase 2 trials for Pyridorin and are enrolling patients for our Phase 3 PIONEER trial. In addition, we have successfully completed a QT/QTc (TQT) cardiac safety study. Before we submit a NDA to the FDA or a MAA to the EMA for Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes, we must successfully conduct two Phase 3 trials. In addition, we must complete other nonclinical studies and clinical trials, such as two nonclinical carcinogenicity studies and a nonclinical cardiac safety study. We cannot predict whether our future trials and studies will be successful or whether regulators will agree with our conclusions regarding the preclinical studies and clinical trials we have conducted to date.

If we are unable to obtain approval from the FDA, the EMA or other regulatory agencies for Pyridorin and our other product candidates, or if, subsequent to approval, we are unable to successfully commercialize Pyridorin or our other product candidates, we will not be able to generate sufficient revenue to become profitable or to continue our operations.

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Any statements in this document indicating that Pyridorin has demonstrated preliminary evidence of efficacy are our own and are not based on the FDA's or any other comparable governmental agency's assessment of Pyridorin and do not indicate that Pyridorin will achieve favorable efficacy results in any later stage trials or that the FDA or any comparable agency will ultimately determine that Pyridorin is effective for purposes of granting marketing approval.

Delays in the commencement, enrollment and completion of clinical trials could result in increased costs to us and delay or limit our ability to obtain regulatory approval for Pyridorin and our other product candidates.

Delays in the commencement, enrollment and completion of clinical trials could increase our product development costs or limit the regulatory approval of our product candidates. We do not know whether any future trials or studies of our other product candidates will begin on time or will be completed on schedule, if at all. The start or end of a clinical study is often delayed or halted due to changing regulatory requirements, manufacturing challenges, including delays or shortages in available drug product, required clinical trial administrative actions, slower than anticipated patient enrollment, changing standards of care, availability or prevalence of use of a comparative drug or required prior therapy, clinical outcomes or financial constraints. For instance, delays or difficulties in patient enrollment or difficulties in retaining trial participants can result in increased costs, longer development times or termination of a clinical trial. Clinical trials of a new product candidate require the enrollment of a sufficient number of patients, including patients who are suffering from the disease the product candidate is intended to treat and who meet other eligibility criteria. Rates of patient enrollment are affected by many factors, including the size of the patient population, the eligibility criteria for the clinical trial, that include the age and condition of the patients and the stage and severity of disease, the nature of the protocol, the proximity of patients to clinical sites and the availability of effective treatments and/or availability of investigational treatment options for the relevant disease.

A product candidate can unexpectedly fail at any stage of preclinical and clinical development. The historical failure rate for product candidates is high due to scientific feasibility, safety, efficacy, changing standards of medical care and other variables. The results from preclinical testing or early clinical trials of a product candidate may not predict the results that will be obtained in later phase clinical trials of the product candidate. We, the FDA or other applicable regulatory authorities may suspend clinical trials of a product candidate at any time for various reasons, including a belief that subjects participating in such trials are being exposed to unacceptable health risks or adverse side effects. We may not have the financial resources to continue development of, or to enter into collaborations for, a product candidate if we experience any problems or other unforeseen events that delay or prevent regulatory approval of, or our ability to commercialize, product candidates, including:

- inability to obtain sufficient funds required for a clinical trial;
- inability to reach agreements on acceptable terms with prospective CROs and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- negative or inconclusive results from our clinical trials or the clinical trials of others for product candidates similar to ours, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a program;
- serious and unexpected drug-related side effects experienced by subjects in our clinical trials or by individuals using drugs similar to our product candidates;
- inability to obtain approval from institutional review boards (IRBs), to conduct a clinical trial at their respective sites;
- inability to obtain approval from regulatory authorities outside the United States to conduct a clinical trial in their respective country;

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conditions imposed by the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;

delays in enrolling research subjects in clinical trials;

high drop-out rates of research subjects;

high screen fail rates of research subjects;

inadequate supply or quality of product candidate components or materials or other supplies necessary for the conduct of our clinical trials;

greater than anticipated clinical trial costs;

poor effectiveness of our product candidates during clinical trials;

unfavorable FDA or other regulatory agency inspection and review of a clinical trial site or vendor;

failure of our third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;

delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight around clinical testing generally or with respect to our technology in particular; or

varying interpretations of data by the FDA and similar foreign regulatory agencies.

Although the FDA has agreed to our endpoint for approval for the pivotal Phase 3 PIONEER program, other regulatory agencies outside the United States may not agree to our proposed endpoint for approval of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes, in which case we would need to complete one or more additional clinical trials in order to seek approval outside the United States.

Regulatory authorities in other countries in which we may seek approval for and market Pyridorin may require additional nonclinical studies and/or clinical trials prior to granting approval. It may be expensive and time consuming to conduct and complete additional nonclinical studies and clinical trials that other regulatory authorities may require us to perform. As such, any requirement by other regulatory authorities that we conduct additional nonclinical studies or clinical trials could materially and adversely affect our business, financial condition and results of operations. Furthermore, even if we receive regulatory approval of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes, the labeling for Pyridorin in the United States, Europe or other countries in which we seek approval may include limitations that could impact the commercial success of Pyridorin.

Clinical failure can occur at any stage of clinical development and we have never conducted a Phase 3 trial or submitted a NDA or MAA before. The results of earlier clinical trials are not necessarily predictive of future results and any product candidate we or our potential future 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 our 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 nonclinical 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 a product candidate. 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, even after seeing promising results in earlier clinical trials.

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Pyridorin did not reach its primary endpoint in the intent to treat (ITT) population in the Phase 2b trial (PYR-210). However, in a prespecified subgroup of patients on stable long term standard of care, Pyridorin showed a dose-dependent treatment effect of approximately 50%. This subgroup is the patient population that will be studied in the Phase 3 program. Subgroup analysis carries the inherent risk that the results may not be repeatable in a subsequent trial. It is possible that the treatment effect observed in this subgroup of PYR-210 may not repeat in our Phase 3 trials.

Pyridorin has demonstrated a promising treatment effect in Phase 2 clinical trials using a rate of change in SCr endpoint. The Phase 3 PIONEER trial is utilizing a new ≥50% SCr increase event endpoint or ESRD. While there is a strong correlation between the rate of change of SCr and the 50% SCr increase event endpoint, no clinical trials have been conducted using this new endpoint. We cannot assure you that our PIONEER Pyridorin program will achieve positive results using this new endpoint.

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 potential products often reveal that it is not practical or feasible to continue development efforts.

If Pyridorin is found to be unsafe or lack efficacy, we will not be able to obtain regulatory approval for it and our business would be harmed. For example, if the results of our Phase 3 Pyridorin program do not achieve the primary efficacy endpoints or demonstrate expected safety, the prospects for approval of Pyridorin would be materially and adversely affected.

In some instances, there can be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including changes in trial protocols, differences in composition of the patient populations, adherence to the dosing regimen and other trial protocols and 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 potential future collaborators may conduct will demonstrate the consistent or adequate efficacy and safety that would be required to obtain regulatory approval and market Pyridorin. If we are unable to bring Pyridorin to market, or to acquire other products that are on the market or can be developed, our ability to create long-term stockholder value will be limited.

Our product candidates may have undesirable side effects which may delay or prevent marketing approval, or, if approval is received, require them to be taken off the market, require them to include safety warnings or otherwise limit their sales.

Pyridorin targets a broad range of pathogenic oxidative chemistries, including advanced glycation end-products, toxic carbonyls, and reactive oxygen species that develop in patients with diabetes and are considered a principal causative factor in the development and progression of diabetic microvascular disease. 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 Pyridorin were a slight increase in diarrhea and constipation. No patients were withdrawn from the study for these side effects. Additional or unforeseen side effects from these or any of our other product candidates could arise either during clinical development or, if approved, after the approved product has been marketed.

The range and potential severity of possible side effects from systemic therapies is significant. The results of future clinical trials may show that Pyridorin causes 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.

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If any of our product candidates receives marketing approval and we or others later identify undesirable or unacceptable side effects caused by such products:

- regulatory authorities may require the addition of labeling statements, specific warnings, a contraindication or field alerts to physicians and pharmacies;
- we may be required to change instructions regarding the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- we may be subject to limitations on how we may promote the product;
- sales of the product may decrease significantly;
- regulatory authorities may require us to take our approved product off the market;
- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us or our potential future collaborators from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenues from the sale of our products.

Reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance. If there is not sufficient reimbursement for our products, it is less likely that they will be widely used.

Market acceptance and sales of Pyridorin or any other product candidates that we develop, if approved, will depend on reimbursement policies and may be affected, among other things, by future healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will cover and establish payment levels. We cannot be certain that reimbursement will be available for Pyridorin or any other product candidates that we develop. Also, we cannot be certain that reimbursement policies will not reduce the demand for, or the price paid for, our products. If reimbursement is not available or is available on a limited basis, we may not be able to successfully commercialize Pyridorin or any other product candidates that we develop.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) changed the way Medicare covers and pays for pharmaceutical products. The legislation established Medicare Part D, which expanded Medicare coverage for outpatient prescription drug purchases by the elderly but provided authority for limiting the number of drugs that will be covered in any therapeutic class. The MMA also introduced a new reimbursement methodology based on average sales prices for physician- administered drugs. Any negotiated prices for our products covered by a Part D prescription drug plan will likely be lower than the prices we might otherwise obtain in the United States. Moreover, while the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own payment rates. Any reduction in payment that results from the MMA may result in a similar reduction in payments from non-governmental payors.

The United States and several other jurisdictions are considering, or have already enacted, a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access to healthcare. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. We expect to experience pricing pressures in connection with the sale of

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Pyridorin and any other products that we develop, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative proposals.

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, ACA) became law in the United States. The goal of ACA is to reduce the cost of health care and substantially change the way health care is financed by both governmental and private insurers. While we cannot predict what impact on federal reimbursement policies this legislation will have in general or on our business specifically, the ACA may result in downward pressure on pharmaceutical reimbursement, which could negatively affect market acceptance of Pyridorin or any future product candidates. In addition, some members of the U.S. Congress have been seeking to overturn at least portions of the legislation and we expect they will continue to review and assess this legislation and alternative health care reform proposals. We cannot predict whether new proposals will be made or adopted, when they may be adopted or what impact they may have on us if they are adopted.

In the European Union (EU), prescription drug pricing and reimbursement is subject to governmental control and reimbursement mechanisms used by private and public health insurers in the EU vary by member state. For the public systems, reimbursement is determined by guidelines established by the legislator or responsible national authority. As elsewhere, inclusion in reimbursement catalogues focuses on the medical usefulness, need, quality and economic benefits to patients and the health care system. Acceptance for reimbursement comes with cost, use and often volume restrictions, which can vary by member state. In those member states that impose price controls, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some member states, we or our partners may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies.

Some EU member states require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some member states, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we or our partners might obtain marketing approval for a product in a particular member state, but then be subject to price regulations that delay commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues that are generated from the sale of the product in that country. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, or if there is competition from lower priced cross-border sales, our profitability may be negatively affected.

If we do not obtain protection under the Hatch-Waxman Act and similar legislation outside of the United States by extending the patent terms and obtaining data exclusivity for our product candidates, our business may be materially harmed.

Depending upon the timing, duration and specifics of FDA marketing approval of Pyridorin and our other product candidates, if any, one or more of our U.S. patents may be eligible for limited patent term restoration under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Act. The Hatch-Waxman Act permits a patent restoration term of up to five years as compensation for patent term lost during product development and the FDA regulatory review process. However, we may not be granted an extension because of, for example, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than we request. If we are unable to obtain patent term extension or restoration or the term of any such extension is less than we request, the period during which we will have the right to exclusively market our product will be shortened and our competitors may obtain approval of competing products following our patent expiration, and our revenue could be reduced, possibly materially. In the event that we are unable to obtain any patent term extensions, the issued patents for methods of using Pyridorin are expected to expire in June 2024 assuming they withstand any challenge.

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If we market products in a manner that violates healthcare fraud and abuse laws, or if we violate government price reporting laws, we may be subject to civil or criminal penalties.

In addition to FDA restrictions on marketing of pharmaceutical products, several other types of state and federal healthcare laws, commonly referred to as "fraud and abuse" laws, have been applied in recent years to restrict certain marketing practices in the pharmaceutical industry. Other jurisdictions such as Europe have similar laws. These laws include false claims and anti-kickback statutes. If we market our products and our products are paid for by governmental programs, it is possible that some of our business activities could be subject to challenge under one or more of these laws.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service covered by Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers or formulary managers on the other. Although there are several statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Most states also have statutes or regulations similar to the federal anti-kickback law and federal false claims laws, which apply to items and services covered by Medicaid and other state programs, or, in several states, apply regardless of the payor. Administrative, civil and criminal sanctions may be imposed under these federal and state laws.

Over the past few years, a number of pharmaceutical and other healthcare companies have been prosecuted under these laws for a variety of promotional and marketing activities, such as: providing free trips, free goods, sham consulting fees and grants and other monetary benefits to prescribers; reporting inflated average wholesale prices that were then used by federal programs to set reimbursement rates; engaging in off-label promotion; and submitting inflated best price information to the Medicaid Rebate Program to reduce liability for Medicaid rebates.

If the FDA and EMA and other regulatory agencies do not find the manufacturing facilities of our future contract manufacturers acceptable for commercial production, we may not be able to commercialize any of our product candidates.

We do not intend to manufacture the pharmaceutical products that we plan to sell. We currently have agreements with and are negotiating additional agreements with contract manufacturers for the production of the active pharmaceutical ingredients and the formulation of drug product for our Phase 3 trial of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes and the other trials and nonclinical studies that we believe we will need to conduct prior to seeking regulatory approval. However, we do not have agreements for commercial supplies of Pyridorin or any of our other product candidates and we may not be able to reach agreements with these or other contract manufacturers for sufficient supplies to commercialize Pyridorin if it is approved. Additionally, the facilities used by any contract manufacturer to manufacture Pyridorin or any of our other product candidates must be the subject of a satisfactory inspection before the FDA or the regulators in other jurisdictions approve the product candidate manufactured at that facility. We are completely dependent on these third-party manufacturers for compliance with the requirements of U.S. and non-U.S. regulators for the manufacture of our finished products. If our manufacturers cannot successfully manufacture material that conform to our specifications and cGMP and other requirements of any governmental agency whose jurisdiction to which we are subject, our product candidates will not be approved or, if already approved, may be subject

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to recalls. Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured the product candidates, including:

- the possibility that we are unable to enter into a manufacturing agreement with a third party to manufacture our product candidates;
- the possible breach of the manufacturing agreements by the third parties because of factors beyond our control; and
- the possibility of termination or nonrenewal of the agreements by the third parties before we are able to arrange for a qualified replacement third-party manufacturer.

Any of these factors could cause the delay of approval or commercialization of our product candidates, cause us to incur higher costs or prevent us from commercializing our product candidates successfully. Furthermore, if any of our product candidates are approved and contract manufacturers fail to deliver the required commercial quantities of finished product on a timely basis and at commercially reasonable prices and we are unable to find one or more replacement manufacturers capable of production at a substantially equivalent cost, in substantially equivalent volumes and quality and on a timely basis, we would likely be unable to meet demand for our products and could lose potential revenue. It may take several years to establish an alternative source of supply for our product candidates and to have any such new source approved by the government agencies that regulate our products.

Even if our product candidates receive regulatory approval, we may still face future development and regulatory difficulties.

Our product candidates, if approved, will also be subject to ongoing regulatory requirements for labeling, packaging, storage, advertising, promotion, record-keeping and submission of safety and other post-market information. In addition, approved products, manufacturers and manufacturers' facilities are required to comply with extensive FDA and EMA requirements and requirements of other similar agencies, including ensuring that quality control and manufacturing procedures conform to cGMPs. As such, we and our contract manufacturers are subject to continual review and periodic inspections to assess compliance with cGMPs. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. We will also be required to report certain adverse reactions and production problems, if any, to the FDA and EMA and other similar agencies and to comply with certain requirements concerning advertising and promotion for our products. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved label. Accordingly, we may not promote our approved products, if any, for indications or uses for which they are not approved.

If a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, or disagrees with the promotion, marketing or labeling of a product, it may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters;
- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us or our potential future collaborators to enter into a consent decree or permanent injunction, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- impose other administrative or judicial civil or criminal penalties;

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withdraw regulatory approval;

refuse to approve pending applications or supplements to approved applications filed by us or our potential future collaborators;

impose restrictions on operations, including costly new manufacturing requirements; or

seize or detain products.

Risks Relating to the Commercialization of Our Products

Even if approved, our product candidates may not achieve broad market acceptance among physicians, patients and healthcare payors, and as a result our revenues generated from their sales may be limited.

The commercial success of Pyridorin, if approved, will depend upon its acceptance among the medical community, including physicians, health care payors and patients. The degree of market acceptance of Pyridorin or future product candidates will depend on a number of factors, including:

limitations or warnings contained in our product candidates' FDA-approved labeling;

changes in the standard of care or availability of alternative therapies at similar or lower costs for the targeted indications for any of our product candidates;

limitations in the approved clinical indications for our product candidates;

demonstrated clinical safety and efficacy compared to other products;

lack of significant adverse side effects;

sales, marketing and distribution support;

availability of reimbursement from managed care plans and other third-party payors;

timing of market introduction and perceived effectiveness of competitive products;

the degree of cost-effectiveness;

availability of alternative therapies at similar or lower cost, including generics and over-the-counter products;

enforcement by the FDA and EMA of laws and rulings that prohibit the sale of pyridoxamine as a dietary supplement;

the extent to which our product candidates are approved for inclusion on formularies of hospitals and managed care organizations;

whether our product candidates are designated under physician treatment guidelines for the treatment of the indications for which we have received regulatory approval;

adverse publicity about our product candidates or favorable publicity about competitive products;

convenience and ease of administration of our product candidates;

potential product liability claims; and

countries accepting the EMA and FDA approvals without study conduct in their respective countries or among a patient population representative of their respective country.

If our product candidates are approved, but do not achieve an adequate level of acceptance by physicians, patients, the medical community and healthcare payors, sufficient revenue may not be generated from these products and we may not become or remain profitable. In addition, efforts to

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educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

We have no sales, marketing or distribution experience and we will have to invest significant resources to develop those capabilities or enter into acceptable third-party sales and marketing arrangements.

We have no sales, marketing or distribution experience. To develop sales, distribution and marketing capabilities, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that Pyridorin or any of our other product candidates will be approved. For product candidates where we decide to perform sales, marketing and distribution functions ourselves or through third parties, we could face a number of additional risks, including:

- we or our third-party sales collaborators may not be able to attract and build an effective marketing or sales force;
- the cost of securing or establishing a marketing or sales force may exceed the revenues generated by any products; and
- our direct sales and marketing efforts may not be successful.

We may have limited or no control over the sales, marketing and distribution activities of these third parties. Our future revenues may depend heavily on the success of the efforts of these third parties.

We may not be successful in establishing and maintaining development and commercialization collaborations, which could adversely affect our ability to develop certain of our product candidates and our financial condition and operating results.

Because developing pharmaceutical products, conducting clinical trials, obtaining regulatory approval, establishing manufacturing capabilities and marketing approved products are expensive, we may seek to enter into collaborations with companies that have more experience. Additionally, if any of our product candidates receives marketing approval, we may enter into sales and marketing arrangements with third parties with respect to our unlicensed territories. If we are unable to enter into arrangements on acceptable terms, if at all, we may be unable to effectively market and sell our products in our target markets. We expect to face competition in seeking appropriate collaborators. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement and they may require substantial resources to maintain. We may not be successful in our efforts to establish and implement collaborations or other alternative arrangements for the development of our product candidates.

When we collaborate with a third party for development and commercialization of a product candidate, we can expect to relinquish some or all of the control over the future success of that product candidate to the third party. For example, we may relinquish the rights to Pyridorin in jurisdictions outside of the United States. Our collaboration partner may not devote sufficient resources to the commercialization of our product candidates or may otherwise fail in their commercialization. The terms of any collaboration or other arrangement that we establish may not be favorable to us. In addition, any collaboration that we enter into may be unsuccessful in the development and commercialization of our product candidates. In some cases, we may be responsible for continuing preclinical and initial clinical development of a product candidate or research program under a collaboration arrangement, and the payment we receive from our collaboration partner may be insufficient to cover the cost of this development. If we are unable to reach agreements with suitable collaborators for our product candidates, we would face increased costs, we may be forced to limit the number of our product candidates we can commercially develop or the territories in which we commercialize them and we might fail to commercialize products or programs for which a suitable collaborator cannot be found. If we fail to achieve successful collaborations, our operating results and financial condition will be materially and adversely affected.

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The success of the company depends greatly on the success of Pyridorin's development in diabetic nephropathy, and the company's pipeline of product candidates beyond this lead indication is limited.

We are evaluating the application of an intravenous formulation of Pyridorin to specific types of acute renal injury in which pathogenic oxidative chemistries have been identified as likely causative factors in the onset, severity and progression of this condition. These include ischemia-reperfusion and contrast-dye-induced acute renal injury, which can arise in cardiac and vascular surgeries. However, the intravenous formulation of Pyridorin has never been evaluated in a clinical setting and there is no clinical evidence that the therapy will be effective in additional indications. Moreover, the completion of development, securing of approval and commercialization of an intravenous formulation of Pyridorin for additional indications will require substantial additional funding and is prone to the risks of failure inherent in drug development. We cannot provide you any assurance that we will be able to successfully advance any of these indications through the development process. Even if we receive FDA approval to market an intravenous formulation of Pyridorin for additional indications, we cannot provide assurance that this will be successfully commercialized, widely accepted in the marketplace or more effective than other commercially available alternatives.

If serious adverse events or other undesirable side effects are identified during the development of Pyridorin for one indication, we may need to abandon our development of Pyridorin for other indications.

Product candidates in clinical stages of development have a high risk of failure. We cannot predict when or if Pyridorin will prove effective or safe in humans or will receive regulatory approval. To date, the most common side effects observed in clinical trials of Pyridorin were a slight increase in diarrhea and constipation. New side effects could, however, be identified as we expand the size of our clinical trials and apply Pyridorin to other indications. If new side effects are found during the development of Pyridorin for any indication, if known side effects are shown to be more severe than previously observed or if Pyridorin is found to have other unexpected characteristics, we may need to abandon our development of Pyridorin for kidney disease in patients with type 2 diabetes and other potential indications. Additional or more severe adverse side effects with respect to Pyridorin may develop in future clinical trials, which could delay or preclude regulatory approval of Pyridorin or limit its commercial use.

Risks Relating to Our Business and Strategy

We face competition from other biotechnology and pharmaceutical companies and our operating results will suffer if we fail to compete effectively.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. We have competitors in the United States, Europe and other jurisdictions, including major multinational pharmaceutical companies, established biotechnology companies, specialty pharmaceutical and generic drug companies and universities and other research institutions. Many of our competitors have greater financial and other resources, such as larger research and development staff and more experienced marketing and manufacturing organizations. Large pharmaceutical companies, in particular, have extensive experience in clinical testing, obtaining regulatory approvals, recruiting patients and manufacturing pharmaceutical products. These companies also have significantly greater research, sales and marketing capabilities and collaborative arrangements in our target markets with leading companies and research institutions. Established pharmaceutical companies may also invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make the product candidates that we develop obsolete. As a result of all of these factors, our competitors may succeed in obtaining patent protection and/or FDA approval or discovering, developing and commercializing drugs for the diseases that we are targeting before we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Some of the pharmaceutical and biotechnology companies we expect to compete with include AbbVie Inc., Bayer Corporation, Bristol-Meyers Squibb, Thrasos Therapeutics, Inc., Genkyotex S.A., Janssen Pharmaceutical, Inc., Pfizer Inc., Chemocentryx, Inc., Eli Lilly and Company, and

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Mitsubishi Tanabe Pharma. In addition, many universities and private and public research institutes may become active in our target disease areas. Our competitors may succeed in developing, acquiring or licensing on an exclusive basis, technologies and drug products that are more effective or less costly than Pyridorin or any other product candidates that we are currently developing or that we may develop, which could render our products obsolete and noncompetitive.

We believe that our ability to successfully compete will depend on, among other things:

- the results of our and our potential strategic collaborators' clinical trials and preclinical studies;
- our ability to recruit and randomize patients for our clinical trials;
- the efficacy, safety and reliability of our product candidates;
- the speed at which we develop our product candidates;
- our ability to design and successfully execute appropriate clinical trials;
- our ability to maintain a good relationship with regulatory authorities;
- the timing and scope of regulatory approvals, if any;
- our ability to commercialize and market any of our product candidates that receive regulatory approval;
- the price of our products;
- adequate levels of reimbursement under private and governmental health insurance plans, including Medicare;
- our ability to protect intellectual property rights related to our products;
- our ability to manufacture and sell commercial quantities of any approved products to the market; and
- acceptance of our product candidates by physicians and other health care providers.

If our competitors market products that are more effective, safer or less expensive or that reach the market sooner than our future products, if any, we may not achieve commercial success. In addition, the biopharmaceutical industry is characterized by rapid technological change. Because our research approach integrates many technologies, it may be difficult for us to stay abreast of the rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Technological advances or products developed by our competitors may render our technologies or product candidates obsolete, less competitive or not economical.

We depend on third-party contractors for a substantial portion of our operations and may not be able to control their work as effectively as if we performed these functions ourselves.

We outsource substantial portions of our operations to third-party service providers, including the conduct of preclinical studies and clinical trials, collection and analysis of data, and manufacturing. Our agreements with third-party service providers and CROs are on a study-by-study and project-by-project basis. Typically, we may terminate the agreements with notice and are responsible for the supplier's previously incurred costs. In addition, any CRO that we retain will be subject to the FDA's and EMA's regulatory requirements and similar standards outside of the United States and Europe and we do not have control over compliance with these regulations by these providers. Consequently, if these providers do not adhere to applicable governing practices and standards, the development and commercialization of our product candidates could be delayed or stopped, which could severely harm our business and financial condition.

Because we have relied on third parties, our internal capacity to perform these functions is limited to management oversight. Outsourcing these functions involves the risk that third parties may not perform to our standards, may not produce results in a timely manner or may fail to perform at all. Although we have

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not experienced any significant difficulties with our third-party contractors, it is possible that we could experience difficulties in the future. In addition, the use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated. There are a limited number of third-party service providers that specialize or have the expertise required to achieve our business objectives. Identifying, qualifying and managing performance of third-party service providers can be difficult, time consuming and cause delays in our development programs. We currently have a small number of employees, which limits the internal resources we have available to identify and monitor third-party service providers. To the extent we are unable to identify, retain and successfully manage the performance of third-party service providers in the future, our business may be adversely affected, and we may be subject to the imposition of civil or criminal penalties if their conduct of clinical trials violates applicable law.

A variety of risks associated with our possible international business relationships could materially adversely affect our business.

We may enter into agreements with other third parties for the development and commercialization of Pyridorin or our other product candidates in international markets. International business relationships subject us to additional risks that may materially adversely affect our ability to attain or sustain profitable operations, including:

- differing regulatory requirements for drug approvals internationally;
- potentially reduced protection for intellectual property rights;
- potential third-party patent rights in countries outside of the United States;
- the potential for so-called "parallel importing," which is what occurs when a local seller, faced with relatively high local prices, opts to import goods from another jurisdiction with relatively low prices, rather than buying them locally;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- economic weakness, including inflation, or political instability, particularly in non-U.S. economies and markets, including several countries in Europe;
- compliance with tax, employment, immigration and labor laws for employees traveling abroad;
- taxes in other countries;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism, or natural disasters, including earthquakes, volcanoes, typhoons, floods, hurricanes and fires.

We will need to expand our operations and increase the size of our company, and we may experience difficulties in managing growth.

As of June 22, 2015, we had ten employees. As we increase the number of ongoing product development programs and advance our product candidates through preclinical studies and clinical trials, we will need to increase our product development, scientific and administrative headcount to manage these programs. In addition, to meet our obligations as a public company, we may need to increase our general and administrative capabilities. Our management, personnel and systems currently in place may

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not be adequate to support this future growth. Our need to effectively manage our operations, growth and various projects requires that we:

- successfully attract and recruit new employees or consultants with the expertise and experience we will require;
- manage our clinical programs effectively, which we anticipate being conducted at numerous clinical sites, among multiple vendors and countries;
- develop a marketing and sales infrastructure; and
- continue to improve our operational, financial and management controls, reporting systems and procedures.

If we are unable to successfully manage this growth and increased complexity of operations, our business may be adversely affected.

We may not be able to manage our business effectively if we are unable to attract and retain key personnel and consultants.

We may not be able to attract or retain qualified management, finance, scientific and clinical personnel and consultants due to the intense competition for qualified personnel and consultants among biotechnology, pharmaceutical and other businesses. If we are not able to attract and retain necessary personnel and consultants to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

Our industry has experienced a high rate of turnover of management personnel in recent years. We are highly dependent on the development, regulatory, commercialization and business development expertise of Pierre Legault, our chief executive officer; John P. Hamill, our chief financial officer; and our other key employees and consultants. If we lose one or more of our executive officers or key employees or consultants, our ability to implement our business strategy successfully could be seriously harmed. Any of our executive officers or key employees or consultants may terminate their employment at any time. Replacing executive officers, key employees and consultants may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop, gain regulatory approval of and commercialize products successfully. Competition to hire and retain employees and consultants from this limited pool is intense, and we may be unable to hire, train, retain or motivate these additional key personnel and consultants. Our failure to retain key personnel or consultants could materially harm our business.

In addition, we have scientific and clinical advisors and consultants who assist us in formulating our research, development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us and typically they will not enter into non-compete agreements with us. If a conflict of interest arises between their work for us and their work for another entity, we may lose their services. In addition, our advisors may have arrangements with other companies to assist those companies in developing products or technologies that may compete with ours.

We may experience challenges as certain executive roles are being changed.

Dr. J. Wesley Fox will have less management responsibility in the future, focusing instead on strategy, strategic products, a Scientific Advisory Board, investor relations and other activities. Dr. Jaikrishna Patel will serve as our Chief Medical Officer effective July 27, 2015. As such, he will have a significant role in our PIONEER clinical trial program. He will also focus on new areas and take over the activities recently performed by contractors and consultants.

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If either Dr. Fox or Dr. Patel ceases to fulfill his respective new responsibilities, our business, financial condition and results of operations could be materially and adversely affected. Additionally, we cannot provide any assurance that this transitional period will not result in a disruption that adversely impacts our business and employee morale.

Failure to continue improving our accounting systems and controls could impair our ability to comply with the financial reporting and internal controls requirements for publicly traded companies.

As a public company, we operate in an increasingly demanding regulatory environment, which requires us to comply with the Sarbanes-Oxley Act of 2002, and the related rules and regulations of the SEC, expanded disclosure requirements, accelerated reporting requirements and more complex accounting rules. Company responsibilities required by the Sarbanes-Oxley Act include establishing corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent financial fraud.

We have implemented a system of internal controls over financial reporting and preparing the documentation necessary to perform the evaluation needed to comply with Section 404(a) of the Sarbanes-Oxley Act. We may need to retain additional finance capabilities and build our financial infrastructure as a public company, including complying with the requirements of Section 404 of the Sarbanes-Oxley Act. We plan to continue improving our financial infrastructure with the enhancement of internal controls and additional training for our financial and accounting staff.

Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we would expect to file with the SEC. However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we have and intend to continue to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. We may continue to take advantage of these reporting exemptions until we are no longer an "emerging growth company." We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; (ii) December 31, 2019; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed and investors could lose confidence in our reported financial information.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading, which could significantly harm our business.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with the regulations of the FDA and non-U.S. regulators, provide accurate information to the FDA and non-U.S. regulators, comply with health care fraud and abuse laws and regulations in the United States and abroad, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the health care industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a code of conduct, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in

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controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.

The use of our product candidates in clinical trials and the sale of any products for which we may obtain marketing approval expose us to the risk of product liability claims. Product liability claims may be brought against us or our potential future collaborators by participants enrolled in our clinical trials, patients, health care providers or others using, administering or selling our products. If we cannot successfully defend ourselves against any such claims, we would incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

withdrawal of clinical trial participants;

termination of clinical trial sites or entire trial programs;

costs of related litigation;

substantial monetary awards to patients or other claimants;

decreased demand for our product candidates and loss of revenues;

impairment of our business reputation;

diversion of management and scientific resources from our business operations; and

the inability to commercialize our product candidates.

We currently maintain products liability insurance ($20 million coverage) which covers our clinical trials liability. Our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to product liability. We intend to expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash resources and adversely affect our business.

We purchase commercially available insurance at limits suggested by our insurance broker based on our business operations. Our insurance policies do not cover all of our business exposures thus leaving us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include general liability ($2 million coverage), umbrella liability ($2 million coverage), employment practices liability, property, auto, workers' compensation, and directors' and officers' insurance. We currently maintain products liability insurance ($20 million coverage) which covers our clinical trials liability. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our financial position and results of operations.

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If we engage in an acquisition, reorganization or business combination, we will incur a variety of risks that could adversely affect our business operations or our stockholders.

From time to time we have considered, and we will continue to consider in the future, strategic business initiatives intended to further the expansion and development of our business. These initiatives may include acquiring businesses, technologies or products or entering into a business combination with another company. If we pursue such a strategy, we could, among other things:

- issue equity securities that would dilute our current stockholders' percentage ownership;
- incur substantial debt that may place strains on our operations;
- spend substantial operational, financial and management resources to integrate new businesses, technologies and products;
- assume substantial actual or contingent liabilities;
- reprioritize our development programs and even cease development and commercialization of our product candidates; or
- merge with, or otherwise enter into a business combination with, another company in which our stockholders would receive cash and/or shares of the other company on terms that certain of our stockholders may not deem desirable.

Although we intend to evaluate and consider acquisitions, reorganizations and business combinations in the future, we have no agreements or understandings with respect to any acquisition, reorganization or business combination at this time.

Risks Relating to Our Intellectual Property

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection. If our patent position does not adequately protect our product candidates, others could compete against us more directly, which would harm our business, possibly materially.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of our current and future product candidates and the methods used to develop and manufacture them, as well as successfully defending these patents against third-party challenges. Our ability to stop third parties from making, using, selling, offering to sell or importing our products depends on the extent to which we have rights under valid and enforceable patents or trade secrets that cover these activities. We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our product candidates, discovery programs and processes.

The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved.

No consistent policy regarding the breadth of claims allowed in pharmaceutical patents has emerged to date in the United States or in many jurisdictions outside of the United States. Changes in either the patent laws or interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be enforced in the patents that may be issued from the applications we currently or, may in the future, own or license from third parties. Further, if any patents we obtain or license are deemed invalid and unenforceable, our ability to commercialize or license our technology could be adversely affected.

In the future others may file patent applications covering products and technologies that are similar, identical or competitive to ours or important to our business. We cannot be certain that any patent

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application owned by a third party will not have priority over patent applications filed or in-licensed by us, or that we or our licensors will not be involved in interference, opposition or invalidity proceedings before U.S. or non-U.S. patent offices.

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

- others may be able to develop a platform similar to, or better than, ours in a way that is not covered by the claims of our patents;
- others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of our patents;
- we might not have been the first to make the inventions covered by our pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- any patents that we obtain may not provide us with any competitive advantages;
- we may not develop additional proprietary technologies that are patentable; or
- the patents of others may have an adverse effect on our business.

As of June 15, 2015, we were the owner of record or the licensee of 28 issued or granted U.S. and non-U.S. patents relating to Pyridorin with claims directed to methods of making Pyridorin, and methods of using Pyridorin in various indications. We were also the owner of record or licensee of three pending U.S. and non-U.S. patent applications relating to Pyridorin in these areas. In addition, as of December 31, 2014, we were the owner of record of two pending U.S. and non-U.S. applications relating to our product candidates other than Pyridorin, with claims directed to pharmaceutical compounds, pharmaceutical compositions and methods of using these compounds in various indications.

Patents covering methods of using Pyridorin expire in 2024 if the appropriate maintenance fee renewal, annuity, or other government fees are paid, unless a patent term extension based on regulatory delay is obtained. We expect that expiration in 2016 of some of our method-of-use patents, or their foreign equivalents, covering use of Pyridorin for treating diabetic nephropathy will have a limited impact on our ability to protect our intellectual property in the United States, Europe, and Canada, where we have additional issued patents covering this use that extend until 2024. In other countries, our patent protection covering use of Pyridorin for treating diabetic nephropathy will expire in 2016. We will attempt to mitigate the effect of patent expiration by seeking data exclusivity, or the foreign equivalent thereof, in conjunction with product approval, as well as by filing additional patent applications covering improvements in our intellectual property.

We expect that the other patents and patent applications for the Pyridorin portfolio, if issued, and if the appropriate maintenance, renewal, annuity or other governmental fees are paid, would expire from 2016 to 2035. We own pending applications in the United States and Europe covering Pyridorin analogs, and uses of such analogs as therapeutics to treat a variety of disorders, including kidney disorders such as nephropathy. Patent protection, to the extent it issues, would be expected to extend to 2027, unless a patent term extension based on regulatory delay is obtained.

Due to the patent laws of a country, or the decisions of a patent examiner in a country, or our own filing strategies, we may not obtain patent coverage for all of our product candidates or methods involving these candidates in the parent patent application. We plan to pursue divisional patent applications or

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continuation patent applications in the United States and other countries to obtain claim coverage for inventions which were disclosed but not claimed in the parent patent application.

We may also rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or feasible. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Pyridorin does not have composition of matter patent protection.

Although we own and exclusively license patents and patent applications with claims directed to the methods of use of Pyridorin (pyridoxamine) to treat diabetic nephropathy and other conditions, and methods for its synthesis, we are unaware of any composition of matter patent protection for Pyridorin in the United States or elsewhere. As a result, competitors may be able to offer and sell products including pyridoxamine so long as these competitors do not infringe any other patents that we or third parties hold, including synthesis and method of use patents. However, method of use patents, in particular, are more difficult to enforce than composition of matter patents because of the risk of off-label sale or use of the subject compounds. Physicians are permitted to prescribe an approved product for uses that are not described in the product's labeling. Although off-label prescriptions may infringe our method of use patents, the practice is common across medical specialties and such infringement is difficult to prevent or prosecute. Off-label sales would limit our ability to generate revenue from the sale of Pyridorin, if approved for commercial sale.

In addition, other third parties have obtained patents in the United States and elsewhere relating to methods of use of pyridoxamine for the treatment of certain diseases. As a result, it is possible that we could face competition from third party products that have pyridoxamine as the active pharmaceutical ingredient. If a third party were to obtain FDA approval in the United States for the use of pyridoxamine, or regulatory approval in another jurisdiction, for an indication before we did, such third party would be first to market and could establish the price for pyridoxamine in these jurisdictions. This could adversely impact our ability to implement our pricing strategy for the product and may limit our ability to maximize the commercial potential of Pyridorin in the United States and elsewhere. The presence of a lower priced competitive product with the same active pharmaceutical ingredients as our product could lead to use of the competitive product for our diabetic nephropathy indication. This could lead to pricing pressure for Pyridorin, which would adversely affect our ability to generate revenue from the sale of Pyridorin for treating diabetic nephropathy. This would also limit the length of data exclusivity and patent term extension available if we later obtain approval to market Pyridorin for treating diabetic nephropathy.

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We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

If we choose to go to court to stop another party from using the inventions claimed in any patents we obtain, that individual or company has the right to ask the court to rule that such patents are invalid or should not be enforced against that third party. These lawsuits are expensive and would consume time and resources and divert the attention of managerial and scientific personnel even if we were successful in stopping the infringement of such patents. In addition, there is a risk that the court will decide that such patents are not valid and that we do not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of such patents is upheld, the court will refuse to stop the other party on the ground that such other party's activities do not infringe our rights to such patents. In addition, in recent years the U.S. Supreme Court modified some tests used by the U.S. Patent and Trademark Office (USPTO) in granting patents over the past 20 years, which may decrease the likelihood that we will be able to obtain patents and increase the likelihood of challenge of any patents we obtain or license.

We may infringe the intellectual property rights of others, which may prevent or delay our product development efforts and stop us from commercializing or increase the costs of commercializing our product candidates.

Our success will depend in part on our ability to operate without infringing the proprietary rights of third parties. We cannot guarantee that our products, or manufacture or use of our product candidates, will not infringe third-party patents. Furthermore, a third party may claim that we or our manufacturing or commercialization collaborators are using inventions covered by the third party's patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and scientific personnel. There is a risk that a court would decide that we or our commercialization collaborators are infringing the third party's patents and would order us or our collaborators to stop the activities covered by the patents. In that event, we or our commercialization collaborators may not have a viable way around the patent and may need to halt commercialization of the relevant product. In addition, there is a risk that a court will order us or our collaborators to pay the other party damages for having violated the other party's patents. In the future, we may agree to indemnify our commercial collaborators against certain intellectual property infringement claims brought by third parties. The pharmaceutical and biotechnology industries have produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid, and we may not be able to do this. Proving invalidity is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we are successful in these proceedings, we may incur substantial costs and divert management's time and attention in pursuing these proceedings, which could have a material adverse effect on us. If we are unable to avoid infringing the patent rights of others, we may be required to seek a license, which may not be available, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, fail to defend an infringement action successfully or have infringed patents declared invalid, we may incur substantial monetary damages, encounter significant delays in bringing our product candidates to market and be precluded from manufacturing or selling our product candidates.

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We cannot be certain that others have not filed patent applications for technology covered by our pending applications, or that we were the first to invent the technology, because:

- some patent applications in the United States may be maintained in secrecy until the patents are issued;
- patent applications in the United States are typically not published until 18 months after the priority date; and
- publications in the scientific literature often lag behind actual discoveries.

Our competitors may have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have priority over our patent applications, which could further require us to obtain rights to issued patents covering such technologies. If another party has filed a U.S. patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the USPTO to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful if, unbeknownst to us, the other party had independently arrived at the same or similar invention prior to our own invention, resulting in a loss of our U.S. patent position with respect to such inventions. Other countries have similar laws that permit secrecy of patent applications, and may be entitled to priority over our applications in such jurisdictions.

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

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

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and/or applications. We employ an outside firm and rely on our outside counsel to pay these fees due to non-U.S. patent agencies and this outside firm has systems in place to ensure compliance on payment of fees. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to enter the market and this circumstance would have a material adverse effect on our business.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers. If we are not able to adequately prevent disclosure of trade secrets and other proprietary information, the value of our technology and products could be significantly diminished.

As is common in the biotechnology and pharmaceutical industries, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers.

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Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

We rely on trade secrets to protect our proprietary technologies, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information. For example, the FDA, as part of its Transparency Initiative, is currently considering whether to make additional information publicly available on a routine basis, including information that we may consider to be trade secrets or other proprietary information, and it is not clear at the present time how the FDA's disclosure policies may change in the future, if at all. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Failure to secure trademark registrations could adversely affect our business.

If we seek to register additional trademarks, our trademark applications may not be allowed for registration or our registered trademarks may not be maintained or enforced. During trademark registration proceedings, we may receive rejections. Although we are given an opportunity to respond to those rejections, we may be unable to overcome such rejections. In addition, in the USPTO and in comparable agencies in many other jurisdictions, third parties are given an opportunity to oppose pending trademark applications and to seek to cancel registered trademarks. Opposition or cancellation proceedings may be filed against our trademarks, and our trademarks may not survive such proceedings. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would.

If the FDA, EMA or other regulatory agencies fail to monitor and enforce the illegal sale of pyridoxamine as a dietary supplement, the commercial success of Pyridorin may be limited.

Following the publication of the initial Phase 2 studies that evaluated pyridoxamine therapy in diabetic nephropathy patients, a number of dietary supplement companies began selling pyridoxamine over the internet. In January 2009, the FDA ruled that pyridoxamine is an investigational drug candidate not eligible for sale as a dietary supplement. A significant decline in product availability occurred after the issuance of the above mentioned FDA ruling. However, approximately 5 sites on the internet can be found that continue to illegally sell pyridoxamine. In at least one example, the FDA has taken action against a dietary supplement company and prohibited such company from selling an FDA approved active drug ingredient in a dietary supplement. However, there is no guarantee that the FDA will take action against other companies that illegally sell pyridoxamine after its approval. Food and dietary supplements in Europe are regulated by Directive 2002/46/EC, European Commission, Health and Consumers Directorate-General. Those approved are listed in Annex I and II of Directive 2002/46/EC. Pyridoxamine is not included on either list, and therefore the sale of pyridoxamine in foods and supplements in Europe is not permitted. The European Commission, Health and Consumers Directorate-General has indicated to us in April of this year that no applications for pyridoxamine have been received and that any new product intended for preventing, curing or treating diseases, would fall under the scope of medicinal products and not dietary supplements products. We are not aware of any direct action that this agency has taken against a company illegally selling an EMA approved drug for preventing, curing or treating disease, in the European Union. It is possible that this agency would not be successful in prohibiting such sales. We will rely on the FDA, EMA and other regulatory agencies to enforce laws and rulings that prohibit the illegal

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sale of pyridoxamine as a dietary supplement. If these agencies fail to enforce such laws and rulings, the commercial success of Pyridorin may be limited.

Risks Relating to Owning Our Common Stock

The trading market in our common stock has been extremely limited and substantially less liquid than the average trading market for a stock quoted on the NASDAQ Capital Market.

Since our initial listing on the NASDAQ Capital Market on February 11, 2014, the trading market in our common stock has been limited. The quotation of our common stock on the NASDAQ Capital Market does not assure that a meaningful, consistent and liquid trading market currently exists. We cannot predict whether a more active market for our common stock will develop in the future. An absence of an active trading market could adversely affect our stockholders' ability to sell our common stock at current market prices in short time periods, or possibly at all. Additionally, market visibility for our common stock may be limited and such lack of visibility may have a depressive effect on the market price for our common stock. As of June 15, 2015, 73.3% of our outstanding shares of common stock were held by our officers, directors, beneficial owners of 5% or more of our securities and their respective affiliates, which adversely affects the liquidity of the trading market for our common stock, in as much as federal securities laws restrict sales of our shares by these stockholders. If our affiliates continue to hold their shares of common stock, there will be limited trading volume in our common stock, which may make it more difficult for investors to sell their shares or increase the volatility of our stock price.

Our share price may be volatile, which could subject us to securities class action litigation and result in substantial losses to our stockholders.

The trading price of our common stock is highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Our stock price is likely to remain volatile. The stock market in general and the market for pharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price at which it was purchased. The market price for our common stock may be influenced by many factors, including:

- results of our clinical trials;
- results of clinical trials of our competitors' products;
- regulatory actions with respect to our products or our competitors' products;
- actual or anticipated fluctuations in our financial condition and operating results;
- actual or anticipated changes in our growth rate relative to our competitors;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rate;
- competition from existing products or new products that may emerge;
- announcements by us, our potential future collaborators or our competitors of significant acquisitions, strategic collaborations, joint ventures, or capital commitments;

issuance of new or updated research or reports by securities analysts;

fluctuations in the valuation of companies perceived by investors to be comparable to us;

share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;

additions or departures of key management or scientific personnel;

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disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;

announcement or expectation of additional financing efforts;

sales of our common stock by us, our insiders or our other stockholders;

market conditions for biopharmaceutical stocks in general; and

general economic and market conditions.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of shares of our common stock, regardless of our actual operating performance. In addition, such fluctuations could subject us to securities class action litigation, which could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business. As a result of this volatility, our stockholders could incur substantial losses.

We have a significant stockholder, which will limit your ability to influence corporate matters and may give rise to conflicts of interest.

Care Capital III LLC, together with its affiliates (collectively, Care Capital) is our largest stockholder. As of June 15, 2015, Care Capital beneficially owned 4,241,097 shares of our common stock. The shares of common stock beneficially owned by Care Capital represent approximately 47.8% of our outstanding shares of common stock. Accordingly, Care Capital exerts significant influence over us and any action requiring the approval of the holders of our common stock, including the election of directors and approval of significant corporate transactions. This concentration of voting power makes it less likely that any other holder of common stock or directors of our business will be able to affect the way we are managed and could delay or prevent an acquisition of us on terms that other stockholders may desire. In addition, if Care Capital obtains a majority of our common stock, Care Capital would be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, Care Capital would be able to control the election of directors, amendments to our organizational documents and approval of any merger, consolidation, sale of all or substantially all of our assets or other business combination or reorganization. In addition, if Care Capital obtains a majority of our common stock, we would be deemed a "controlled company" for purposes of NASDAQ listing requirements. Under NASDAQ rules, a "controlled company" may elect not to comply with certain NASDAQ corporate governance requirements, including (i) the requirement that a majority of our board of directors consist of independent directors, (ii) the requirement that the compensation of our officers be determined or recommended to the board by a majority of independent directors or a compensation committee that is composed entirely of independent directors, and (iii) the requirement that director nominees be selected or recommended to the board by a majority of independent directors or a nominating committee that is composed of entirely independent directors.

Furthermore, the interests of Care Capital may not always coincide with your interests or the interests of other stockholders and Care Capital may act in a manner that advances its best interests and not necessarily those of other stockholders, including seeking a premium value for its common stock, and might affect the prevailing market price for our common stock. Our board of directors, which currently consists of six directors, including two designated by Care Capital, has the power to set the number of directors on our board from time to time. Richard J. Markham and Robert R. Seltzer, partners at Care Capital, are members of our board of directors and some of its committees.

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Being a public company has increased our expenses and administrative burden.

As a public company, we are incurring, and will continue to incur significant legal, insurance, accounting and other expenses. In addition, we are required to bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws.

In addition, laws, regulations and standards applicable to public companies relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC and the NASDAQ Stock Market, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management's time and attention from product development activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. In connection with our initial public offering, we increased our directors' and officers' insurance coverage, which increased our insurance cost. In the future, it will be more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

We are an "emerging growth company" and we will continue to avail ourselves of the reduced disclosure requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act) and we have and intend to continue to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we have and may continue to rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We may take advantage of these reporting exemptions until we are no longer an "emerging growth company." We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; (ii) December 31, 2019; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

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If we fail to maintain an effective system of internal control over financial reporting in the future, we may not be able to accurately report our financial condition, results of operations or cash flows, which may adversely affect investor confidence in us and, as a result, the value of our common stock.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. Commencing with our annual report on Form 10-K for the year ending December 31, 2015, we will be required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting that results in more than a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. However, for as long as we remain an emerging growth company, as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the independent registered public accounting firm's requirement to attest to the effectiveness of our internal controls over financial reporting.

Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge, and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of operations or cash flows. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting once that firm begin its Section 404 reviews, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the NASDAQ, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Exchange Act. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented

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by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements or insufficient disclosure due to error or fraud may occur and not be detected.

Future sales of our common stock, or the perception that future sales may occur, may cause the market price of our common stock to decline, even if our business is doing well.

Sales of substantial amounts of our common stock, or the perception that these sales may occur, could materially and adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

We had outstanding 8,865,114 shares of common stock as of June 15, 2015, 4,251,097 of which are restricted securities that may be sold only in accordance with the resale restrictions under Rule 144 of the Securities Act of 1933, as amended. In addition, as of June 15, 2015, we had outstanding options to purchase 1,442,691 shares of our common stock, 14,000 shares of common stock were issuable upon the settlement of outstanding restricted stock units and we had outstanding warrants to purchase 118,603 shares of our common stock. Shares issued upon the exercise of stock options or upon the settlement of outstanding restricted stock units generally will be eligible for sale in the public market, except that affiliates will continue to be subject to volume limitations and other requirements of Rule 144 under the Securities Act. The issuance or sale of such shares could depress the market price of our common stock.

In the future, we also may issue our securities if we need to raise additional capital. The number of new shares of our common stock issued in connection with raising additional capital could constitute a material portion of the then-outstanding shares of our common stock. We are unable to predict the effect that transactions on our stock may have on the prevailing market price of our common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. There can be no assurance that analysts will continue to cover us or provide favorable coverage. If one or more of the analysts who cover us downgrade our stock or change their opinion of our stock, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

NASDAQ may delist our securities from its exchange, which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.

If we fail to maintain the listing of our common stock on the NASDAQ Capital Market, the liquidity for our common stock would be significantly impaired, which may substantially decrease the trading price of our common stock. We cannot assure you that, in the future, our securities will meet the continued listing requirements to be listed on NASDAQ. If NASDAQ delists our common stock from trading on its exchange, we could face significant material adverse consequences, including:

a limited availability of market quotations for our securities;

a determination that our common stock is a "penny stock" which will require brokers trading in our common stock to adhere to more stringent rules and possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;

a limited amount of news and analyst coverage for our company; and

a decreased ability to issue additional securities or obtain additional financing in the future.

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If our shares become subject to the penny stock rules, it would become more difficult to trade our shares.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If we do not obtain or retain a listing on The NASDAQ Capital Market and if the price of our common stock is less than $5.00, our common stock will be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stockholders may have difficulty selling their shares.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders. These provisions include:

authorizing the issuance of "blank check" convertible preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

limiting the removal of directors by the stockholders;

creating a staggered board of directors;

prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;

eliminating the ability of stockholders to call a special meeting of stockholders;

permitting our board of directors to accelerate the vesting of outstanding equity awards upon certain transactions that result in a change of control; and

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may also frustrate or prevent any attempts by our stockholders to replace or remove our current management or members of our board of directors. In addition, we are subject to Section 203 of the Delaware General Corporation Law (DGCL), which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our board of directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Further, other provisions of Delaware law may also discourage, delay or prevent someone from acquiring us or merging with us.

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Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful stockholder claims against us and may reduce the amount of money available to us.

As permitted by Section 102(b)(7) of the DGCL, our restated certificate of incorporation limits the liability of our directors to the fullest extent permitted by law. In addition, as permitted by Section 145 of the DGCL, our restated certificate of incorporation and restated bylaws provide that we shall indemnify, to the fullest extent authorized by the DGCL, each person who is involved in any litigation or other proceeding because such person is or was a director or officer of our company or is or was serving as an officer or director of another entity at our request, against all expense, loss or liability reasonably incurred or suffered in connection therewith. Our restated certificate of incorporation provides that the right to indemnification includes the right to be paid expenses incurred in defending any proceeding in advance of its final disposition, provided, however, that such advance payment will only be made upon delivery to us of an undertaking, by or on behalf of the director or officer, to repay all amounts so advanced if it is ultimately determined that such director is not entitled to indemnification. If we do not pay a proper claim for indemnification in full within 60 days after we receive a written claim for such indemnification, except in the case of a claim for an advancement of expenses, in which case such period is 20 days, our restated certificate of incorporation and our restated bylaws authorize the claimant to bring an action against us and prescribe what constitutes a defense to such action.

Section 145 of the DGCL permits a corporation to indemnify any director or officer of the corporation against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding brought by reason of the fact that such person is or was a director or officer of the corporation, if such person acted in good faith and in a manner that he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, if he or she had no reason to believe his or her conduct was unlawful. In a derivative action, (i.e., one brought by or on behalf of the corporation), indemnification may be provided only for expenses actually and reasonably incurred by any director or officer in connection with the defense or settlement of such an action or suit if such person acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be provided if such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine that the defendant is fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

The rights conferred in the restated certificate of incorporation and the restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons. We have entered into or plan to enter into indemnification agreements with each of our officers and directors.

The above limitations on liability and our indemnification obligations limit the personal liability of our directors and officers for monetary damages for breach of their fiduciary duty as directors by shifting the burden of such losses and expenses to us. Although we have increased the coverage under our directors' and officers' liability insurance, certain liabilities or expenses covered by our indemnification obligations may not be covered by such insurance or the coverage limitation amounts may be exceeded. As a result, we may need to use a significant amount of our funds to satisfy our indemnification obligations, which could severely harm our business and financial condition and limit the funds available to stockholders who may choose to bring a claim against our company.

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We do not anticipate paying cash dividends, and accordingly, stockholders must rely on stock appreciation for any return on their investment.

We do not anticipate paying cash dividends in the future. As a result, only appreciation of the market price of our common stock, which may never occur, will provide a return to stockholders. Investors seeking cash dividends should not invest in our common stock.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2014, we had federal net operating loss carryforwards (NOLs) of $31.8 million million which expire from 2024 through 2034. Our ability to utilize our NOLs may be limited under Section 382 of the Internal Revenue Code. The limitations apply if an ownership change, as defined by Section 382, occurs. Generally, an ownership change occurs when certain shareholders increase their aggregate ownership by more than 50 percentage points over their lowest ownership percentage in a testing period (typically three years). Although we have not undergone a Section 382 analysis, it is possible that the utilization of the NOLs, could be substantially limited. Additionally, U.S. tax laws limit the time during which these carryforwards may be utilized against future taxes. As a result, we may not be able to take full advantage of these carryforwards for federal and state tax purposes. Future changes in stock ownership may also trigger an ownership change and, consequently, a Section 382 limitation.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus and those documents incorporated by reference in the prospectus contain forward-looking statements. All statements other than statements of historical facts contained in this prospectus and in the documents incorporated by reference in this prospectus, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- our ability to obtain additional financing;
- our ability to borrow under our credit facility;
- our limited operating history and our recurring losses from operations;
- the success and timing of our preclinical studies and clinical trials;
- our ability to obtain and maintain regulatory approval of Pyridorin and any other product candidates we may develop, and the labeling under any approval we may obtain;
- regulatory developments in the United States and other countries;
- the performance of third-party manufacturers;
- our plans to develop and commercialize our product candidates;
- our ability to obtain and maintain intellectual property protection for our product candidates;
- the successful development of our sales and marketing capabilities;
- the potential markets for our product candidates and our ability to serve those markets;
- competition from other biotechnology and pharmaceutical companies;
- the rate and degree of market acceptance of any future products;

the success of competing drugs that are or become available; and

the loss of key scientific or management personnel.

These forward-looking statements are only predictions and we may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, so you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and operating results. We have included important factors in the cautionary statements included in this prospectus, particularly in the "Risk Factors" section, that could cause actual future results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

The forward-looking statements in this prospectus represent our views as of the date of this prospectus. We anticipate that subsequent events and developments will cause our views to change.

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However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this prospectus.

This prospectus contains estimates made, and other statistical data published, by independent parties and by us relating to market size and growth and other data about our industry. We obtained the industry and market data in this prospectus from our own research as well as from industry and general publications, surveys and studies conducted by third parties. This data involves a number of assumptions and limitations and contains projections and estimates of the future performance of the industries in which we operate that are subject to a high degree of uncertainty. We caution you not to give undue weight to such projections, assumptions and estimates.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 1,500,000 shares of our common stock and warrants to purchase up to 1,500,000 shares of our common stock that we are offering in this offering will be approximately $6.6 million, or approximately $7.7 million if the underwriters exercise in full their option to purchase additional shares and warrants, based on the combined public offering price of $5.00 per share and accompanying warrant, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and excluding the proceeds, if any, from the exercise of the warrants issued pursuant to this offering.

We intend to use the net proceeds received from this offering for working capital and general corporate purposes.

The expected use of net proceeds of this offering represents our current intentions based upon our present plan and business conditions. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to be received upon the completion of this offering. The amounts and timing of our actual use of net proceeds will vary depending on numerous factors, including our ability to obtain additional financing, the relative success and cost of our research, preclinical and clinical development programs. As a result, management will have broad discretion in the application of the net proceeds, and investors will be relying on our judgment regarding the application of the net proceeds of this offering. In addition, we might decide to postpone or not pursue other clinical trials or preclinical activities if the net proceeds from this offering and the other sources of cash are less than expected.

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PRICE RANGE OF OUR COMMON STOCK

Our common stock has been listed on the NASDAQ Capital Market since February 11, 2014 under the symbol "NRX." Prior to that date, there was no public market for our common stock.

On July 15, 2015, the closing price for our common stock as reported on the NASDAQ Capital Market was $6.24 per share. The following table sets forth the ranges of high and low sales prices per share of our common stock as reported on the NASDAQ Capital Market for the periods indicated. Such quotations represent inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

Year Ended December 31, 2014	**High**	**Low**
First Quarter (beginning February 11, 2014)	$ 13.00	$ 7.26
Second Quarter	$ 8.98	$ 5.00
Third Quarter	$ 6.09	$ 3.96
Fourth Quarter	$ 17.98	$ 4.00
Year Ended December 31, 2015		
First Quarter	$ 12.94	$ 6.01
Second Quarter	$ 9.01	$ 6.27
Third Quarter (through July 15, 2015)	$ 6.80	$ 5.26

As of June 15, 2015, there were approximately 21 stockholders of record of our common stock, which excludes stockholders whose shares were held in nominee or street name by brokers. The actual number of common stockholders is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

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DIVIDEND POLICY

We have never paid or declared any cash dividends on our common stock, and currently do not plan to declare dividends on shares of our common stock in the foreseeable future. We intend to retain all of our available funds and any future earnings, if any, to fund the development and expansion of our business. Subject to the foregoing, any future determination to pay dividends will be at the discretion of our board of directors and will depend upon a number of factors, including our results of operations, financial condition, future prospects, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2015:

- on an actual basis; and
- on an as adjusted basis to reflect the sale by us of 1,500,000 shares of our common stock and warrants to purchase up to 1,500,000 shares of our common stock in the offering at the combined public offering price of $5.00 per share and accompanying warrant, after deducting the underwriting discounts and commissions and estimated offering costs payable by us.

You should read this table together with the sections entitled "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as our financial statements and the related notes, which appear elsewhere in this prospectus.

(dollars in thousands)	**As of March 31, 2015**	
	Actual	**As Adjusted**
	(Unaudited)	**(Unaudited)**
Preferred stock, par value $0.001 per share, 5,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2015, actual; 0 shares issued and outstanding as adjusted		
Common stock, par value $0.001 per share, 100,000,000 shares authorized; 8,863,614 shares issued and outstanding as of March 31, 2015, actual; 10,363,614 shares issued and outstanding as adjusted	9	10
Additional paid-in capital	77,417	84,045
Accumulated other comprehensive loss	(1)	(1)
Accumulated deficit	(62,992)	(62,992)
Total stockholders' equity	$ 14,433	$ 21,062
Total capitalization	$ 14,433	$ 21,062

The number of shares of our common stock to be outstanding after this offering is based on 8,863,614 shares of our common stock outstanding as of March 31, 2015 and excludes as of such date:

- 1,271,321 shares of our common stock issuable upon the exercise of stock options, with a weighted average exercise price of $4.16 per share;
- 15,500 shares of our common stock issuable upon the settlement of outstanding restricted stock units;
- 118,603 shares of our common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $9.86 per share;
- shares issuable upon the exercise of warrants sold in this offering;
- any shares of our common stock issuable upon exercise of the underwriters' over-allotment option; and

other shares of our common stock reserved for future issuance under our Amended and Restated 2007 Equity Incentive Plan, as amended.

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DILUTION

If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the public offering price per share of our common stock in this offering and the as adjusted net tangible book value per share immediately after this offering assuming no value is attributed to the warrants. We calculate net tangible book value per share by dividing our net tangible book value, which is tangible assets less total liabilities less debt discounts, by the number of outstanding shares of our common stock as of March 31, 2015. Our historical net tangible book value as of March 31, 2015, was approximately $14.4 million, or $1.63 per share of our common stock.

After giving effect to the sale of 1,500,000 shares of our common stock and warrants to purchase 1,500,000 shares of our common stock offered by us at the combined public offering price of $5.00 per share of common stock and accompanying warrant, after deducting the underwriting discounts and commissions and estimated offering costs payable by us, our as adjusted net tangible book value as of March 31, 2015, would have been approximately $21.1 million, or $2.03 per share of common stock. This represents an immediate increase in as adjusted net tangible book value of $0.40 per share to existing stockholders and an immediate dilution of $2.97 per share to investors purchasing shares of common stock in this offering at the public offering price, attributing none of the combined public offering price to warrants offered hereby.

The following table illustrates the per share dilution (unaudited):

Combined public offering price per share and accompanying warrant		$ 5.00
Historical net tangible book value per share as of March 31, 2015	$ 1.63	
Increase per share attributable to new investors	$ 0.40	
As adjusted net tangible book value per share after this offering		2.03
Dilution in net tangible book value per share to new investors		$ 2.97

If the underwriters exercise in full their option to purchase up to 225,000 additional shares of common stock and warrants to purchase 225,000 shares of our common stock at the combined public offering price of $5.00 per share, the as adjusted net tangible book value after this offering would be $2.09 per share, representing an increase in net tangible book value of $0.46 per share to existing stockholders and immediate dilution in net tangible book value of $2.91 per share to investors purchasing our common stock and accompanying warrants in this offering at the combined public offering price.

The number of shares of our common stock to be outstanding after this offering is based on 8,863,614 shares of our common stock outstanding as of March 31, 2015 and excludes as of such date:

- 1,271,321 shares of our common stock issuable upon the exercise of stock options, with a weighted average exercise price of $4.16 per share;
- 15,500 shares of our common stock issuable upon the settlement of outstanding restricted stock units;
- 118,603 shares of our common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $9.86 per share;
- shares issuable upon the exercise of warrants sold in this offering;
- any shares of our common stock issuable upon exercise of the underwriters' over-allotment option; and

other shares of our common stock reserved for future issuance under our Amended and Restated 2007 Equity Incentive Plan, as amended.

To the extent that the underwriters' over-allotment option is exercised or any warrants or options are exercised, there will be further dilution to investors.

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SELECTED FINANCIAL DATA

The following tables set forth our selected financial data as of, and for the period ended on, the dates indicated. We have derived the statement of operations data for the years ended December 31, 2014 and 2013 and the balance sheet data as of December 31, 2014 from our audited financial statements incorporated by reference in this prospectus. We have derived the statement of operations data for the three months ended March 31, 2015 and 2014 and the balance sheet data as of March 31, 2015 from our unaudited financial statements incorporated by reference in this prospectus. Our interim unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, on the same basis as our annual audited financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present a fair statement of our financial position as of March 31, 2015 and the results of our operations for the three months ended March 31, 2015 and 2014. You should read this data together with our financial statements and related notes appearing elsewhere in this prospectus and the sections in this prospectus entitled "Risk Factors," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our historical results for any prior period are not necessarily indicative of our future results.

Our historical results are not necessarily indicative of the results that may be expected in the future and interim results are not necessarily indicative of results to be expected for any other period or the full year.

	Years ended December 31,		Three months ended March 31,	
	2014	2013	2015 (unaudited)	2014 (unaudited)
	(in thousands except share and per share information)			
Statement of Operations Data:				
Expenses:				
Research and development	$ 11,264	$ 1,480	$ 3,369	$ 457
General and administrative	5,323	1,026	1,670	1,035
Total expenses	16,587	2,506	5,039	1,492
Loss from operations	(16,587)	(2,506)	(5,039)	(1,492)
Other income (expense):				
Change in value of preferred stock warrants	(140)	(3,417)		(140)
Interest expense	(140)	(383)	(143)	(78)
Interest income	47	1	9	10
Net loss	$ (16,820)	$ (6,305)	$ (5,173)	$ (1,700)
Net loss per share, basic and diluted	$ (2.15)	$ (19.71)	$ (0.58)	$ (0.37)
Weighted average shares outstanding, basic and diluted	7,827,519	319,882	8,863,103	4,587,498

	As of December 31, 2014	As of March 31, 2015 (unaudited)
	(in thousands)	
Balance Sheet Data		
Cash and cash equivalents	$ 13,978	$ 16,362

Short-term investments	14,698	7,603
Total assets	29,231	25,109
Current portion of note payable	293	880
Note payable, less current portion	6,442	5,897
Total liabilities	9,900	10,676
Total stockholders' equity	19,331	14,433

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Financial Data" and our financial statements and related notes appearing elsewhere in this prospectus and in the documents incorporated by reference in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus. See "Cautionary Note Regarding Forward-Looking Statements and Industry Data."

Overview

We are a pharmaceutical company focused on the development of therapeutics to treat kidney disease, an area of significant unmet medical need. Since our inception, we have collaborated with the world's leading experts in kidney disease and leveraged our knowledge of pathogenic oxidative chemistries to build a strong portfolio of intellectual property and to advance the development of our drug candidates. We believe that our comprehensive effort to develop a new generation of therapeutics that target kidney disease provides us with a leadership position in this large and attractive market.

We have devoted substantially all of our resources to development efforts relating to our product candidate, including conducting clinical trials of our product candidate, providing general and administrative support for these operations and protecting our intellectual property. We do not have any products approved for sale and have not generated any revenue from product sales. We have funded our operations primarily through proceeds from our initial public offering, or IPO, and the private placement of preferred stock, common stock, convertible notes and a term loan. In February 2014, we completed our IPO pursuant to a registration statement on Form S-1, and raised approximately $33.4 million in net proceeds, after deducting underwriting discounts, commissions and offering expenses.

We have incurred net losses in each year since our inception in 2004. Our net losses for the three months ended March 31, 2015 and 2014 were $5.2 million and $1.7 million, respectively. As of March 31, 2015, we had an accumulated deficit of approximately $63.0 million. Our net losses have resulted primarily from costs incurred in connection with our research and development programs, from general and administrative costs associated with our operations and from changes in the value of our preferred stock warrant liability which was settled in February 2014 upon completion of our IPO.

We expect to continue to incur significant expenses and have increasing operating losses for at least the next several years. We anticipate that our expenses will increase substantially as we:

- continue the development of our lead product candidate, Pyridorin, for the treatment of diabetic nephropathy in patients with type 2 diabetes including the completion of Phase 3 clinical trial activities;
- advance the development of an intravenous formulation of Pyridorin for the treatment of AKI;
- seek to obtain regulatory approvals for Pyridorin;
- outsource the commercial manufacturing of Pyridorin for any indications for which we receive regulatory approval;
- contract with third parties for the sales, marketing and distribution of Pyridorin for any indications for which we receive regulatory approval;
- maintain, expand and protect our intellectual property portfolio;
- continue our research and development efforts;

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add operational, financial and management information systems and personnel, including personnel to support our product development and commercialization efforts; and

continue to operate as a public company

We do not expect to generate revenue from product sales unless and until we successfully complete development and obtain marketing approval for one or more of our product candidates, which we expect will take a number of years and is subject to significant uncertainty. Accordingly, we will need to raise additional capital prior to the commercialization of Pyridorin or any other product candidate. Until such time, if ever, as we can generate substantial revenue from product sales, we expect to finance our operating activities through a combination of equity offerings, debt financings, government or other third-party funding, commercialization, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition and our ability to develop our product candidates.

Financial Overview

Revenue

We have not generated any revenue since our inception on May 25, 2004. Our ability to generate revenue in the future will depend almost entirely on our ability to successfully develop, obtain regulatory approval for and commercialize Pyridorin in the United States.

Research and Development Expenses

Our research and development activities have included conducting nonclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for Pyridorin. We recognize research and development expenses as they are incurred. Our research and development expenses consist primarily of:

salaries and related overhead expenses for personnel in research and development functions, including costs related to stock options or other stock-based compensation;

fees paid to consultants and CROs for our nonclinical and clinical trials, and other related clinical trial fees, including investigator grants, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis;

costs related to acquiring and manufacturing clinical trial materials; and

costs related to compliance with regulatory requirements.

We plan to increase our research and development expenses for the foreseeable future as we continue the development of Pyridorin for the treatment of diabetic nephropathy in patients with type 2 diabetes, AKI and other indications, subject to the availability of additional funding.

The table below summarizes our direct research and development expenses for Pyridorin for the periods indicated. Our direct research and development expenses consist principally of costs paid to third-party service providers, including fees paid to CROs, investigative sites, consultants, central laboratories and other vendors in connection with our clinical trials, and costs related to acquiring and manufacturing clinical trial materials. We do not allocate personnel related expenses including salaries and stock-based

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compensation or other indirect costs related to our research and development function to specific product candidates.

(in thousands)	Three Months Ended March 31, 2015	2014
Direct research and development expense	$ 2,691	$
Personnel costs	569	370
Indirect research and development expense	109	87
Total research and development expense	$ 3,369	$ 457

The successful development of our clinical and preclinical product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of any of our clinical or preclinical product candidates or the period, if any, in which material net cash inflows from these product candidates may commence. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress and expense of our ongoing, as well as any additional, clinical trials and other research and development activities;
- future clinical trial results; and
- the timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of a product candidate could result in a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

Pyridorin

Our research and development resources are primarily focused on the Phase 3 Pyridorin program and our other planned clinical and nonclinical studies and other work needed to submit Pyridorin for AKI, as well as the treatment of diabetic nephropathy in patients with type 2 diabetes for regulatory approval in the United States and Europe. We have incurred and expect to continue to incur expense in connection with these efforts, including:

- working with our CROs to complete our Phase 3 clinical program;
- working with third-party service providers to produce sufficient clinical trial supply for our Phase 3 clinical program and other contemplated trials; and
- working with our clinical nephrology academic research organization that provides scientific and clinical oversight on the conduct of the Pyridorin Phase 3 program.

In addition, we are evaluating the application of an intravenous formulation of Pyridorin to specific types of acute renal failure in which pathogenic oxidative chemistries have been identified as likely causative factors in the onset, severity and progression of this condition. These include contrast-dye and drug-induced acute renal injury, and ischemia-reperfusion acute renal injury, which can arise in cardiac

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and vascular surgeries. In connection with these efforts, we have incurred and expect to incur significant expenses relating to:

- working with research institutions with expertise using animal models of various types of acute renal injury to conduct studies to determine where Pyridorin would have the most beneficial effect in ameliorating the severity and progression of the induced acute renal injury; and

- working with a third-party drug formulator to produce intravenous Pyridorin solutions for preclinical and clinical studies.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for employees in executive, and finance functions. Other significant general and administrative expenses include facilities costs, insurance, accounting and legal services and other consulting services related to our corporate governance activities.

We expect that our general and administrative expenses may increase in the future as we expand our operating activities, maintain and expand our patent portfolio, and incur additional costs associated with public company support, including legal and accounting fees and director and officers' liability insurance.

Other Income (expense)

Other income consists of interest income earned on our cash and cash equivalents. Other expense includes interest expense accrued for our convertible notes and term loan and the change in value of our preferred stock warrant liability.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and expenses incurred during the reported periods. On an ongoing basis, we evaluate our estimates and judgments related to preclinical, nonclinical and clinical development costs and drug manufacturing costs. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in the notes to our audited financial statements our Management's Discussion and Analysis of Financial Condition and Results of Operations as filed in our Annual report on Form 10-K for the year ended December 31, 2014. There have been no material changes to our critical accounting policies and estimates as disclosed in our notes to our audited financial statements.

Accrued Expenses

As part of the process of preparing financial statements, we are required to estimate accrued expenses. This process involves communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us. We periodically confirm the accuracy of our estimates with selected service

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providers and make adjustments, if necessary. To date, we have not adjusted our estimate at any particular balance sheet date by any material amount. Examples of estimated accrued expenses include:

- fees paid to CROs for management of our clinical trial activities;
- fees paid to investigative sites in connection with clinical trials;
- fees paid to contract manufacturers in connection with the production of clinical trial supplies; and
- professional services and fees.

We base our expenses related to clinical trials on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and CROs that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If we do not accurately identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

Fair Value Measurements

The carrying amounts of certain of our financial instruments, including cash and cash equivalents and short-term investments are stated at fair value. We account for the fair value of our financial instruments in accordance with the provisions of the Fair Value Measurement topic of the Financial Accounting Standards Board Codification (the Codification).

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. We apply the market approach valuation technique for fair value measurements on a recurring basis and attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. All of our cash equivalents and short-term investments are measured using inputs classified at Level 1 or Level 2 within the fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs obtained from various third-party data providers, including but not limited to, benchmark yields, interest rate curves, reported trades, broker/dealer quotes and market reference data.

Stock-Based Compensation

The provisions of the Compensation Stock Compensation topic of the Codification establish accounting for stock-based awards exchanged for employee services. In accordance with this topic stock-based compensation cost is measured on the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period.

We estimate the fair value of stock options and stock purchase rights using a Black-Scholes valuation model which require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. We have opted to use the simplified method for estimating the expected term as provided by the SEC's Staff Accounting Bulletin No.107. The simplified method calculates the expected term as the average time-to-vesting and the contractual life of the options. The

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expected stock price volatility assumption was determined by examining the historical volatilities of a group of industry peers. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model, and the resulting charge is expensed using the straight-line attribution method over the vesting period. Restricted stock units are measured at the fair value of our common stock on the date of grant and expensed over the period of vesting using the straight-line attribution approach. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived, exchange-traded options that have no vesting restrictions and are fully transferable.

Research and Development Expenses

Research and development expenses consist of costs associated with external research and development expenses incurred (i) under agreements with third-party investigative sites, where a substantial portion of our preclinical studies and all of our clinical trials are conducted, (ii) under the agreements with third-party manufacturing organizations, where a substantial portion of our clinical supplies are produced, and (iii) related to consultants and employee-related expenses.

JOBS Act

On April 5, 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the Securities Act), for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company," we intend to rely on certain of these exemptions, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; (ii) December 31, 2019; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

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Results of Operations

Comparison of the Three Months Ended March 31, 2015 and the Three Months Ended March 31, 2014

The following table summarizes our results of operations for each of the three months ended March 31, 2015 and 2014, together with the changes in those items in dollars and as a percentage:

(in thousands)	Three Months Ended March 31, 2015	2014	Dollar Change	% Change
Expenses:				
Research and development	$ 3,369	$ 457	$ 2,912	637.2%
General and administrative	1,670	1,035	635	61.4%
Loss from operations	(5,039)	(1,492)	(3,547)	237.7%
Other income (expense):				
Change in value of preferred stock warrants		(140)	140	(100.0)%
Interest expense	(143)	(78)	276	$

Because Alvah was not acquired until November 2012, there was no activity in the prior year.

Note 8 Business Combinations

2013 Acquisition - FSSI

On March 11, 2013, the Company s subsidiary, PES, purchased the assets of Force Specialty Services Inc. (FSSI) which specializes in turn-around work at refineries and chemical plants in the Gulf Coast area. Based in the greater Houston, Texas area, FSSI s location provides a presence and convenient access to refineries in south Texas, the Houston ship channel and Louisiana.

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The fair value of the consideration for the acquisition was $2,377. Consideration consisted of cash totaling $1,675, of which $1,025 was paid at closing and $650 was paid in the second quarter 2013. The agreement provides for three future potential payments, contingent upon FSSI meeting certain operating performance targets for the remainder of calendar year 2013 and calendar years 2014 and 2015.

The contingent consideration is as follows: (1) $500 in cash for the achievement of pretax income of at least $553 for the remainder of the year ending December 31, 2013; (2) a payment of $500 in cash if pretax income for the year 2014 is at least $2,502; and (3), a payment of $500 in cash if pretax income for the year 2015 is at least $4,227. The estimated fair value of the potential contingent consideration on the acquisition date was $702 and at June 30, 2013 was $721.

The asset purchase agreement also included a provision that PES pay $1,000 for a five-year employment, non-competition and non-solicitation agreement with a key employee. If the employee violates the agreement or terminates his employment prior to the end of the five-year period, he is required to repay the unamortized amount of the $1,000 payment. This agreement has been accounted for as a prepaid asset and is being amortized equally over the five-year period.

At closing the Company received $302 in small tools inventory, $448 in property, plant and equipment, and recorded accounts payable of $1,060.

The acquisition was accounted for using the acquisition method of accounting. The assets acquired and liabilities assumed were measured at their estimated fair value at the acquisition date. The FSSI purchase was included in the Company s consolidated balance sheet as of June 30, 2013. During the period subsequent to its March 11, 2013 acquisition date, FSSI contributed revenues of $2,990 and $3,473 and gross profit of $183 and $311, for the three and six months ended June 30, 2013, respectively.

During the second quarter 2013, the Company finalized its estimates of the fair value of the contingent consideration, intangible assets and goodwill for the acquisition. The final revision resulted in a change from the estimated values recorded at March 31, 2013, including a decrease in the fair value of the contingent consideration of $136, increases in intangible assets of $800 and a decrease of $936 for goodwill.

The customer relationships were valued at $950 utilizing the excess earnings method of the income approach. The estimated discounted cash flows associated with existing customers and projects were based on historical and market participant data. Such discounted cash flows were net of fair market returns on the various tangible and intangible assets that are necessary to realize the potential cash flows.

The fair value of the tradename of $550 was determined based on the relief from royalty method. A royalty rate was selected based on consideration of several factors, including external research of third party tradename licensing agreements and their royalty rate levels, and management estimates. The useful life was estimated at five years based on management s expectation for continuing value of the tradename in the future.

The fair value for the non-compete agreement of $100 was based on a discounted income approach model, including estimated financial results with and without the non-compete agreement in place. The agreement was analyzed based on the potential impact of competition that certain

individuals could have on the financial results, assuming the agreement was not in place. An estimate of the probability of competition was applied and the results were compared to a similar model assuming the agreement was in place.

Goodwill of $1,087 largely consists of expected benefits from the greater presence and convenient access to south Texas, the Houston ship channel and Louisiana and FSSI s expertise in turn-around work for refineries and chemical plants. Goodwill also includes the value of the assembled workforce of the FSSI business. Based on the current tax treatment, goodwill and other intangible assets will be deductible for income tax purposes over a fifteen-year period.

2012 Acquisition - Sprint Pipeline Services, L.P.

The March 12, 2012 acquisition of Sprint was accounted for using the acquisition method of accounting. The fair value of the consideration totaled $28,377, which included cash payments of $21,197, Company stock valued at $980 (or 62,052 shares of restricted common stock) and contingent consideration of $6,200.

The contingent consideration was as follows: If income before interest, taxes, depreciation and amortization (EBITDA) for 2012, as defined in the purchase agreement, was at least $7,000, we would pay $4,000 in cash to the sellers. The earnout target was achieved in 2012 and was paid in April 2013.

The 2013 earnout target provides for an additional cash payment of $4,000 to the sellers if 2013 EBITDA is at least $7,750. The estimated fair value of the 2013 contingent consideration as of the acquisition date was $2,745 and at June 30, 2013 and December 31, 2012, the estimated fair value of the contingent consideration was $3,205 and $3,020, respectively.

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2012 Acquisition - Silva Companies

The May 30, 2012 acquisition of Silva was accounted for using the acquisition method of accounting. The fair value of the consideration was $14,090.

2012 Acquisition - The Saxon Group

The September 28, 2012 acquisition of Saxon was accounted for using the acquisition method of accounting. The fair value of the consideration was $550 in cash, payment of a banknote for $2,429, and contingent consideration valued at $1,950 for total consideration of $4,929.

The contingent consideration included an earnout where the Company would pay $2,500 to the sellers, contingent upon Saxon meeting one of the following two targets: (1) EBITDA for the fifteen month period ending December 31, 2013 of at least $4,000 or; (2) EBITDA for the twenty-one month period ending June 30, 2014 of at least $4,750. The estimated fair value of the contingent consideration on the acquisition date was $1,950. The estimated fair value of the contingent consideration was $2,184 and $2,028 at June 30, 2013 and December 31, 2012, respectively.

2012 Acquisition Q3 Contracting

The November 17, 2012 acquisition of Q3C was accounted for using the acquisition method of accounting. The fair value of the consideration totaled $55,994, and included a cash payment of $48,116, a contingent earnout with a fair value of $7,448 and payment of $430 in Company common stock. In January 2013, we issued 29,273 shares of unregistered stock.

The contingent consideration included an earnout whereby the Company would pay additional cash to the sellers contingent on Q3C meeting certain operating performance targets. The targets were based on obtaining certain levels of Q3C s EBITDA as that term is defined in the stock purchase agreement. The targets are as follows:

1. If EBITDA for the period November 18, 2012 through December 31, 2013 is at least $17,700, the Company agreed to pay $3,750 in cash to the sellers, with an additional cash payment of $1,250 if EBITDA exceeds $19,000.

2. If EBITDA for the calendar year 2014 is at least $19,000, the Company agreed to pay $3,750 in cash to the sellers, with an additional cash payment of $1,250 if EBITDA exceeds $22,000.

The fair value of the contingent consideration was estimated at $7,450 as of the purchase date and is included on the Company s balance sheet as a liability. The fair value is based on management s evaluation of the probability of Q3C meeting the EBITDA targets for the two periods, discounted at the Company s estimated average cost of capital. The estimated fair value at June 30, 2013 and December 31, 2012 was $7,862 and $7,490, respectively.

Supplemental Unaudited Pro Forma Information for the three and six months ended June 30, 2013 and 2012

In accordance with ASC Topic 805 we are combining the pro forma information for the FSSI, Sprint, Silva, Saxon and Q3C acquisitions (the Acquisitions). The following pro forma information for the three and six months ended June 30, 2013 and 2012 presents the combined results of operations of the Acquisitions combined, as if the Acquisitions had each occurred at the beginning of 2012. The supplemental pro forma information has been adjusted to include:

- the pro forma impact of amortization of intangible assets and depreciation of property, plant and equipment, based on the purchase price allocations;

- the pro forma impact of the expense associated with the amortization of the discount for the fair value of the contingent consideration for potential earnout liabilities that may be achieved in 2013 for the Sprint and FSSI acquisitions and 2013 or 2014 for the Saxon, Q3C and FSSI acquisitions;

- the pro forma tax effect of both the income before income taxes and the pro forma adjustments, calculated using a tax rate of 39.0% for the three and six months ended June 30, 2012 and the applicable periods in 2013; and

- the pro forma increase in weighted average shares outstanding including 62,052 unregistered shares of common stock issued as part of the Sprint acquisition and 29,273 shares of unregistered common stock issued as part of the Q3C acquisition.

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The pro forma results are presented for illustrative purposes only and are not necessarily indicative of, or intended to represent, the results that would have been achieved had the Acquisitions been completed on January 1, 2012. For example, the pro forma results do not reflect any operating efficiencies and associated cost savings that the Company might have achieved with respect to the combined companies.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues	445,013	357,368	857,807	675,783
Income before provision for income taxes	25,883	16,583	42,015	31,158
Net income attributable to Primoris	15,564	10,135	25,264	19,084
Weighted average common shares outstanding:				
Basic	51,562	51,526	51,511	51,440
Diluted	51,626	51,526	51,575	51,440
Earnings per share:				
Basic	$ 0.30	$ 0.20	$ 0.49	$ 0.37
Diluted	$ 0.30	$ 0.20	$ 0.49	$ 0.37

Note 9 Intangible Assets

At June 30, 2013 and December 31, 2012, intangible assets totaled $49,893 and $51,978, respectively, net of amortization. The June 30, 2013 balance includes the effect of the FSSI acquisition (See Note 8). The table below summarizes the intangible asset categories, amounts and the average amortization periods, which are generally on a straight-line basis, as follows:

	Amortization Period	June 30, 2013	December 31, 2012
Tradename	3 to 10 years	$ 22,593	$ 23,586
Non-compete agreements	2 to 5 years	$ 3,407	$ 4,130
Customer relationships	5 to 15 years	$ 23,893	$ 24,212
Backlog	0.75 years	$	$ 50
Total		$ 49,893	$ 51,978

Amortization expense of intangible assets was $1,891 and $1,447 for the three months ended June 30, 2013 and 2012, respectively, and amortization expense for the six months ended June 30, 2013 and 2012 was $3,685 and $3,193, respectively. Estimated future amortization expense for intangible assets is as follows:

For the Years Ending December 31,	Estimated Intangible Amortization Expense
2013 (remaining six months)	$ 3,655
2014	7,489
2015	7,220

2016		6,274
2017		5,909
Thereafter		19,346
	$	49,893

Note 10 Accounts Payable and Accrued Liabilities

At June 30, 2013 and December 31, 2012, accounts payable included retention amounts of approximately $12,171 and $15,946, respectively. These amounts are due to subcontractors but have been retained pending contract completion and customer acceptance of jobs.

The following is a summary of accrued expenses and other current liabilities at:

	June 30, 2013	December 31, 2012
Payroll and related employee benefits	$ 40,147	$ 33,086
Insurance, including self-insurance reserves	27,800	22,982
Reserve for estimated losses on uncompleted contracts	522	764
Corporate income taxes and other taxes	2,173	3,779
Accrued overhead cost	1,266	2,007
Other	8,441	13,534
	$ 80,349	$ 76,152

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Note 11 Credit Arrangements

Revolving Credit Facility

As of June 30, 2013, the Company had a revolving credit facility (the Credit Agreement). The Credit Agreement was entered into by and among the Company, The PrivateBank and Trust Company, as administrative agent (the Administrative Agent) and co-lead arranger, The Bank of the West, as co-lead arranger and IBERIABANK Corporation (the Lenders). The Credit Agreement is a $75 million revolving credit facility whereby the lenders agree to make loans on a revolving basis from time to time and to issue letters of credit for up to the $75 million committed amount. The Credit Agreement also provides for an incremental facility of up to $50 million. The termination date of the Credit Agreement is December 28, 2017.

The principal amount of any loans under the Credit Agreement will bear interest at either: (i) LIBOR plus an applicable margin as specified in the Credit Agreement (based on the Company s senior debt to EBITDA ratio), or (ii) the Base Rate (which is the greater of (a) the Federal Funds Rate plus 0.5% or (b) the prime rate as announced by the Administrative Agent). Quarterly non-use fees, letter of credit fees and administrative agent fees are payable at rates specified in the Credit Agreement.

The principal amount of any loan drawn under the Credit Agreement may be prepaid in whole or in part, with a minimum prepayment of $5 million, at any time, potentially subject to make-whole provisions.

The Credit Agreement includes customary restrictive covenants for facilities of this type, as discussed below.

Commercial letters of credit amounted to $5,659 at June 30, 2013 and $4,808 at December 31, 2012. Other than the commercial letters of credit, there were no borrowings under this line of credit during the six months ended June 30, 2013, leaving available borrowing capacity at $69,341 at June 30, 2013.

As part of the execution of the Credit Agreement, the previous Loan and Security Agreement dated October 29, 2009, as amended, between the Company and The Private Bank and Trust Company (the PrivateBank Agreement), was terminated. There were no borrowings outstanding at the time of the termination and all letter of credit amounts issued and outstanding under the terminated agreement were transferred to the Lenders under the Credit Agreement discussed above.

Senior Secured Notes and Shelf Agreement

On December 28, 2012, the Company entered into a $50 million Senior Secured Notes purchase (Senior Notes) and a $25 million private shelf agreement (the Notes Agreement) by and among the Company and The Prudential Investment Management, Inc. and certain Prudential affiliates

(the Noteholders).

A total of $50 million in Senior Notes was funded on December 28, 2012. The Senior Notes are due December 28, 2022 and bear interest at an annual rate of 3.65%, paid quarterly in arrears. Annual principal payments of $7.1 million are required beginning December 28, 2016 through December 28, 2021 with a final payment due on December 28, 2022. The principal amount may be prepaid in whole or in part, with a minimum prepayment of $5 million, at any time, subject to make-whole provisions.

The Notes Agreement provides for the issuance of additional notes of up to $25 million, during the first three years of the Notes Agreement with maturity dates no more than 10 years from the date issued, at the market interest rate for notes with equivalent terms and conditions.

All loans made under both the Credit Agreement and the Notes Agreement are secured by our assets, including, among others, our cash, inventory, goods, equipment (excluding equipment subject to permitted liens) and accounts receivable. All of our domestic subsidiaries have issued joint and several guaranties in favor of the Lenders and Noteholders for all amounts under the Credit Agreement and Notes Agreement.

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Both the Credit Agreement and the Notes Agreement contain various restrictive and financial covenants including among others, minimum tangible net worth, senior debt/EBITDA ratio, debt service coverage requirements and a minimum balance for unencumbered net book value for fixed assets. In addition, the agreements include restrictions on investments, change of control provisions and provisions in the event the Company disposes more than 20% of its total assets.

The Company was in compliance with the covenants for the Credit Agreement and Senior Notes at June 30, 2013.

Canadian Credit Facility

The Company has a credit facility for $10,000 in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. At June 30, 2013 and December 31, 2012, letters of credit outstanding totaled $3,539 and $1,364 in Canadian dollars, respectively. At June 30, 2013, the available borrowing capacity was $6,461 in Canadian dollars. The credit facility contains a working capital restrictive covenant for our Canadian subsidiary, OnQuest Canada, and at June 30, 2013, OnQuest Canada, ULC was in compliance.

Subordinated Promissory Notes

Subordinated Promissory Note Rockford. In connection with the 2010 acquisition of Rockford, the Company executed an unsecured promissory note with an initial principal amount of $16,712. As a result of a dispute related to a certain liability at the time of the closing of the transaction, the Company ceased making principal and interest payments in May 2012, when the outstanding balance reached $5,000. In December 2012, the parties came to a resolution and the Company paid $1,500 to cancel the subordinated note.

Subordinated Promissory Note JCG. In connection with the 2009 acquisition of JCG, the Company executed an unsecured promissory note on December 18, 2009 in favor of the sellers with an initial principal amount of $53,500. The JCG note was paid in full on March 12, 2012.

Note 12 Noncontrolling Interests

The Company applies the provisions of ASC Topic 810-10-45, which establishes accounting and reporting standards for ownership interests of parties other than the Company in subsidiaries, such as joint ventures and partnerships.

The Company determined that the Blythe joint venture was a variable interest entity (VIE) and that the Company was the primary beneficiary as a result of its significant influence over the joint venture operations.

The Blythe joint venture operating activities were included in the Company s consolidated statements of income as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues	15,631	3,793	31,903	5,414
Net income attributable to noncontrolling interests	329	124	599	168

Since Blythe is a partnership, no tax effect was recognized for the income. There were no distributions to noncontrolling interests and no capital contributions made by noncontrolling interests during the six months ended June 30, 2013 and 2012.

The carrying value of the assets and liabilities associated with the operations of the Blythe joint venture are included in the Company s consolidated balance sheets as follows:

	June 30, 2013	December 31, 2012
Cash	$ 4,442	$ 3,565
Accounts receivable	11,464	8,843
Current liabilities	11,680	9,379

The net assets of the joint venture are restricted for use by the project and are not available for general operations of the Company.

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Note 13 Contingent Earnout Liabilities

As part of the Rockford acquisition in November 2010, the Company agreed to issue additional cash and common stock to the sellers, contingent upon Rockford meeting certain operating performance targets for the fourth quarter 2010, for the five quarters ending December 31, 2011 and for the year ended December 31, 2012. The contingent earnout liability for 2012 was achieved and in April 2013, the Company made a $6,900 cash payment.

The Company has recorded additional contingent earnout consideration liabilities related to the acquisitions of FSSI, Sprint, Saxon and Q3C as discussed in Note 8 Business Combinations.

Note 14 Related Party Transactions

Primoris has entered into leasing transactions with Stockdale Investment Group, Inc. (SIGI). Brian Pratt, our Chief Executive Officer, President and Chairman of the Board of Directors and our largest stockholder, holds a majority interest and is the chairman, president and chief executive officer and a director of SIGI. John M. Perisich, our Executive Vice President and General Counsel, is secretary of SIGI.

Primoris leases properties from SIGI at the following locations:

1. Bakersfield (lease expires October 2022)
2. Pittsburg (lease expires April 2023)
3. San Dimas in California (lease expires March 2019)
4. Pasadena, Texas (leases expire in July 2019 and 2021)

During the six months ended June 30, 2013 and 2012, the Company paid $471 and $462, respectively, in lease payments to SIGI for the use of these properties.

The Company entered into a $6.1 million agreement in 2010 to construct a wastewater facility for Pluris, LLC, a private company in which Brian Pratt holds the majority interest. The transaction was reviewed and approved by the Audit Committee of the Board of Directors of the Company. The project was substantially completed in December 2011. The Company recognized no revenues in 2013 and recognized revenues of $355 for the six months ended June 30, 2012, at normal margins.

Primoris leases a property from Roger Newnham, a former owner and current manager of our subsidiary, OnQuest Canada, ULC. The property is located in Calgary, Canada. During the six months ended June 30, 2013 and 2012, Primoris paid $150 and $141, respectively, in lease payments. The current term of the lease is through December 31, 2014.

Primoris leases a property from Lemmie Rockford, one of the Rockford sellers, which commenced November 1, 2011. The property is located in Toledo, Washington. During the six months ended June 30, 2013 and 2012, Primoris paid $45 and $45, respectively, in lease payments. The lease expires in January 2015.

As a result of the November 2012 acquisition of Q3C, the Company became party to leased property from Quality RE Partners, owned by three of the Q3C selling shareholders, of whom two are current employees, including Jay Osborn, President of Q3C. The property is located in Little Canada, Minnesota. During the six months ended June 30, 2013, the Company paid $132, in lease payments to Quality RE Partners for the use of this property. The lease commenced October 28, 2012 and expires in October 2022.

As discussed in Note 7 *Equity Method Investments* , the Company owns several non-consolidated investments and has recognized revenues on work performed by the Company for those joint ventures.

Note 15 Stock-Based Compensation

On May 3, 2013, the Board of Directors granted 100,000 Restricted Stock Units (Units) under the 2013 Equity Incentive Plan (the 2013 Plan). The Units vest over a service period of four equal installments in 2014 through 2017, subject to earlier acceleration, termination, cancellation or forfeiture as provided in the underlying award agreement. Each Unit represents the right to receive one share of the Company s common stock when vested.

The fair value of the Units was based on the closing market price of our common stock on the day prior to the date of the grant, or $21.98 per Unit. Stock compensation expense for the Units is being amortized using the straight-line method over the service vesting period. For the three and six months ended June 30, 2013 the Company recognized $91 in compensation expense. The Company had approximately $2.1 million of unrecognized compensation expense related to the Units at June 30, 2013, which will be recognized over a period of 3.8 years.

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Vested Units accrue Dividend Equivalents (as defined in the 2013 Plan) which will be accrued as additional Units. At June 30, 2013, there were no accrued Dividend Equivalent Units.

Note 16 Income Taxes

The effective tax rate on income before taxes and noncontrolling interests for the six months ended June 30, 2013 was 38.22%. The effective tax rate for income attributable to Primoris is 39.0%. The rate differs from the U.S. federal statutory rate of 35% due primarily to state income taxes, the Domestic Production Activity Deduction and nondeductible meals and incidental per diems common in the construction industry.

To determine its quarterly provision for income taxes, the Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rate from quarter to quarter. The Company recognizes interest and penalties related to uncertain tax positions, if any, as an income tax expense.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company s assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of enactment date.

In September 2012, the Internal Revenue Service (IRS) concluded an examination of our federal income tax returns for 2008 and 2009, which did not have a material impact on our financial statements. The tax years 2010 through 2011 remain open to examination by the IRS. The statute of limitations of state and foreign jurisdictions vary generally between 3 to 5 years. Accordingly, the tax years 2007 through 2011 generally remain open to examination by the other major taxing jurisdictions in which the Company operates.

Note 17 Dividends and Earnings Per Share

The Company has paid or declared cash dividends during 2013 as follows:

- On March 5, 2013, the Company declared a cash dividend of $0.03 per common share, payable to stockholders of record on March 29, 2013. The dividend, totaling $1,547, was paid on April 15, 2013.

- On May 3, 2013, the Company declared a cash dividend of $0.035 per common share, payable to stockholders of record on June 28, 2013. The dividend, totaling $1,805, was paid on July 15, 2013.

The table below presents the computation of basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net income attributable to Primoris	$ 15,564	$ 11,733	$ 25,334	$ 22,219
Denominator (shares in thousands):				
Weighted average shares for computation of basic earnings per share	51,562	51,435	51,510	51,386
Dilutive effect of shares issued to independent directors			4	
Dilutive effect of shares issued as part of Q3C acquisition			1	
Dilutive effect of unvested restricted stock units	64		32	
Weighted average shares for computation of diluted earnings per share	51,626	51,435	51,547	51,386
Earnings per share:				
Basic earnings per share	$ 0.30	$ 0.23	$ 0.49	$ 0.43
Diluted earnings per share	$ 0.30	$ 0.23	$ 0.49	$ 0.43

Note 18 Stockholders Equity

Common stock In March 2013, the Company received $1,455 for 131,989 shares of common stock issued, under a purchase arrangement within the Company s Long-Term Incentive Plan (LTI Plan) for managers and executives. The LTI Plan allows participants to purchase Company common stock at a discount from the market price. The shares purchased in March 2013 were for bonuses earned in 2012 and were calculated at 75% of the average market closing price of December 2012. In March 2012, the Company received $1,240 for 111,790 shares of common stock issued under the LTI Plan for bonuses earned in the prior year.

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In March 2013, the Company issued 12,480 shares of common stock as part of the quarterly compensation of the non-employee members of the Board of Directors.

As part of the acquisition of Q3C, the Company agreed to issue shares of common stock with a value of $430 based on the average December 2012 closing prices, or $14.69 per share. On January 7, 2013, we issued 29,273 unregistered shares of stock.

Note 19 Commitments and Contingencies

Leases The Company leases certain property and equipment under non-cancellable operating leases which expire at various dates through 2019. The leases require the Company to pay all taxes, insurance, maintenance and utilities and are classified as operating leases in accordance with ASC Topic 840 Leases .

Total lease expense during the three and six months ended June 30, 2013 was $3,700 and $7,545, respectively, compared to $2,517 and $4,759 for the same periods in 2012. The amounts for the three and six months ended June 30, 2013 included lease payments made to related parties of $398 and $797, respectively, and $323 and $648 for the three and six months ended June 30, 2012, respectively.

Letters of credit At June 30, 2013, the Company had letters of credit outstanding of $9,023 and at December 31, 2012, the Company had letters of credit outstanding of $6,168. The outstanding amounts include the U.S. dollar equivalents for letters of credit issued in Canadian dollars.

Litigation The Company is subject to claims and legal proceedings arising out of its business. Management believes that the Company has meritorious defenses to such claims. Although management is unable to ascertain the ultimate outcome of such matters, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles, management believes that the outcome of these matters will not have a materially adverse effect on the consolidated financial position of the Company.

Bonding At June 30, 2013 and December 31, 2012, the Company had bid and completion bonds issued and outstanding totaling approximately $1,388,279 and $1,298,589, respectively.

Withdrawal liability for multiemployer pension plan In November 2011, Rockford and ARB, along with other members of the Pipe Line Contractors Association (PLCA), withdrew from the Central States Southeast and Southwest Areas Pension Fund multiemployer pension plan (the Plan). In connection with the withdrawal, the Company has recorded an estimated liability of $7,500 based on information provided by the Plan. The Company withdrew from the Plan in order to mitigate its liability in connection with the Plan, which is significantly underfunded. The Plan has asserted that the PLCA members did not affect a withdrawal in 2011, although the Company believes that a legally effective withdrawal occurred in November 2011 and has recorded the withdrawal liability on that basis. If the Plan were to prevail in its assertion and the withdrawal of the Company were deemed to occur after 2011, the amount of any withdrawal liability could increase.

Prior to its acquisition, Q3C had also withdrawn from the Plan. In November 2012, Q3C estimated a withdrawal liability of $85. Subsequently, in the first quarter of 2013, the Plan asserted that the liability was $119. Without agreeing to the amount, Q3C is making payments toward the liability amount.

Contingent Consideration Earnouts related to acquisitions are discussed in Note 8 Business Combinations and Note 13 Contingent Earnout Liabilities.

Note 20 Reportable Operating Segments

The Company segregates its business into three operating segments: the East Construction Services segment, the West Construction Services segment and the Engineering segment.

The East Construction Services segment includes the JCG construction business, located primarily in the southeastern United States and the businesses located in the Gulf Coast region of the United States, including Cardinal Contractors, Inc. The segment also includes the operating results relating to the acquisitions of Sprint, Silva and Saxon in 2012 and FSSI in 2013.

The West Construction Services segment includes the construction services performed by ARB, ARB Structures, Inc., Rockford, Alaska Continental Pipeline, Inc., All Day Electric Company, Inc., Primoris Renewables, Inc., Juniper Rock, Inc. and Stellaris, LLC. While most of the entities perform work primarily in California, Rockford operates throughout the United States and Q3C operates in the upper Midwest United States. The Blyth joint venture is also included as a part of the segment.

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The Engineering segment includes the results of Onquest, Inc. and OnQuest Canada, ULC.

All intersegment revenues and gross profit, which were immaterial, have been eliminated in the following tables.

Segment Revenues

Revenue by segment for the three months ended June 30, 2013 and 2012 were as follows:

	For the three months ended June 30,			
	2013		2012	
Segment	Revenue	% of Segment Revenue	Revenue	% of Segment Revenue
East Construction Services	$ 175,398	39.4%	$ 156,057	46.2%
West Construction Services	258,194	58.0%	167,287	49.6%
Engineering	11,421	2.6%	14,092	4.2%
Total	$ 445,013	100.0%	$ 337,436	100.0%

Revenue by segment for the six months ended June 30, 2013 and 2012 were as follows:

	For the six months ended June 30,			
	2013		2012	
Segment	Revenue	% of Segment Revenue	Revenue	% of Segment Revenue
East Construction Services	$ 365,609	42.8%	$ 277,907	44.2%
West Construction Services	465,880	54.4%	325,318	51.7%
Engineering	23,519	2.8%	25,784	4.1%
Total	$ 855,008	100.0%	$ 629,009	100.0%

Segment Gross Profit

Gross profit by segment for the three months ended June 30, 2013 and 2012 were as follows:

	For the three months ended June 30,	
	2013	2012

Segment		Gross Profit	% of Segment Revenue		Gross Profit	% of Segment Revenue
East Construction Services	$	15,215	8.7%	$	17,360	11.1%
West Construction Services		41,926	16.2%		24,294	14.5%
Engineering		2,396	21.0%		2,350	16.7%
Total	$	59,537	13.4%	$	44,004	13.0%

Gross profit by segment for the six months ended June 30, 2013 and 2012 were as follows:

	For the six months ended June 30,					
	2013			2012		
Segment		Gross Profit	% of Segment Revenue		Gross Profit	% of Segment Revenue
East Construction Services	$	30,210	8.3%	$	28,778	10.4%
West Construction Services		70,675	15.2%		48,695	15.0%
Engineering		4,748	20.2%		4,127	16.0%
Total	$	105,633	12.4%	$	81,600	13.0%

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Segment Goodwill

The following presents the amount of goodwill recorded by segment at June 30, 2013 and at December 31, 2012.

Segment	June 30, 2013	December 31, 2012
East Construction Services	$ 70,946	$ 69,859
West Construction Services	44,641	44,641
Engineering	2,441	2,441
Total	$ 118,028	$ 116,941

Geographic Region Revenues and Total Assets

Revenue and total assets by geographic area for the six months ended June 30, 2013 and 2012 were as follows:

	Revenues For the six months ended June 30,				Total Assets	
	2013		2012			
Country:	Revenue	% of Revenue	Revenue	% of Revenue	June 30, 2013	December 31, 2012
United States	$ 845,461	98.9%	$ 624,293	99.3%	$ 914,123	$ 920,872
Non-United States	9,547	1.1	4,716	0.7	10,962	10,335
Total	$ 855,008	100.0%	$ 629,009	100.0%	$ 925,085	$ 931,207

All non-United States revenue has been generated in the Engineering Segment. For the table above, revenues generated by OnQuest Canada, ULC, were used to determine non-United States revenues.

Note 21 Subsequent Event

On July 25, 2013, the Company exercised its option to draw down the remaining $25 million under the Notes Agreement, as described in Note 11 Credit Arrangements. The notes are due July 25, 2023 and bear interest at an annual rate of 3.85% paid quarterly in arrears. Seven annual principal payments of $3.6 million are required beginning July 25, 2017 with a final payment due on July 25, 2023. All other terms and conditions under the Notes Agreement remain unchanged.

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PRIMORIS SERVICES CORPORATION

MANAGEMENT S DISCUSSION AND ANALYSIS

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

Forward Looking Statements

This Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (Second Quarter 2013 Report) contains 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), which are subject to the safe harbor created by those sections. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of regulation and the economy, generally. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as anticipates , believes , could , estimates , expects , in may , plans , potential , predicts , projects , should , will , would or similar expressions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in detail in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012 and our other filings with the Securities and Exchange Commission (SEC). Also, forward-looking statements represent our management s beliefs and assumptions only as of the date of this Second Quarter 2013 Report. You should read this Second Quarter 2013 Report, our Annual Report on Form 10-K for the year ended December 31, 2012 and our other filings with the SEC completely and with the understanding that our actual future results may be materially different from what we expect.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. We assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and the accompanying notes included in Part 1, Item 1 of this Second Quarter 2013 Report and our Annual Report on Form 10-K for the year ended December 31, 2012.

Introduction

Primoris Services Corporation (Primoris , the Company , we , us or our) is a holding company of various subsidiaries, which form one of the largest publicly traded specialty contractor and infrastructure companies in the United States. Serving diverse end-markets, Primoris provides a wide range of construction, fabrication, maintenance, replacement, water and wastewater, and engineering services to major public utilities, petrochemical companies, energy companies, municipalities, state departments of transportation and other customers. We install, replace, repair

and rehabilitate natural gas, refined product, water and wastewater pipeline systems, large diameter gas and liquid pipeline facilities, heavy civil projects, earthwork and site development and also construct mechanical facilities and other structures, including power plants, petrochemical facilities, refineries and parking structures. In addition, we provide maintenance services, including inspection, overhaul and emergency repair services, to cogeneration plants, refineries and similar mechanical facilities. One of our subsidiaries provides engineering and design services for fired heaters and furnaces primarily used in refinery applications.

Including our predecessor companies, we have been in business for more than 65 years. We became a publicly traded company in 2008. At that time, our operations were focused primarily on the West Coast through our subsidiaries ARB, Inc. (ARB) and ARB Structures, Inc. We also provided product engineering services through a subsidiary, OnQuest, Inc. and its wholly owned subsidiary, OnQuest Canada, ULC (formerly Born Heaters Canada, ULC) to international customers and water and waste water construction services in Florida through Cardinal Contractors, Inc. ARB and ARB Structures are headquartered in Lake Forest, CA, OnQuest is headquartered in San Dimas, CA, OnQuest Canada, ULC is headquartered in Calgary, Canada and Cardinal Contractors is headquartered in Sarasota, FL.

Since July 2008, we have continued to strategically expand both our capabilities and our geographic presence. This expansion has resulted in significant increases in revenues and profitability. The following is a discussion of the major acquisitions.

- On December 18, 2009, we acquired James Construction Group, LLC, a privately-held Florida limited liability company (JCG). JCG is one of the largest general contractors based in the Gulf Coast states and is engaged in highway, industrial and environmental construction, primarily in Louisiana, Texas and Florida. JCG is the successor company to T. L. James and Company, Inc., a Louisiana company that has been in business for over 80 years. Headquartered in Baton Rouge, Louisiana, JCG serves government and private clients in a broad geographical region that includes the entire Gulf Coast region of the United States.

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- On November 8, 2010, we acquired privately-held Rockford Corporation (Rockford). Based in Hillsboro (outside Portland), Oregon, Rockford specializes in construction of large diameter natural gas and liquid pipeline projects and related facilities throughout most of North America.

- In 2012, we made four acquisitions:

- On March 12, 2012, we purchased certain assets of Sprint Pipeline Services, L.P. (Sprint), headquartered in Pearland (outside Houston), Texas. Sprint provides a comprehensive range of pipeline construction, maintenance, upgrade, fabrication and specialty services primarily in Texas and the southeastern United States.

- On May 30, 2012, we purchased certain assets of Silva Contracting Company, Inc., Tarmac Materials, LLC and C3 Interest, LLC (collectively, Silva). Based outside of Houston, Texas, Silva provides transportation infrastructure maintenance, asphalt paving, and material sales in the Gulf Coast region of the United States. Following this acquisition, Silva was merged with the operations of JCG.

- On September 28, 2012, we purchased certain assets of The Saxon Group, Inc. (Saxon). Based in Suwannee, Georgia (outside Atlanta), Saxon is a full service industrial construction enterprise with special expertise in the industrial gas processing and power plant sectors.

- On November 17, 2012, we purchased all of the stock of Q3 Contracting, Inc., a privately-held Minnesota corporation (Q3C). The sellers agreed to treat the acquisition as an asset purchase under Section 338(h)(10) of the Internal Revenue Code. Based in Little Canada, Minnesota, north of St. Paul, Minnesota, Q3C specializes in small diameter pipeline and gas distribution construction, restoration and other services, primarily for utilities in the upper Midwest region of the United States.

- In March 2013, the Company s subsidiary, Primoris Energy Services Inc. (PES) purchased the assets of Force Specialty Services, Inc. (FSSI) which specializes in turn-around work at refineries and chemical plants in the Gulf Coast area.

The Company is a party to the Blythe Power Constructors joint venture (Blythe) for the installation of a parabolic trough solar field and steam generation system in California.

During the past five years, we have also created legal entities to consolidate or focus our efforts. For example, in 2009 we created Primoris Renewables, Inc. to focus on alternative energy projects, and in 2012, we created PES which is the legal entity that owns Sprint, Saxon and FSSI. Additionally, some of our subsidiaries have increased their focus on certain industries or geographies. For example, during the past year, Cardinal Contractors has opened a facility near Dallas to better serve water and wastewater construction opportunities in Texas.

Historically, we have longstanding relationships with major utility, refining, petrochemical, power and engineering companies. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies. With our acquisitions of JCG and Q3C we have expanded our ability to provide services to our historical customers in additional geographies. Our diversified customer base includes many of the leading pipeline, power generation and utility companies in the United States. We often provide services under multi-year master service agreements (MSA).

In the second quarter of 2013, we closed two of our small subsidiaries, Calidus and All Day Electric Company, Inc. For 2012, their combined revenue was less than 0.3% of total consolidated Primoris revenue and the costs of closure were not material.

Additional information about us can be found in our press releases and other public filings. We make our press releases, our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and all other required filings with the SEC available free of charge through our Internet website, as soon as reasonably practical after they are electronically filed with, or furnished to, the SEC. Our principal executive offices are located at 2100 McKinney Avenue, Suite 1500, Dallas, Texas 75201, and our telephone number is (214) 740-5600. Our website address is *www.prim.com*. The information on our Internet website is neither part of nor incorporated by reference into this Second Quarter 2013 Report.

End-Markets

We are a diversified specialty construction company, and our strategy is to serve customers in different end markets. Our primary focus is on the following end markets:

- Underground construction. This market consists of two types of projects. The first is the construction of major capital projects primarily underground infrastructure for the oil and gas, telecommunication and water and wastewater industries. The second is installation, repair and maintenance of underground services, typically for utility customers. Our subsidiaries ARB, Rockford and Sprint provide construction services to the major capital projects market while ARB, Q3C and Sprint provide services to utility customers.

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- Industrial construction. In this market we provide construction services in such facilities as power plants, refineries and industrial gas and petrochemical facilities. Our subsidiaries ARB, JCG and Saxon are providers of services in this market.

- Heavy civil construction. We provide construction for highways and bridges, primarily to state agencies. We also sell aggregates and asphalt. Our subsidiary JCG is focused on this market, primarily in the states of Louisiana, Texas and Mississippi.

- Water and wastewater construction. Our subsidiary Cardinal Contractors provides construction services to the water and wastewater industry, primarily in Florida and Texas.

- Engineering services. We provide product engineering services primarily for the energy industry. Our Engineering group specializes in designing, supplying, and installing high-performance furnaces, heaters, burner management systems, and related combustion and process technologies for clients in the oil refining, petrochemical, and power generation industries. It furnishes turnkey project management with technical expertise and the ability to deliver custom engineering solutions worldwide.

- Other construction services. Our subsidiary ARB Structures builds poured-in-place parking structures in Southern California and our subsidiary FSSI provides turnaround services in the Houston market at refineries and chemical plants.

As opportunities change in our end markets and as we have grown the company, the amount of work we do in any of our end markets fluctuates. The following table shows the percentage of revenues derived from the major end markets for the twelve-month periods listed:

	Twelve Months Ended June 2013	Twelve Months Ended December 2012	Twelve Months Ended December 2011
Underground			
Capital projects	19.3%	13.6%	22.9%
Utility services	28.5%	27.6%	21.0%
Industrial	24.0%	24.6%	18.4%
Heavy Civil	17.2%	21.3%	24.8%
Engineering	2.5%	3.0%	3.4%
Other	8.5%	9.9%	9.5%
Total	100.0%	100.0%	100.0%

Reportable Segments

We present our operations in three reportable segments: West Construction Services (West), East Construction Services (East) and Engineering. Our segment structure has been determined in accordance with ASC 280, Segment Reporting. All of our segments derive their revenues primarily from construction and product engineering in the United States.

Our two Construction Services segments provide the following:

- installation of underground pipeline, cable and conduits for entities in the petroleum, petrochemical and water industries;
- installation and maintenance of industrial facilities for entities in the petroleum, petrochemical and water industries;
- installation of complex commercial and industrial cast-in-place structures; and
- construction of highways and industrial and environmental construction.

East Construction Services

The East Construction Services segment consists of businesses located primarily in the southeastern United States and along the Gulf Coast. Included in this segment are the operations of JCG s Heavy Civil, Industrial and Infrastructure & Maintenance divisions; Cardinal Contractor s water and wastewater construction activities; and the services provided by the 2012 and 2013 acquisitions (Sprint; Silva, Saxon and FSSI).

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West Construction Services

The West Construction Services segment consists of businesses located primarily in the western United States. The segment includes the underground and industrial operations of ARB, Inc.; the operations of Rockford (which performs its major capital underground work throughout the United States); the operations of ARB Structures, Alaska Continental Pipeline, Inc., All Day Electric Company, Inc. (100% owned in 2011 and 50% in prior years), the 2012 acquisition of Q3C, Stellaris, LLC, Primoris Renewables, Inc. and Juniper Rock, Inc. The segment also includes the operations of the Blythe Power Constructors joint venture.

Engineering

The Engineering segment includes the results of OnQuest, Inc. and OnQuest Canada, ULC.

Material trends and uncertainties

We generate our revenue from both large and small construction and engineering projects. The award of these contracts is dependent on a number of factors, many of which are not within our control. Business in the construction industry is cyclical. We depend in part on spending by companies in the energy and oil and gas industries, as well as on municipal water and wastewater customers. Over the past several years, each segment has benefited from demand for more efficient and more environmentally friendly energy and power facilities, local highway and bridge needs and from the strength of the oil and gas industry; however, each of these industries and the government agencies periodically are adversely affected by macroeconomic conditions. Economic factors outside of our control affect the amount and size of contracts in any particular period.

We and our customers are operating in a challenging business environment in light of the on-going economic uncertainty, fluctuations in capital markets and potential regulatory changes and uncertainties. We are closely monitoring our customers and the effect that changes in economic and market conditions and regulatory environment may have on them. We have experienced delays in project awards and the start of awarded projects as customers carefully consider their overall environment prior to investing in new infrastructure. However, we believe that most of our customers, some of whom are regulated utilities, remain financially stable and will be able to continue with their business plans in the long-term without substantial constraints.

Within these trends for the economy in general, we believe that there are positive opportunities within our end markets over the next five-year horizon. The development of shale oil and gas has a positive impact on the capital projects in our underground market both in large diameter pipeline projects and the well fields. The increased emphasis on pipeline integrity by utility companies provides growth potential in our utility underground markets. The apparent long-term nature of reduced natural gas prices should lead to increased opportunities for our industrial markets in the Gulf Coast region, and the impact of regulatory rules in California provides an opportunity for continuing upgrades to power plants. At present, the heavy civil market growth is moderate as state funding is restrained and the timing of any federal funding growth is uncertain. Finally, the continuing drought in the western United States may lead to future opportunities in the water and wastewater market.

We believe that we are positioned to take advantage of the opportunities in our end market segments; however, these opportunities may not occur in a linear fashion. As a contractor, we are dependent on the owners for project development, project funding and project timing. Owners decisions and market opportunities tend to cause significant fluctuations in revenues, profits and cash flows.

Seasonality and cyclicality

Our results of operations can be subject to quarterly variations. Some of the variation is the result of weather, particularly rain, which can impact our ability to perform construction services. The weather also limits our ability to bid for and perform pipeline integrity testing and routine maintenance for our utility customers underground systems since the systems are used for heating. The acquisitions of Sprint and Q3C have added to the seasonality of our business. Q3C s primary operations are in the Midwest United States, an area usually affected by inclement weather during the first quarter. Similarly, a significant portion of Sprint s revenues is derived from utility customers. In most years, utility owners obtain bids and award contracts for major maintenance, integrity and replacement work after the heating season, and the work must be completed by the following winter. In addition, demand for new projects can be lower during the early part of the year due to clients internal budget cycles. As a result, we usually experience higher revenues and earnings in the third and fourth quarters of the year as compared to the first two quarters.

We are also dependent on large construction projects which tend not to be seasonal, but can fluctuate from year to year based on general economic conditions. Because of the cyclical nature of our business, the financial results for any period may fluctuate from prior periods, and our financial condition and operating results may vary from quarter-to-quarter.

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Our volume of business may be adversely affected by declines or delays in new projects in various geographic regions in the United States. Project schedules, in particular in connection with larger, longer-term projects, can also create fluctuations in the services provided, which may adversely affect us in a given period. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular period, regional, national and global economic and market conditions, timing of acquisitions, the timing and magnitude of acquisition assimilation costs, interest rate fluctuations and other factors may also materially affect our periodic results. Accordingly, our operating results for any particular period may not be indicative of the results that can be expected for any other period.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and also affect the amounts of revenues and expenses reported for each period. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements cannot be calculated with a high degree of precision from data available, is dependent on future events, or is not capable of being readily calculated based on generally accepted methodologies. Often, these estimates are particularly difficult to determine, and we must exercise significant judgment. We use estimates in our assessments of revenue recognition under percentage-of-completion accounting, the allowance for doubtful accounts, useful lives of property and equipment, fair value assumptions in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities and deferred income taxes. Actual results could differ significantly from our estimates, and our estimates could change if there were made under different assumptions or conditions.

Our critical accounting policies, as described in our Annual Report on Form 10-K for the year ended December 31, 2012, relate primarily to revenue recognition for fixed price contracts, income taxes, goodwill, long-lived assets, reserves for uninsured risks and litigation and contingencies. There have been no material changes to our critical accounting policies since December 31, 2012.

Results of operations

In the discussion of our results of operations, we provide separate information for the results of the companies that we have acquired since June 2012. Silva, Saxon, Q3C and FSSI are identified as Acquired Companies. For the business units that were part of Primoris at the end of June 2012, results of operations are identified as Comparable Companies.

Revenues, gross profit, operating income and net income for the three months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenues	$ 445,013	100.0%	$ 337,436	100.0%
Gross profit	59,537	13.4%	44,004	13.0%
Selling, general and administrative expense	31,560	7.1%	23,396	6.9%
Operating income	27,977	6.3%	20,608	6.1%

Other income (expense)		(2,094)	(0.5)%		(1,405)	(0.4)%
Income before income taxes		25,883	5.8%		19,203	5.7%
Income tax provision		(9,990)	(2.2)%		(7,346)	(2.2)%
Net income	$	15,893	3.6%	$	11,857	3.5%
Net income attributable to noncontrolling interests		(329)	(0.1)%		(124)	%
Net income attributable to Primoris	$	15,564	3.5%	$	11,733	3.5%

Revenues, gross profit, operating income and net income for the six months ended June 30, 2013 and 2012 were as follows:

	Six Months Ended June 30,				
	2013			2012	
		(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenues	$	855,008	100.0%	$ 629,009	100.0%
Gross profit		105,633	12.4%	81,600	13.0%
Selling, general and administrative expense		60,179	7.0%	43,670	7.0%
Operating income		45,454	5.4%	37,930	6.0%
Other income (expense)		(3,324)	(0.4)%	(1,633)	(0.3)%
Income before income taxes		42,130	5.0%	36,297	5.7%
Income tax provision		(16,197)	(1.9)%	(13,910)	(2.2)%
Net income	$	25,933	3.1%	$ 22,387	3.5%
Net income attributable to noncontrolling interests		(599)	(0.1)%	(168)	%
Net income attributable to Primoris	$	25,334	3.0%	$ 22,219	3.5%

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Revenues

Revenues for the three months ended June 30, 2013 increased by $107.6 million, or 31.9%, compared to the same period in 2012. The Acquired Companies contributed $55.5 million, or 16.5%, while the Comparable Companies contributed growth of $52.1 million, or 15.4%. Revenues increased at our two construction segments while decreasing in our engineering segment. The primary increases were in underground pipeline revenue for Rockford, which saw a $60.6 million increase primarily in its work in Pennsylvania, and Sprint, which had a $20.7 million increase, while the Blythe joint venture revenue increased by $11.8 million. These increases were partially offset by a decrease of $17.7 million at the JCG Heavy Civil division and of $9.3 million in ARB Underground projects.

Revenues for the six months ended June 30, 2013 increased by $226.0 million, or 35.9%, compared to the same period in 2012. Growth from Comparable Companies contributed $146.1 million, or 23.2%, and the Acquired Companies contributed $79.9 million, or 12.7%. Revenues increased at our two construction segments while decreasing at our engineering segment. The primary increases were in underground pipeline, where Rockford saw a $94.9 million increase, Sprint, which had a revenue increase of $60.5 million (we acquired Sprint during the first quarter of 2012), and the Blythe joint venture, where revenues increased by $26.5 million. These increases were somewhat offset by a reduction in revenues at ARB of $42.8 million.

Gross Profit

Gross profit increased by $15.5 million, or 35.2%, for the three months ended June 30, 2013 compared to the same period in 2012. The Acquired Companies contributed $5.6 million, or 12.9%, while the profit increase from growth at the Comparable Companies was $9.9 million, or 22.5%. The Comparable Companies growth increase included $12.2 million from the West segment primarily attributable to the increase in underground pipeline revenues at Rockford and the approaching completion of a major power project at the ARB Industrial division. Gross profit for the Comparable Companies in the East segment declined by $2.4 million, due primarily to lower volume and lower gross profit margins at the JCG Heavy Civil division.

Gross profit increased by $24.0 million, or 29.4%, for the six months ended June 30, 2013 compared to the same period in 2012. The Acquired Companies contributed $6.2 million, or 7.6%, while the profit increase from growth at the Comparable Companies was $17.8 million, or 21.8%. The Comparable Companies growth increase was $16.9 million from the West segment primarily attributable to the benefit of nearing completion of a major power project and increases in Rockford pipeline revenues. The Comparable Companies of the East and Engineering segments combined gross profit increased by $0.9 million.

Selling, general and administrative expenses

Selling, general and administrative expenses (SG&A) increased $8.2 million, or 34.9%, for the three months ended June 30, 2013, compared to the same period in 2012. The increase of SG&A expenses as a result of the Acquired Companies was $4.2 million, or 18.0%, with the balance of the increase of $4.0 million due primarily to a $3.3 million increase in compensation and compensation-related expenses, and increases in other SG&A expenses of $0.7 million.

For the six months ended June 30, 2013, the increase was $16.5 million, or 37.8% compared to the first six months of 2012. The amount of the increase attributable to the Acquired Companies was $7.3 million, or 16.7%. The Comparable Companies increase of $9.2 million, or 21.1%, compared to the same period in 2012, was primarily due to $6.3 million of compensation and compensation-related expenses. These costs increased as a result of increased administrative support costs related to labor-intensive pipeline integrity work and service-related projects, increased incentive compensation expense for a larger number of participants in the management incentive compensation program and cost of living increases. Expenses also increased due to increased transportation expenses of $1.1 million, and consulting, legal and other SG&A expenses of $1.8 million.

SG&A as a percentage of revenue was 7.1% and 7.0% for the three and six months ended June 30, 2013, respectively, compared to 6.9% for both the corresponding periods in 2012. Excluding the impact of the Acquired Companies, SG&A as a percentage of revenue was 7.0% and 6.8% for the three and six months ended June 30, 2013, respectively.

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Other income and expense

Non-operating income and expense items for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(Thousands)		(Thousands)	
Income (loss) from non-consolidated entities	$ (213)	$ (47)	$ 56	$ 1,054
Foreign exchange loss	(29)	$ (6)	$ (88)	$ (48)
Other expense	(377)	(371)	(433)	(579)
Interest income	23	25	63	47
Interest expense	(1,498)	$ (1,006)	$ (2,922)	$ (2,107)
Total other income (expense)	$ (2,094)	$ (1,405)	$ (3,324)	$ (1,633)

For the three months ended June 30, 2013, the loss from non-consolidated investments was primarily due to a loss recorded at WesPac while for the six months ended June 30, 2013, $0.6 million income from the investment in Alvah offset WesPac losses.

The Company uses the U.S. dollar as its functional currency in Canada since most monetary transactions are made in U.S. dollars. For accounting purposes, transactions made in Canadian dollars are converted to U.S. dollars and we recorded foreign exchange losses for the periods presented.

Other expense represents the increase in the estimated fair value of the contingent earnout liabilities for the acquisitions of Sprint, Saxon, Q3C and FSSI.

For the three and six months ended June 30, 2013, interest expense was $1.5 million and $2.9 million, respectively, compared to $1.0 million and $2.1 million for the same periods in 2012. The increases were due primarily to interest on the $50 million 3.65% Senior Secured Notes, dated December 29, 2012.

Provision for income taxes

Our provision for income taxes increased $2.6 million for the three months ended June 30, 2013 to $10.0 million compared to $7.4 million in the same period in 2012 primarily as a result of higher income before taxes.

Our provision for income taxes increased $2.3 million for the six months ended June 30, 2013 to $16.2 million, compared to $13.9 million for the same period in 2012. The $2.3 million increase results from higher income before taxes and a higher effective tax rate, which contributed to

the increase by $2.1 million and $0.2 million, respectively. The tax rate applied to income attributable to Primoris in the six months ended June 30, 2013 was 39.0%, compared to 38.5% for the same period in 2012. The 0.5% increase in the effective tax rate results primarily from the variability of estimated nondeductible per diems.

To determine our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rate from quarter to quarter.

Segment results

East Segment

Revenue and gross profit for the East segment for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 175,398		$ 156,057	
Gross profit	15,215	8.7%	17,360	11.1%

	Six Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 365,609		$ 277,907	
Gross profit	30,210	8.3%	28,778	10.4%

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Revenues for the East segment increased by $19.3 million, or 12.4%, for the three months ended June 30, 2013 compared to the same period in the prior year. The acquisitions of Saxon and FSSI added $14.8 million of this increase in revenues. For the quarter, Sprint revenues increased by $20.7 million from increased activity in gas and crude-oil pipeline capital projects in the Eagle Ford area located in south Texas. Cardinal Contractors revenues increased by $4.0 million due to increased work on water treatment facilities in Florida and Texas, and revenues increased by $5.7 million at the JCG Industrial division. These revenue increases were offset by decreases of $17.7 million at the JCG Heavy Civil division and $8.2 million at the JCG Infrastructure and Maintenance division. Compared to the previous year quarter, revenues at Louisiana DOT decreased by $25.8 million which was only partially offset by an increase of $12.2 million from Texas DOT revenues.

Revenues increased by $87.7 million, or 31.6%, for the six months ended June 30, 2013 compared to the same period of the prior year. The acquisitions of Saxon and FSSI contributed $23.7 million, or 8.5%, in revenues. Sprint provided an increase in revenues of $60.5 million, Cardinal Contractors revenues increased by $7.6 million and revenues for the JCG Industrial division increased by $32.9 million. These increases were offset by revenue decreases at the JCG Heavy Civil division of $25.4 million and at the JCG Infrastructure and Maintenance division of $11.7 million due to weather and delays on project startup. Compared to the first six months of 2012, revenues from Louisiana DOT decreased by $46.3 million while revenues from Texas DOT increased by $26.1 million.

Gross profit for the East segment decreased by $2.1 million, or 12.4%, for the three months ended June 30, 2013 compared to the same period in the prior year. This includes a gross profit contribution of $0.2 million from Saxon and FSSI. The gross profit at Cardinal Contractors increased by $0.8 million and the gross profit at the JCG Industrial division increased by $1.0 million. Gross profit from the JCG Heavy Civil division decreased by $4.3 million due primarily from the reduced revenues and the transition from completed projects with higher margins in Louisiana in 2012 and the startup of the Belton area projects.

Gross profit increased by $1.4 million, or 5.0%, for the six months ended June 30, 2013 compared to the same period of the prior year. The acquisitions of Saxon and FSSI contributed $1.1 million in gross profit Sprint contributed $2.2 million in increased gross profit, Cardinal Contractors increased gross profit by $1.5 million and the JCG Industrial division gross profit increased by $3.8 million due to completion of a large industrial facility in south Louisiana. These increases in gross profit were offset by a decrease of $6.8 million at the JCG Heavy Civil division and $0.4 million at the JCG Infrastructure and Maintenance division. The decrease for the JCG Heavy Civil division resulted from the startup of the I-35 projects in Texas and a gross profit reduction for three projects in North Louisiana due to weather conditions and the handling of embankment materials.

Gross profit as a percent of revenues decreased to 8.7% compared to 11.1% in the prior year quarter and decreased to 8.3% for the six months ended June 30, 2013 compared to 10.4% in the same period in the previous year. Gross profit margins at Sprint s pipeline projects for the first six months of 2013 were at 8.2% due to reduced productivity, adverse weather conditions and project delays. The JCG Heavy Civil division gross profit margins for the first six months of 2013 were at 6.5% due to startup of the I-35 projects in Texas and the impact of the North Louisiana projects.

West Segment

Revenue and gross profit for the West segment for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 258,194		$ 167,287	
Gross profit	41,926	16.2%	24,294	14.5%

	Six Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 465,880		$ 325,318	
Gross profit	70,675	15.2%	48,695	15.0%

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Revenue for the West segment increased by $90.9 million, or 54.3%, for the three months ended June 30, 2013, compared to the same period in 2012. The Q3C acquisition added revenues of $40.7 million during the three months ended June 30, 2013. Excluding Q3C, the revenue increase was $50.2 million or 30.0% for the three months ended June 30, 2013, compared to the same period in 2012. Rockford revenues increased by $60.6 million, and parking structure projects adding $2.3 million. The Rockford increase is primarily attributable to pipeline construction projects for major gas utilities in the Pennsylvania shale area. These increases were offset by decreases in the ARB Underground division of $9.3 million and a decrease of $3.3 million for the ARB Industrial division. The reduced revenues at ARB Underground are primarily the result of a $6.9 million reduction in revenues from fewer MSA work authorizations at its largest customer, and the reduction at ARB Industrial reflects the completion of power projects at the end of 2012 and reduced revenues at a large power plant project nearing completion.

Revenue for the West segment increased by $140.6 million, or 43.2%, for the six months ended June 30, 2013, compared to the same period in 2012. Of this increase, $56.2 million was attributable to the acquisition of Q3C. Excluding Q3C, the revenue increase was $84.3 million, or 25.9%, for the six months ended June 30, 2013, compared to the same period in 2012. The increase in revenues was from Rockford s increase of $94.9 million and parking structure projects adding $6.7 million. These increases were offset by decreases at ARB Underground of $9.4 million and at ARB Industrial of $7.9 million.

Gross profit for the West segment increased by $17.6 million, or 72.6%, during the three months ended June 30, 2013, compared to the same period in 2012. Of this increase, gross profit at Q3C contributed $5.4 million while gross profit excluding Q3C increased by $12.2 million, or 50.2%, for the three months ended June 30, 2013 compared to the same period in 2012. The increases were mainly due to gross profit growth of $5.6 million at Rockford as a result of its increased revenues, increased profit at the ARB Industrial division of $9.7 million as a result of the approaching completion of a major power project and increased gross profit in parking structure projects of $0.6 million For the second quarter of 2013, the gross profit for the ARB Underground business decreased by $3.7 million compared to the same period in 2012, mainly due to the lower revenues.

Gross profit for the West segment increased by $22.0 million, or 45.1%, during the six months ended June 30, 2013, compared to the same period in 2012. Of this increase, gross profit at Q3C contributed $5.1 million for the period. Excluding Q3C, gross profit increased by $16.9 million, or 34.7%, for the six months ended June 30, 2013, compared to the first six months of 2012. The total increase was due to gross profit contributions at ARB Industrial of $11.5 million, Rockford of $3.2 million, ARB Structures of $1.4 million and ARB Underground of $0.8 million. While the ARB Industrial major power plant project is nearing completion, successful completion of the total project could result in a benefit from remaining contingent cost items.

Gross profit as a percent of revenue increased to 16.2% and 15.2% during the three and six months ended June 30, 2013, respectively, from 14.5% and 15.0%, in the same periods of 2012. These increased percentages were due primarily to the impact of the near completion of the ARB Industrial power plant project.

Engineering Segment

Revenue and gross profit for the Engineering segment for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 11,421		$ 14,092	
Gross profit	2,396	21.0%	2,350	16.7%

	Six Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Revenue	$ 23,519		$ 25,784	
Gross profit	4,748	20.2%	4,127	16.0%

Revenue for the Engineering segment decreased by $2.7 million, or 19.0%, for the three months ended June 30, 2013, and by $2.3 million, or 8.8%, for the six months ended June 30, 2013, compared to the same periods in 2012. This decrease is mainly due to delays in the start date of certain capital projects but which are expected to begin later in 2013.

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Gross profit for the Engineering segment for the three months ended June 30, 2013 increased as a percentage of revenue from 16.7% to 21.0%, compared to the same period in 2012, due to the close-out of smaller projects in the period. For the six months ended June 30, 2013, gross profit increased by $0.6 million, or 15.0%, compared to the same period in 2012.

Geographic area financial information

Revenue by geographic area for the six months ended June 30, 2013 and 2012 was as follows:

	Six Months Ended June 30,			
	2013		2012	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Country:				
United States	$ 845,461	98.9%	$ 624,293	99.3%
Non United States	9,547	1.1%	4,716	0.7%
Total revenues	$ 855,008	100.0%	$ 629,009	100.0%

All non-United States revenue has been generated in the Engineering Segment. For the table above, we use revenues generated by OnQuest s Canadian subsidiary, OnQuest Canada, ULC, to estimate non-United States revenues. Traditionally, much of that work was done in the Far East and Australia.

Backlog

For companies in the construction industry backlog can be an indicator of the future revenue stream. Different companies define and calculate backlog in different manners. For the past few years, we considered backlog as the anticipated revenue from the uncompleted portions of existing contracts for which we had known revenue amounts. Thus, we included in our backlog amount the unearned revenue from our fixed price and fixed unit price contracts. We did not include time-and-equipment, time-and-materials and cost-plus contracts in the calculation of backlog, since their ultimate revenue amount is difficult to determine. We also did not include any anticipated revenue from our master service agreements (MSA) until we had been given a specific work order or contract. An MSA provides a framework for future work in that contractual terms and conditions have been agreed on, but there is not a minimum amount to which a customer commits. In some instances, a signed MSA has led to no revenues from the customer.

Using the calculations as we have in the past, the following table shows backlog by operating segment at December 31, 2012 and June 30, 2013 and the changes in backlog for the six months ended June 30, 2013 (in millions):

Segment	Backlog at December 31, 2012	Contract Additions to Backlog	Revenue Recognized from Backlog	Backlog at June 30, 2013	Revenue Recognized from Non-Backlog	Total Revenue for 6 months ended June 30,

					Projects	2013
East	$ 970	$ 342	$ 313	$ 999	$ 53	$ 366
West	361	368	368	361	98	466
Engineering	15	26	19	22	4	23
Total	$ 1,346	$ 736	$ 700	$ 1,382	$ 155	$ 855

At June 30, 2013, our total backlog was $1.38 billion representing an increase of $36 million, or 2.7%, from $1.35 billion at December 31, 2012. We expect that during the next four quarters, we will recognize as revenue approximately 45% of the East backlog at June 30, 2013; approximately 97% of the West backlog and approximately 100% of the Engineering backlog.

With the acquisitions of Sprint and Q3C, we have increased the percentage of revenues derived from MSAs which we historically have not included in our backlog calculations. For the first six months of 2013, Q3C derived approximately 77% of its revenue from MSAs, Sprint derived approximately 26% of its revenue from MSAs and ARB derived approximately 55% of its revenue from MSAs.

The following table shows MSA revenue ($ in millions) for the past six quarters:

Quarter	MSA Revenue
2012 Q1	73
2012 Q2	88
2012 Q3	111
2012 Q4	139
2013 Q1	98
2013 Q2	123

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Based on the historical information and to better reflect the transition to an increased level of MSA contract revenue, we believe that changing our backlog calculation to include an estimated MSA level provides a better indication of our future revenue stream. The following table shows the revised backlog by operating segment at June 30, 2013 (in millions). The estimated MSA revenues for the next four quarters, shown in the table below are net of approximately $50 million for MSA projects already included in the traditional backlog calculation.

Segment:	Backlog at June 30, 2013 As Reported Above	Estimated Annual MSA Revenues at June 30, 2013	Revised Backlog at June 30, 2013
East	$ 999	$ 92	$ 1,091
West	361	329	690
Engineering	22		22
Total	$ 1,382	$ 421	$ 1,803

We expect that during the next four quarters, we will recognize as revenue approximately 50% of the East revised backlog at June 30, 2013; approximately 98% of the West revised backlog and approximately 100% of the Engineering revised backlog.

Backlog should not be considered a comprehensive indicator of future revenues. The backlog estimates include amounts from estimated MSA revenues, but our customers are not contractually obligated to purchase an amount of services from us under the MSAs. Any of our contracts, MSA, fixed price or fixed unit price, may be terminated by our customers on relatively short notice. In the event of a project cancellation, we may be reimbursed for certain costs, but typically we have no contractual right to the total revenues reflected in backlog. Projects may remain in backlog for extended periods of time as a result of customer delays, regulatory requirements or project specific issues. Even with the inclusion of estimated MSA amounts, future revenues from projects completed under time-and-equipment, time-and-materials and cost-reimbursable-plus-fee contracts are not included in our estimated backlog amount.

Our estimated backlog amount does not include anticipated contract awards

Liquidity and Capital Resources

Liquidity represents our ability to pay our liabilities when they become due, fund business operations, meet our contractual obligations and execute our business plan. Specifically, we need liquidity for working capital, income taxes, debt service, capital expenditures and earn-out obligations. Our primary sources of liquidity are our cash balances at the beginning of each period and our net cash flow; however, we have availability under our lines of credit and shelf facility to meet additional liquidity needs. In order to maintain sufficient liquidity, we evaluate our working capital requirements on a regular basis. We may elect to raise additional capital by issuing common stock, convertible notes, term debt or increasing our credit facility as necessary to fund our operations or to fund the acquisition of new businesses.

At June 30, 2013, our balance sheet included cash and cash equivalents of $113.8 million. We currently have the following credit facilities:

- a $75 million credit facility that expires on December 28, 2017, under which we can issue letters of credit for up to the full amount of the facility. At June 30, 2013, we have issued letters of credit of $5.7 million on this facility, resulting in $69.3 million in available borrowing capacity. The credit agreement also provides for an incremental facility of up to $50 million.

- the Company entered into $50 million Senior secured Notes purchase, funded on December 28, 2012, and a $25 million shelf agreement credit facility, which could be funded during the first three years of the Note Agreement with a maturity no more than 10 years from the date issued. On July 25, 2013, the Company exercised its option to draw down the remaining $25 million under the shelf agreement credit facility, and;

- a $10 million (Canadian dollars) facility for commercial letters of credit in Canada. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. At June 30, 2013, $3.5 million of letters of credit (Canadian dollars) were outstanding, with $6.5 million available under this credit facility for additional letters of credit.

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We believe that with our cash on hand, short-term investments, operating cash flows and availability under our existing credit facilities, that we will be able to support our ongoing working capital needs for the next twelve month period.

Cash Flows

Cash flows during the six months ended June 30, 2013 and 2012 are summarized as follows:

	Six Months Ended June 30,	
	2013	2012
	(Thousands)	
Change in cash:		
Net cash (used in) provided by operating activities	$ (11,644)	$ 39,703
Net cash (used in) provided by investing activities	(48,593)	(17,809)
Net cash provided by (used in) financing activities	16,463	(22,914)
Net change in cash and cash equivalents	$ (43,774)	$ (1,020)

Operating activities

The sources and uses of our cash flow from operating activities for the six months ended June 30, 2013 are as follows:

	Six Months Ended June 30,		
	2013	2012	Change
	(Thousands)		
Operating Activities:			
Operating income	$ 45,454	$ 37,930	$ 7,524
Depreciation	19,912	13,557	6,355
Amortization of intangible assets	3,685	3,193	492
Gain on sale of property and equipment	(202)	(1,776)	1,574
Stock-based compensation expense	91		91
Changes in assets and liabilities	(61,152)	2,136	(63,288)
Non-consolidated entity distributions	145	1,260	(1,115)
Foreign exchange loss	(88)	(48)	(40)
Other expense	(433)	(579)	146
Interest income	63	47	16
Interest expense	(2,922)	(2,107)	(815)
Provision for income taxes	(16,197)	(13,910)	(2,287)
Net cash provided by (used in) operating activities	$ (11,644)	$ 39,703	$ (51,347)

The most significant components of the $11.6 million use of cash from operations was the $61.2 million change in assets and liabilities from the December 31, 2012 balance sheet to the June 30, 2013 balance sheet. The change is summarized as follows:

- accounts payable decreased by $50.4 million. As noted in both the 2012 Annual Report and the Form 10-Q for the quarter ended March 31, 2013, increased operating activity at the end of the year had resulted in an unusually high level of accounts payable at the end of 2012. Accounts payable aging at the end of June 2013 reflect more historical aging of accounts payable;

- a $17.0 million decrease in accounts receivable. At June 30, 2013, accounts receivable represented 27.1% of our total assets compared to 28.8% at the end of 2012. We continue to maintain an excellent collection history, and we have certain lien rights that can provide additional security for collections;

- a $28.6 million increase in costs and estimated earnings in excess of billings. This increase is the offset to the decrease in the accounts receivable. The increase was approximately $5.1 million for the ARB Underground division, $4.6 million for Q3C and $1.4 million for Sprint primarily representing a time lag from when revenues were earned until the utility customer can be billed. At Rockford, the increase was approximately $15.8 million for a fixed fee contract with billing allowed at certain milestones.

- a $10.1 million decrease in contingent earn-out liabilities, as a result of payments made in April 2013 for $10.9 million to the former owners of Rockford and Sprint upon achievement of 2012 operating targets;

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- a $7.9 million decrease in customer retention deposits representing both normal retention payments and release of the $5 million escrow associated with the Rockford note;

- and a net increase in liabilities resulting from small increases in accrued expenses and billings in excess of costs and estimated earnings offset by small increases in inventory and other current assets and other long term liabilities.

During the first six months of 2013, we paid $18.0 million for income taxes compared to $11.1 million in the same period of the previous year, as a result of taxes on increased income for the six months ended June 30, 2013, compared to the same period in 2012, which included the additional activities of the acquisitions of Sprint, Saxon, Q3C and FSSI.

Investing activities

During the six months ended June 30, 2013, we purchased property and equipment for $49.3 million in cash, compared to $12.4 million during the same period in 2012. These purchases were principally for construction equipment. For the past few years, it has been our practice to invest in property and equipment on a net basis at a level approximating our combined depreciation and amortization expense levels. In the first six months of 2013, we invested $22.4 million in equipment at Q3C. This investment was made to allow Q3C to expand its operations for both new and ongoing customer opportunities. Excluding the Q3C purchases, our purchases level is not far from our past practice. With the Q3C purchases, we expect that our net purchases for 2013 will be approximately $65 million.

We believe the ownership of equipment is generally preferable to renting equipment on a project by project basis, as ownership helps to ensure the equipment is available for our workloads when needed. In addition, ownership has historically resulted in lower overall equipment costs.

As part of our normal equipment upgrade program, during the six months ended June 30, 2013, we received proceeds from the sale of used equipment of $1.7 million compared to $6.7 million for same period in 2012.

We invest excess cash in short-term investments consisting primarily of CDs purchased through the CDARS (Certificate of Deposit Account Registry Service) process and U.S. Treasury bills with various financial institutions that are backed by the federal government. During the first six months of 2013, our sale of short-term investments and movement to cash was $4.2 million compared to sales and movements to cash of $23.0 million in the same period of 2012.

In March 2013, we used $1.0 million in cash for the acquisition of FSSI.

Financing activities

Financing activities provided $16.5 million of cash during the six months ended June 30, 2013. Significant transactions providing and using cash flows from financing activities included:

- $42.4 million proceeds from the issuance of long term debt for equipment financing.

- $25.8 million in repayment of long-term debt and capital leases.

- $1.45 million in proceeds from the issuance of 131,989 shares purchased by the participants in the Primoris Long-Term Retention Plan.

- Dividends paid of $1.55 million.

Credit agreements

For a description of our credit agreements, see Note 11 *Credit Arrangements* in Item I of the Financial Statements.

Related party transactions

Primoris has entered into leasing transactions with Stockdale Investment Group, Inc. (SIGI). Brian Pratt, our Chief Executive Officer, President and Chairman of the Board of Directors and our largest stockholder, holds a majority interest and is the chairman, president and chief executive officer and a director of SIGI. John M. Perisich, our Executive Vice President and General Counsel, is secretary of SIGI.

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Primoris leases properties from SIGI at the following locations:

5. Bakersfield (lease expires October 2022)

6. Pittsburg (lease expires April 2023)

7. San Dimas in California (lease expires March 2019)

8. Pasadena, Texas (leases expire in July 2019 and 2021)

During the six months ended June 30, 2013 and 2012, the Company paid $471,000 and $462,000, respectively, in lease payments to SIGI for the use of these properties.

The Company entered into a $6.1 million agreement in 2010 to construct a wastewater facility for Pluris, LLC, a private company in which Brian Pratt holds the majority interest. The transaction was reviewed and approved by the Audit Committee of the Board of Directors of the Company. The project was substantially completed in December 2011. The Company recognized no revenues in 2013 and recognized revenues of $355,000 for the six months ended June 30, 2012, at normal margins.

Primoris leases a property from Roger Newnham, a former owner and current manager of our subsidiary, OnQuest Canada, ULC. The property is located in Calgary, Canada. During the six months ended June 30, 2013 and 2012, Primoris paid $150,000 and $141,000, respectively, in lease payments. The current term of the lease is through December 31, 2014.

Primoris leases a property from Lemmie Rockford, one of the Rockford sellers, which commenced November 1, 2011. The property is located in Toledo, Washington. During the six months ended June 30, 2013 and 2012, Primoris paid $45,000 and $45,000, respectively, in lease payments. The lease expires in January 2015.

As a result of the November 2012 acquisition of Q3C, the Company became party to leased property from Quality RE Partners, owned by three of the Q3C selling shareholders, of whom two are current employees, including Jay Osborn, President of Q3C. The property is located in Little Canada, Minnesota. During the six months ended June 30, 2013, the Company paid $132,000, in lease payments to Quality RE Partners for the use of this property. The lease commenced October 28, 2012 and expires in October 2022.

The Company owns several non-consolidated investments and has recognized revenues on work performed for those joint ventures. The Company recognized $21,000 and $0 in related party revenues for the six months ended June 30, 2013 and 2012, respectively, from the WesPac joint venture. On November 17, 2012, the Company acquired a 49% interest in Alvah, Inc. as part of the Q3C acquisition. During the six months ended 2013, payments made to Alvah as a subcontractor by ARB and Q3C were $2,909,000 and $212,000, respectively.

Common stock

In March 2013, the Company received $1,455,000 and issued 131,989 shares of common stock under a purchase arrangement within the Company s Long-Term Incentive Plan for managers and executives.

In March 2013, the Company issued 12,480 shares and in July 2013, we issued 9,110 shares of common stock, both as part of the compensation of the non-employee members of the Board of Directors.

With the acquisition of Q3C, the Company agreed to issue shares of common stock with a value of $430,000 based on the average December 2012 closing price, or $14.69 per share. The Company issued 29,273 unregistered shares of stock in February 2013.

Contractual obligations

A summary of contractual obligations at June 30, 2013 were as follows:

Payments due by period	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
			(Thousands)		
Debt and capital lease obligations	$ 174,432	$ 26,302	$ 48,679	$ 45,710	$ 53,741
Interest on debt and capital lease obligations (1)	20,055	4,446	7,182	4,667	3,760
Equipment operating leases	14,884	6,009	7,637	1,238	
Real property leases	11,906	2,871	3,912	2,830	2,293
Real property leases related parties	7,134	1,611	2,063	1,553	1,907
	$ 228,411	$ 41,239	$ 69,473	$ 55,998	$ 61,701
Stand-by letters of credit	$ 9,023	$ 9,023	$	$	$

(1) The interest amount assumes principal payments are made as originally scheduled in the obligations.

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Off-balance sheet transactions

The following represent transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

- Letters of credit issued under our lines of credit. At June 30, 2013, we had letters of credit outstanding of $9.0 million, primarily for international projects in our Engineering segment and for providing security to our insurance carriers.

- Equipment operating leases with a balance of $14.9 million at June 30, 2013.

- Employment agreements which provide for compensation and benefits under certain circumstances and which may contain a change of control clause. We may be obligated to make payments under the terms of these agreements.

- In the ordinary course of our business, we may be required by our customers to post surety bid or completion bonds in connection with services that we provide. At June 30, 2013, we had $1.4 billion in outstanding bonds.

- Certain of our subsidiaries are parties to collective bargaining agreements with unions. In most instances, these agreements require that we contribute to multi-employer pension and health and welfare plans. For many plans, the contributions are determined annually and required future contributions cannot be determined since contribution rates depend on the total number of union employees and actuarial calculations based on the demographics of all participants. The Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Multi-Employer Pension Amendments Act of 1980, subject employers to potential liabilities in the event of an employer s complete or partial withdrawal of an underfunded multi-employer pension plan. The Pension Protection Act of 2006 added new funding rules for plan years after 2007 for multi-employer plans that are classified as endangered , seriously endangered , or critical status. As discussed in footnote 19 of the Financial Statements in Item 1, we have recognized a withdrawal liability for one plan. We currently do not anticipate withdrawal from any other multi-employer pension plans. Withdrawal liabilities or requirements for increased future contributions could negatively impact our results of operations and liquidity.

- Other guarantees that we make from time to time, such as guaranteeing the obligations of our subsidiaries.

Impact of Inflation

The primary inflationary factors affecting our operations are labor and fuel costs. The price of fuel is subject to fluctuations for factors beyond our control, but we closely monitor changes and include the available information in our bidding activities. Some of our longer-term contracts with state departments of transportation include clauses which allow us to recover some of the additional costs incurred due to inflation. To

date, we have not had a significant impact from inflationary pressures on our cost of labor; and at this time, we cannot estimate the impact of government fiscal policies on wage rates in future periods. In some of our contracts we are responsible for procurement of materials or equipment. For these contracts, we attempt to reduce the risk of inflation by placing firm price purchase orders, or in some cases, purchasing the materials or equipment at the time of the contract.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, we are exposed to risks related from financial market conditions. For us, these risks primarily include fluctuations in foreign currency exchange rates, interest rates and commodity prices. From time to time, we may seek to manage these risks through the use of financial derivative instruments such as foreign currency exchange contracts and interest rate swaps. At June 30, 2013, we had no such derivative financial instruments.

We do not execute transactions or use financial derivative instruments for trading or speculative purposes. We enter into transactions with counter parties that are generally financial institutions in a manner to limit significant exposure with any one party.

Due to their generally short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, short-term debt and accounts payable and accrued liabilities shown in the consolidated balance sheets approximate fair value at June 30, 2013 and December 31, 2012. At June 30, 2013 and December 31, 2012, we held short term investments which were primarily in four to six month certificates of deposits (CDs) through the CDARS (Certificate of Deposit Account Registry Service) program and U. S. Treasury bills with various financial institutions that are backed by the federal government FDIC program. We expect to hold our investments to maturity.

At June 30, 2013, all of our long-term debt was under fixed interest rates.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer (CEO) and chief financial officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures , as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on this evaluation, our CEO and CFO concluded that, at June 30, 2013, the disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and

procedures. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives.

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended June 30, 2013, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

From time to time, we are subject to claims and legal proceedings arising out of our business. Our management believes that we have meritorious defenses to such claims. Although we are unable to ascertain the ultimate outcome of such matters, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles, our management believes that the outcome of these matters will not have a materially adverse effect on our financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in the section entitled *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2012, which to our knowledge have not materially changed. Those risks, which could materially affect our business, financial condition or future results, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

As part of the consideration for the acquisition of Q3C, the Company issued 29,273 shares of unregistered common stock in February 2013.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

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Item 6. Exhibits.

The following exhibits are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
10.1	Promissory Note, dated June 11, 2013, by and among Stellaris, LLC and Fifth Third Bank pursuant to the Master Loan and Security Agreement dated August 31, 2009 (*)
10.2	Master Loan and Security Agreement, dated June 13, 2013, by and among Stellaris, LLC, James Construction Group, LLC, Rockford Corporation and Wells Fargo Equipment Finance, Inc. and Loan Schedules, dated June 13, 2013 (*)
10.3	Confirmation of Acceptance Agreement, dated June 13, 2013, by and among Primoris Services Corporation and Prudential Investment Management, Inc. and certain Prudential affiliates pursuant to the Note Purchase and Private Shelf Agreement, dated December 28, 2012 and five 3.85% Senior Secured Notes, Series B, due July 25, 2023 (*)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Registrant s Chief Executive Officer (*)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Registrant s Chief Financial Officer (*)
32.1	Section 1350 Certification by the Registrant s Chief Executive Officer (*)
32.2	Section 1350 Certification by the Registrant s Chief Financial Officer (*)
101 INS	XBRL Instance Document (**)
101 SCH	XBRL Taxonomy Extension Schema Document (**)
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document (**)
101 LAB	XBRL Taxonomy Extension Label Linkbase Document (**)
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document (**)
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document (**)

(*)	Filed herewith
(**)	Furnished with this Quarterly Report on Form 10-Q and included in Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): i) the Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, ii) the Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2013 and 2012 and iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012. Users of the XBRL data are advised that pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and therefore is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRIMORIS SERVICES CORPORATION

Date: August 7, 2013

/s/ PETER J. MOERBEEK
Peter J. Moerbeek
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBITS ATTACHED TO THIS QUARTERLY REPORT ON FORM 10-Q

Exhibit Number	Description
10.1	Promissory Note, dated June 11, 2013, by and among Stellaris, LLC and Fifth Third Bank pursuant to the Master Loan and Security Agreement dated August 31, 2009 (*)
10.2	Master Loan and Security Agreement, dated June 13, 2013, by and among Stellaris, LLC, James Construction Group, LLC, Rockford Corporation and Wells Fargo Equipment Finance, Inc. and Loan Schedules, dated June 13, 2013 (*)
10.3	Confirmation of Acceptance Agreement, dated June 13, 2013, by and among Primoris Services Corporation and Prudential Investment Management, Inc. and certain Prudential affiliates pursuant to the Note Purchase and Private Shelf Agreement, dated December 28, 2012 and five 3.85% Senior Secured Notes, Series B, due July 25, 2023 (*)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Registrant s Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Registrant s Chief Financial Officer
32.1	Section 1350 Certification by the Registrant s Chief Executive Officer
32.2	Section 1350 Certification by the Registrant s Chief Financial Officer
101 INS	XBRL Instance Document (**)
101 SCH	XBRL Taxonomy Extension Schema Document (**)
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document (**)
101 LAB	XBRL Taxonomy Extension Label Linkbase Document (**)
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document (**)
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document (**)

(**) Furnished with this Quarterly Report on Form 10-Q and included in Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): i) the Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, ii) the Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2013 and 2012 and iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012. Users of the XBRL data are advised that pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and therefore is not subject to liability under these sections.