# CONATUS PHARMACEUTICALS INC.

## FORM 10-Q
(Quarterly Report)

Filed 05/05/17 for the Period Ending 03/31/17

| | |
|---|---|
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| Symbol | CNAT |
| SIC Code | 2834 - Pharmaceutical Preparations |
| Industry | Biotechnology & Medical Research |
| Sector | Healthcare |
| Fiscal Year | 12/31 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017**

**OR**

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

**FOR THE TRANSITION PERIOD FROM TO**

**Commission file number: 001-36003**

# CONATUS PHARMACEUTICALS INC.

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **20-3183915** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **16745 W. Bernardo Dr., Suite 200 San Diego, CA** | **92127** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(858) 376-2600**
**(Registrant's Telephone Number, Including Area Code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| Emerging growth company | ☒ | | |

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

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

As of May 1, 2017, the registrant had 26,169,896 shares of common stock ($0.0001 par value) outstanding.

**CONATUS PHARMACEUTICALS INC.**

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## PART I. FINANCI AL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Conatus Pharmaceuticals Inc.**

**Condensed Balance Sheets**
**(Unaudited)**

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 16,475,482 | $ 58,083,409 |
| Marketable securities | 64,065,876 | 18,931,715 |
| Other receivables | — | 2,500,000 |
| Prepaid and other current assets | 889,862 | 937,436 |
| Total current assets | 81,431,220 | 80,452,560 |
| Property and equipment, net | 237,775 | 261,446 |
| Other assets | 1,884,993 | 1,609,834 |
| Total assets | $ 83,553,988 | $ 82,323,840 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 5,697,714 | $ 5,311,093 |
| Accrued compensation | 938,735 | 2,351,703 |
| Current portion of deferred revenue | 27,449,116 | 30,897,192 |
| Note payable | — | 1,000,000 |
| Total current liabilities | 34,085,565 | 39,559,988 |
| Deferred revenue, less current portion | 17,253,762 | 20,803,762 |
| Convertible note payable | 12,592,466 | — |
| Deferred rent | 161,451 | 171,544 |
| Stockholders' equity: | | |
| Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, $0.0001 par value; 200,000,000 shares authorized; 26,169,896 shares issued and outstanding at March 31, 2017; 26,118,722 shares issued and outstanding at December 31, 2016 | 2,617 | 2,612 |
| Additional paid-in capital | 173,710,486 | 172,424,531 |
| Accumulated other comprehensive loss | (19,162) | (6,145) |
| Accumulated deficit | (154,233,197) | (150,632,452) |
| Total stockholders' equity | 19,460,744 | 21,788,546 |
| Total liabilities and stockholders' equity | $ 83,553,988 | $ 82,323,840 |

*See accompanying notes to condensed financial statements.*

**Conatus Pharmaceuticals Inc.**

**Condensed Statements of Operations and Comprehensive Loss**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenues: | | |
| Collaboration revenue | $ 6,998,076 | $ — |
| Total revenues | 6,998,076 | — |
| Operating expenses: | | |
| Research and development | 7,925,711 | 4,698,462 |
| General and administrative | 2,763,025 | 2,576,127 |
| Total operating expenses | 10,688,736 | 7,274,589 |
| Loss from operations | (3,690,660) | (7,274,589) |
| Other income (expense): | | |
| Interest income | 170,841 | 26,978 |
| Interest expense | (97,327) | (17,500) |
| Other expense | (5,599) | (6,773) |
| Total other income | 67,915 | 2,705 |
| Net loss | (3,622,745) | (7,271,884) |
| Other comprehensive income (loss): | | |
| Net unrealized (losses) gains on marketable securities | (13,017) | 9,643 |
| Comprehensive loss | $ (3,635,762) | $ (7,262,241) |
| Net loss per share, basic and diluted | $ (0.14) | $ (0.35) |
| Weighted average shares outstanding used in computing net loss per share, basic and diluted | 26,162,958 | 20,626,044 |

*See accompanying notes to condensed financial statements.*

**Conatus Pharmaceuticals Inc.**

**Condensed Statements of Cash Flows**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| **Operating activities** | | |
| Net loss | $ (3,622,745) | $ (7,271,884) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 26,089 | 26,725 |
| Stock-based compensation expense | 1,249,473 | 901,924 |
| Amortization of premium on marketable securities | 7,335 | 22,122 |
| Accrued interest included in convertible note payable | 92,466 | — |
| Changes in operating assets and liabilities: | | |
| Other receivables | 2,500,000 | — |
| Prepaid and other current assets | (8,691) | 224,354 |
| Other assets | (203,094) | — |
| Accounts payable and accrued expenses | 367,652 | (252,818) |
| Accrued compensation | (1,412,968) | (544,584) |
| Deferred revenue | (6,998,076) | — |
| Deferred rent | (6,924) | (3,850) |
| Net cash used in operating activities | (8,009,483) | (6,898,011) |
| **Investing activities** | | |
| Maturities of marketable securities | 8,994,000 | 13,875,000 |
| Purchase of marketable securities | (54,148,513) | (4,240,142) |
| Capital expenditures | (2,418) | (105,114) |
| Net cash (used in) provided by investing activities | (45,156,931) | 9,529,744 |
| **Financing activities** | | |
| Proceeds from issuance of convertible promissory note, net | 12,500,000 | — |
| Principal payment on promissory note | (1,000,000) | — |
| Proceeds from issuance of common stock, net | — | 3,076,709 |
| Proceeds from stock issuances under employee stock purchase plan and exercise of stock options | 58,487 | 1,503 |
| Net cash provided by financing activities | 11,558,487 | 3,078,212 |
| Net (decrease) increase in cash and cash equivalents | (41,607,927) | 5,709,945 |
| Cash and cash equivalents at beginning of period | 58,083,409 | 13,876,090 |
| Cash and cash equivalents at end of period | $ 16,475,482 | $ 19,586,035 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ 4,861 | $ 17,500 |

*See accompanying notes to condensed financial statements.*

## 1. Organization and Basis of Presentation

Conatus Pharmaceuticals Inc. (the Company) was incorporated in the state of Delaware on July 13, 2005. The Company is a biotechnology company focused on the development and commercialization of novel medicines to treat liver disease.

As of March 31, 2017, the Company has devoted substantially all of its efforts to product development and has not realized product sales revenues from its planned principal operations.

The Company has a limited operating history, and the sales and income potential of the Company's business and market are unproven. The Company has experienced net losses since its inception and, as of March 31, 2017, had an accumulated deficit of $154.2 million. The Company expects to continue to incur net losses for at least the next several years. Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support the Company's cost structure. If the Company is unable to generate revenues adequate to support its cost structure, the Company may need to raise additional equity or debt financing.

The accompanying unaudited interim condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) related to a quarterly report on Form 10-Q. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. The unaudited interim condensed financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented. All such adjustments are of a normal and recurring nature. The operating results presented in these unaudited interim condensed financial statements are not necessarily indicative of the results that may be expected for any future periods. These unaudited interim condensed financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2016 included in the Company's annual report on Form 10-K filed with the SEC on March 16, 2017.

## 2. Summary of Significant Accounting Policies

### *Use of Estimates*

The preparation of condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risk on its cash. Additionally, the Company established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

### *Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts.

### *Marketable Securities*

The Company classifies its marketable securities as available-for-sale and records such assets at estimated fair value in the condensed balance sheets, with unrealized gains and losses, if any, reported as a component of other comprehensive income (loss) within the condensed statements of operations and comprehensive loss and as a separate component of stockholders' equity. The Company classifies marketable securities with remaining maturities greater than one year as current assets because such marketable

securities are available to fund the Company's current operations. The Company invests its excess cash balances primarily in corporate debt securities and money market funds with strong credit ratings. Realized gains and losses are calculated on the specif ic identification method and recorded as interest income. There were no realize d gains and losses for the three-month periods ended March 31, 2017 and 2016 .

At each balance sheet date, the Company assesses available-for-sale securities in an unrealized loss position to determine whether the unrealized loss is other-than-temporary. The Company considers factors including: the significance of the decline in value compared to the cost basis, underlying factors contributing to a decline in the prices of securities in a single asset class, the length of time the market value of the security has been less than its cost basis, the security's relative performance versus its peers, sector or asset class, expected market volatility and the market and economy in general. When the Company determines that a decline in the fair value below its cost basis is other-than-temporary, the Company recognizes an impairment loss in the period in which the other-than-temporary decline occurred. There have been no other-than-temporary declines in the value of marketable securities, as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis.

***Fair Value of Financial Instruments***

The carrying amounts of prepaid and other current assets, accounts payable and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items.

***Stock-Based Compensation***

Stock-based compensation expense for stock option grants under the Company's stock option plans is recorded at the estimated fair value of the award as of the grant date and is recognized as expense on a straight-line basis over the requisite service period of the stock-based award. Stock-based compensation expense for employee stock purchases under the Company's 2013 Employee Stock Purchase Plan (the ESPP) is recorded at the estimated fair value of the purchase as of the plan enrollment date and is recognized as expense on a straight-line basis over the applicable six-month ESPP offering period. The estimation of stock option and ESPP fair value requires management to make estimates and judgments about, among other things, employee exercise behavior, forfeiture rates and volatility of the Company's common stock. The judgments directly affect the amount of compensation expense that will be recognized.

***Property and Equipment***

Property and equipment, which consists of furniture and fixtures, computers and office equipment and leasehold improvements, are stated at cost and depreciated over the estimated useful lives of the assets (three to five years) using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term.

***Long-Lived Assets***

The Company regularly reviews the carrying value and estimated lives of all of its long-lived assets, including property and equipment, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. The determinants used for this evaluation include management's estimate of the asset's ability to generate positive income from operations and positive cash flow in future periods, as well as the strategic significance of the assets to the Company's business objective. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset's fair value. The Company has not recognized any impairment losses through March 31, 2017.

***Revenue Recognition***

The Company recognizes revenue when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) products are delivered or as services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

The Company recognizes revenue under its Option, Collaboration and License Agreement (the Collaboration Agreement) with Novartis Pharma AG (Novartis) based on the relevant accounting literature. Under this guidance, multiple elements or deliverables may include (i) grants of licenses, or options to obtain licenses, to intellectual property, (ii) research and development services, (iii) participation on joint research and/or joint development committees, and/or (iv) manufacturing or supply services. The payments entities may receive under these arrangements typically include one or more of the following: non-refundable, upfront license fees; option exercise fees; funding of research and/or development efforts; amounts due upon the achievement of specified objectives; and/or royalties on future product sales.

Multiple-element arrangements require the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of mult iple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each del iverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit using the relative selling price method. The allocated consideration for each unit of accounting is recognized based on the method most appropriate for that unit of account and in accordance with the revenue recognition criteria detailed above.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

The Collaboration Agreement provides for non-refundable milestone payments. The Company recognizes revenue that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. A milestone is considered substantive when the consideration payable to the Company for such milestone (i) is consistent with the Company's performance necessary to achieve the milestone or the increase in value to the collaboration resulting from the Company's performance, (ii) relates solely to the Company's past performance and (iii) is reasonable relative to all of the other deliverables and payments within the arrangement. In making this assessment, the Company considers all facts and circumstances relevant to the arrangement, including factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the milestone, the level of effort and investment required to achieve the milestone and whether any portion of the milestone consideration is related to future performance or deliverables.

The Company periodically reviews the estimated performance periods under the Collaboration Agreement, which provides for non-refundable upfront payments and fees. The Company will adjust the periods over which revenue should be recognized when appropriate to reflect changes in assumptions relating to the estimated performance periods. The Company could accelerate revenue recognition in the event of early termination of programs or if the Company's expectations change. Alternatively, the Company could decelerate revenue recognition if programs are extended or delayed. While such changes to the Company's estimates have no impact on the Company's reported cash flows, the amount of revenue recorded in future periods could be materially impacted.

The Company records revenues related to the reimbursement of costs incurred under the Collaboration Agreement where the Company acts as a principal, controls the research and development activities and bears credit risk. Under the Collaboration Agreement, the Company is reimbursed for associated out-of-pocket costs and for a certain amount of the Company's full-time equivalent (FTE) costs based on an agreed-upon FTE rate. The gross amount of these pass-through reimbursed costs is reported as revenue in the accompanying statements of operations and comprehensive loss, while the actual expenses for which the Company is reimbursed are reflected as research and development costs.

See Note 8 – Collaboration and License Agreements for further information.

***Research and Development Expenses***

All research and development costs are expensed as incurred.

***Income Taxes***

The Company's policy related to accounting for uncertainty in income taxes prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of December 31, 2016, there are no unrecognized tax benefits included in the condensed balance sheet that would, if recognized, affect the Company's effective tax rate, and the Company has noted no material changes through March 31, 2017. The Company has not recognized interest and penalties in the condensed balance sheets or condensed statements of operations and comprehensive loss. The Company is subject to U.S. and California taxation. As of December 31, 2016, the Company's tax years beginning 2005 to date are subject to examination by taxing authorities.

***Comprehensive Loss***

The Company is required to report all components of comprehensive loss, including net loss, in the condensed financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources, including unrealized gains and losses on marketable securities. Comprehensive gains (losses) have been reflected in the condensed statements of operations and comprehensive loss for all periods presented.

***Segment Reporting***

Operating segments are identified as components of an enterprise about which separate discrete financial information is used in making decisions regarding resource allocation and assessing performance. To date, the Company has viewed its operations and managed its business as one segment operating primarily in the United States.

***Net Loss Per Share***

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities, which include warrants to purchase common stock, outstanding stock options under the Company's stock option plans, shares issuable upon conversion of convertible note payable, common stock subject to repurchase by the Company and potential shares to be purchased under the ESPP, have been excluded from the computation of diluted net loss per share in the periods in which they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company's net loss position.

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because to do so would be anti-dilutive.

| | March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Warrants to purchase common stock | 149,704 | 149,704 |
| Common stock options issued and outstanding | 4,175,635 | 3,309,993 |
| Shares issuable upon conversion of convertible note payable | 2,626,713 | — |
| Common stock subject to repurchase | — | 23,053 |
| ESPP shares pending issuance | 7,975 | 15,302 |
| Total | 6,960,027 | 3,498,052 |

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This guidance requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public companies, ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company has engaged outside advisors to assist with its determination of the accounting for the Collaboration Agreement with Novartis under ASU No. 2014-09. At this time, the Company is not able to estimate any impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* This guidance requires organizations that lease assets with lease terms of more than 12 months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The ASU also requires disclosures to give financial statement users information on the amount, timing and uncertainty of cash flows arising from leases, including qualitative and quantitative information. For public companies, ASU No. 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-02 on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718).* This guidance changes the accounting for certain aspects of stock-based compensation, including income taxes, forfeitures, tax withholding and classification on the statement of cash flows. For public companies, ASU No. 2016-09 is effective for annual and interim periods beginning after December 15, 2016. The Company adopted this guidance effective March 31, 2017, as required. The adoption of this guidance had an immaterial impact on the Company's financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* . This guidance addresses the pre sentation and classification of certain cash flow items , including t he classification of cash receipts and payments that have aspects of more than one class of cash flows , to reduce the existing diversity in practice . ASU 2016-15 is effective for fiscal years, and i nterim periods within those fiscal years , be ginning after December 15, 2017. E arly adoption is permitted. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-15 on its financial statements and related disclosures.

### 3. Fair Value Measurements

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Includes financial instruments for which quoted market prices for identical instruments are available in active markets.

Level 2: Includes financial instruments for which there are inputs other than quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transaction (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Includes financial instruments for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including management's own assumptions.

Below is a summary of assets measured at fair value as of March 31, 2017 and December 31, 2016.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | March 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Money market funds | $ 9,631,826 | $ 9,631,826 | $ — | $ — |
| Corporate debt securities | 68,119,220 | — | 68,119,220 | — |
| Total | $ 77,751,046 | $ 9,631,826 | $ 68,119,220 | $ — |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | December 31, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Money market funds | $ 45,523,208 | $ 45,523,208 | $ — | $ — |
| Corporate debt securities | 27,702,317 | — | 27,702,317 | — |
| Total | $ 73,225,525 | $ 45,523,208 | $ 27,702,317 | $ — |

The Company's marketable securities, consisting principally of debt securities, are classified as available-for-sale, are stated at fair value, and consist of Level 2 financial instruments in the fair value hierarchy. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on using market prices from a variety of industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

## 4. Marketable Securities

The Company invests its excess cash in money market funds and debt instruments of financial institutions, corporations, government sponsored entities and municipalities. The following tables summarize the Company's marketable securities:

| As of March 31, 2017 | Maturity (in years) | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| Corporate debt securities | 1 or less | $ 63,638,149 | $ 2,411 | $ (22,124) | $ 63,618,436 |
| Corporate debt securities | 1 - 2 | 446,889 | 551 | — | 447,440 |
| Total | | $ 64,085,038 | $ 2,962 | $ (22,124) | $ 64,065,876 |

| As of December 31, 2016 | Maturity (in years) | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|
| Corporate debt securities | 1 or less | $ 18,937,860 | $ 901 | $ (7,046) | $ 18,931,715 |
| Total | | $ 18,937,860 | $ 901 | $ (7,046) | $ 18,931,715 |

## 5. Property and Equipment

Property and equipment consist of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Furniture and fixtures | $ 333,670 | $ 333,670 |
| Computer equipment and office equipment | 121,772 | 119,354 |
| Leasehold improvements | 152,217 | 152,217 |
| | 607,659 | 605,241 |
| Less accumulated depreciation and amortization | (369,884) | (343,795) |
| Total | $ 237,775 | $ 261,446 |

## 6. Note Payable

In July 2010, the Company issued to Pfizer Inc. (Pfizer) a $1.0 million promissory note (the Pfizer Note). The Pfizer Note bore interest at a rate of 7% per annum and was scheduled to mature on July 29, 2020. Interest was payable on a quarterly basis. In July 2013, the Pfizer Note was amended to become convertible into shares of the Company's common stock following the completion of the Company's initial public offering (IPO), at the option of the holder, at a price per share equal to the fair market value of the common stock on the date of conversion. On January 24, 2017, the Company voluntarily prepaid the entire balance of the outstanding principal and accrued and unpaid interest of the Pfizer Note in the amount of $1,004,861.

Prior to the prepayment of the Pfizer Note, the Company recorded the Pfizer Note on the balance sheet at face value. Based on borrowing rates available to the Company for loans with similar terms, the Company believed that the fair value of the Pfizer Note approximated its carrying value. The fair value measurement was categorized within Level 3 of the fair value hierarchy.

On February 15, 2017, the Company issued a convertible promissory note (the Novartis Note) in the principal amount of $15.0 million, pursuant to the Investment Agreement entered into between the Company and Novartis on December 19, 2016 (the Investment Agreement). The Novartis Note bears interest on the unpaid principal balance at a rate of 6% per annum and has a scheduled maturity date of December 31, 2019. The Company may prepay or convert all or part of the Novartis Note into shares of the Company's common stock, at its option, until December 31, 2019. Novartis has the option to convert all or part of the Novartis Note into shares of the Company's common stock upon a change in control of the Company or termination of the Collaboration Agreement by Novartis pursuant to certain provisions. If converted, the principal and accrued interest under the Novartis Note will convert into the Company's common stock at a conversion price equal to 120% of the 20-day trailing average closing price per share of the common stock immediately prior to the conversion date. In the event the aggregate number of shares of common stock issued upon the conversion would exceed the lesser of 19.0% of the Company's outstanding shares on a fully-diluted basis (i) at the inception of the Investment Agreement or (ii) on the conversion date, then only the lesser amount shall convert into shares of common stock and Novartis shall be repaid in cash for any remaining principal and unpaid interest after such conversion. Upon the occurrence of certain events of default, the Novartis Note requires the Company to repay the principal balance of the Novartis Note and any unpaid accrued interest. The ability to borrow and repay the debt at a discount using shares of the Company's common stock was deemed to be additional, foregone revenue attributable to the Collaboration Agreement, which the Company imputed and recorded as both a receivable from Novartis and a liability (deferred revenue) of $2.5 million at the inception of the Collaboration Agreement and the

Investment A greement. On February 15, 2017, t he C ompa ny recorded the $15.0 million proceeds from the issuance of the Novartis Note as a convertible note payable in the amount of $12.5 million and a reduction of the outstanding receivable from Novartis of $2.5 million. The convertible note payable, along with the related accrued interest, totaled $12.6 million as of March 31, 2017 .

The Company elected to account for the Novartis Note under the fair value option. At March 31, 2017, the Company concluded that the fair value of the Novartis Note remained at $12.6 million due to its conversion features. The fair value measurement is categorized within Level 3 of the fair value hierarchy.

## 7. Stockholders' Equity

***Warrants***

In 2013, the Company issued warrants exercisable for 1,124,026 shares of Series B preferred stock, at an exercise price of $0.90 per share, to certain existing investors in conjunction with a private placement (the 2013 Warrants) and warrants exercisable for 111,112 shares of Series B preferred stock, at an exercise price of $0.90 per share, to Oxford Finance LLC and Silicon Valley Bank in conjunction with the Company's entry into a loan and security agreement (the Lender Warrants). Upon completion of the IPO, the 2013 Warrants and the Lender Warrants became exercisable for 136,236 and 13,468 shares of common stock, respectively, at an exercise price of $7.43 per share. The 2013 Warrants and the Lender Warrants will expire on May 30, 2018 and July 3, 2023, respectively.

***Stock Options***

The following table summarizes the Company's stock option activity under all stock option plans for the three months ended March 31, 2017:

| | Total Options | Weighted-Average Exercise Price |
|---|---|---|
| Balance at December 31, 2016 | 3,393,813 | $ 5.10 |
| Granted | 888,100 | 4.31 |
| Exercised | (51,174) | 1.14 |
| Cancelled | (55,104) | 4.42 |
| Balance at March 31, 2017 | 4,175,635 | $ 5.00 |

***Stock-Based Compensation***

The Company recorded stock-based compensation of $1.2 million and $0.9 million for the three months ended March 31, 2017 and 2016, respectively.

***Common Stock Reserved for Future Issuance***

The following shares of common stock were reserved for future issuance at March 31, 2017:

| | |
|---|---|
| Warrants to purchase common stock | 149,704 |
| Common stock options issued and outstanding | 4,175,635 |
| Common stock authorized for future option grants | 767,195 |
| Common stock authorized for the ESPP | 555,210 |
| Shares issuable upon conversion of convertible note payable | 2,626,713 |
| Total | 8,274,457 |

## 8. Collaboration and License Agreements

In December 2016, the Company entered into the Collaboration Agreement with Novartis, pursuant to which the Company granted Novartis an exclusive option to collaborate with the Company to develop products containing emricasan. Pursuant to the Collaboration Agreement, the Company received a non-refundable upfront payment of $50.0 million from Novartis.

In May 2017, Novartis exercised its option under the Collaboration Agreement, and the Company is due to receive $7.0 million, subject to certain usual and customary closing conditio ns , including required anti-trust approvals, at which time the license under the Collaboration Agreement will become effective. Under the Collaboration Agreement, the Company will be eligible to receive up to an aggregate of $650.0 million in milestone payments over the term of the Collaboration Agreement, contingent on the achievement of certain development, regulatory and commercial milestones.

Pursuant to the Collaboration Agreement, the Co mpany is responsible for completing its Phase 2b trials. In the event the Phase 2b development costs between the execution date of the Collaboration Agreement and the license effective date differ from the budget agreed upon by the parties , Novartis will reimburse the Company for any additional costs, or the Company will credit any amount under budget to Novartis for future reimbursable costs. Novartis will generally pay 50% of the Company's Phase 2b emricasan development costs after the license grant is effective. Novartis will assume full responsibility for emricasan's Phase 3 development and all combination product development.

After the license grant is effective, unless terminated earlier, the Collaboration Agreement will remain in effect on a product-by-product and country-by-country basis until Novartis' royalty obligations expire. Novartis has certain termination rights in the event of a mandated clinical trial hold for any product containing emricasan as its sole active ingredient. Additionally, after the license effective date, Novartis has the right to terminate the Collaboration Agreement without cause upon 180 days prior written notice to the Company. In such event, the license granted to Novartis will be terminated and revert to the Company. In the event Novartis terminates the Collaboration Agreement due to the Company's uncured material breach or insolvency, the license granted to Novartis pursuant to the Collaboration Agreement will become irrevocable, and Novartis will be required to continue to make all milestone and royalty payments otherwise due to the Company under the Collaboration Agreement, provided that if the Company materially breaches the Collaboration Agreement such that the rights licensed to Novartis or the commercial prospects of the emricasan products are seriously impaired, the milestone and royalty payments will be reduced by 50%.

Under the relevant accounting literature, the Collaboration Agreement meets the definition of a collaborative arrangement and a multiple-element arrangement. The Company concluded that there were two significant deliverables under the Collaboration Agreement – the option to obtain the license and the research and development services – but that the license does not have stand-alone value as Novartis cannot obtain value from the license without the research and development services, which the Company is uniquely able to perform. As such, the Company will recognize as collaboration revenue a portion of the upfront payment received of $50.0 million, the option exercise fee of $7.0 million, and the imputed income from the Investment Agreement as described below on a straight-line basis between the inception of the agreement (or upon exercise with respect to the option exercise fee) through mid 2019 – the estimated period over which the Company expects to perform the research and development services. Due to the inherently unpredictable nature of product development activities, the Company periodically reviews the performance period of the research and development services and will adjust the period over which revenue is recognized when appropriate. The Company could accelerate revenue recognition in the event of early termination of programs or if the Company's expectations change. Alternatively, the Company could decelerate revenue recognition if programs are extended or delayed. While such changes to the Company's estimates have no impact on the Company's reported cash flows, the amount of revenue recorded in future periods could be materially impacted. Expense reimbursements for the Company's Phase 2b emricasan development costs will be recognized as collaboration revenue when the related expenses are incurred.

Under the Investment Agreement, the Company is able to borrow up to $15.0 million at a rate of 6% per annum, under one or two notes, which will mature on December 31, 2019. The Company may elect at its sole discretion to convert all or part of the outstanding principal and accrued interest into fully paid shares of common stock, at 120% of the 20-day trailing average closing price per share of the common stock immediately prior to the conversion date. Novartis has the option to convert all or part of the note(s) into shares of the Company's common stock upon a change in control of the Company or termination of the Collaboration Agreement by Novartis pursuant to certain provisions. In the event the conversion of the notes would exceed the lesser of 19.0% of the Company's outstanding shares on a fully-diluted basis (i) at the inception of the Investment Agreement or (ii) on the conversion date, then only the lesser amount shall convert into shares of common stock and Novartis shall be repaid in cash for any remaining principal and unpaid interest after such conversion. This ability to borrow and repay the debt at a discount using shares of the Company's common stock was deemed to be additional, foregone revenue attributable to the Collaboration Agreement, which the Company imputed and recorded as both a receivable from Novartis and a liability (deferred revenue) of $2.5 million at the inception of the Collaboration Agreement and the Investment Agreement. On February 15, 2017, the Company issued the Novartis Note in the principal amount of $15.0 million and recorded the $15.0 million proceeds as a convertible note payable in the amount of $12.5 million and a reduction of the outstanding receivable from Novartis of $2.5 million.

**9 . Commitments**

In February 2014, the Company entered into a noncancelable operating lease agreement (the Lease) for certain office space with a lease term from July 2014 through December 2019 and a renewal option for an additional five years. In May 2015, the Company entered into a first amendment to the Lease (the First Lease Amendment) for additional office space starting in September 2015 through September 2020. The First Lease Amendment also extended the term of the Lease to September 2020. The monthly base rent under the Lease and the First Lease Amendment increases approximately 3% annually from $32,784 in 2015 to $39,268 in 2020. Future minimum payments under this noncancelable operating lease total $1.5 million at March 31, 2017.

Rent expense was $94,501 for each of the three-month periods ended March 31, 2017 and 2016.

In July 2010, the Company entered into a stock purchase agreement with Pfizer, pursuant to which the Company acquired all of the outstanding stock of Idun Pharmaceuticals, Inc., which was subsequently spun off to the Company's stockholders in January 2013. Under the stock purchase agreement, the Company may be required to make payments to Pfizer totaling $18.0 million upon the achievement of specified regulatory milestones.

## ITEM 2. MANAGEMENT'S DISC USSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis and the unaudited interim condensed financial statements included in this quarterly report on Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2016 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 16, 2017.*

### Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this quarterly report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, 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.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward- looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors." The events and circumstances reflected in our forward-looking statements may not be achieved or occur, and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

### Overview

We are a biotechnology company focused on the development and commercialization of novel medicines to treat liver disease. We are developing emricasan, a first-in-class, orally active pan-caspase protease inhibitor, for the treatment of patients with chronic liver disease. Emricasan is designed to reduce the activities of human caspases, which are enzymes that mediate inflammation and apoptosis. We believe that by reducing the activity of these enzymes, emricasan has the potential to interrupt the progression of liver disease and potentially provide treatment options in multiple areas of liver disease.

We plan to continue advancing toward initial registration of emricasan for patients with cirrhosis due to nonalcoholic steatohepatitis, or NASH, with parallel development toward registration of emricasan for patients with NASH fibrosis. Our current clinical program for emricasan includes the following randomized, double-blind, placebo-controlled Phase 2b clinical trials:

- *Phase 2b ENCORE-PH (Portal Hypertension) Clinical Trial* : In November 2016, we initiated a clinical trial to evaluate the effect of emricasan in approximately 240 compensated or early decompensated NASH cirrhosis patients with severe portal hypertension. We amended the trial protocol in April 2017 to integrate a treatment extension for clinical outcomes. Top-line results are expected in 2018.
- *Phase 2b ENCORE-LF (Liver Function) Clinical Trial* : In May 2017, we initiated a clinical trial to evaluate emricasan in approximately 210 patients with decompensated NASH cirrhosis. Top-line results are expected in 2019.
- *Phase 2b ENCORE-NF (NASH Fibrosis) Clinical Trial* : In January 2016, we initiated a clinical trial to evaluate emricasan in approximately 330 patients with liver fibrosis resulting from NASH. Top-line results are expected in the first half of 2019.
- *Phase 2b POLT-HCV-SVR Clinical Trial* : In May 2014, we initiated a clinical trial in approximately 60 post-orthotopic liver transplant, or POLT, recipients with reestablished liver fibrosis post-transplant as a result of recurrent hepatitis C virus, or HCV, infection who have successfully achieved a sustained viral response, or SVR, following HCV antiviral therapy, or POLT-HCV-SVR, patients with residual fibrosis or cirrhosis, classified as Ishak Fibrosis Score 2-6. Top-line results are expected in the first half of 2018.

In May 2017, Novartis Pharma AG, or Novartis, exercise d its option under an Option, Collaboration and License Agreement , or the Collaboration Agreement, we entered into with Novartis in December 2016. Pursuant to such exercise, we will grant Novartis an exclusive, worldwide lic ense to our intellectual property rights relating to emricasan to collaborate with us and develop and commercialize emricasan products , containing emricasan either as a single active ingredient or in combination with other Novartis compounds for liver cirr hosis or liver fibrosis , for the treatment, diagnosis and prevention of disease in all indications in humans. Subject to customary closing conditions, including required anti-trust approvals, the license will become effective upon our r eceipt of a $7 .0 mi llion option exercise payment, which we expect to receive in mid-2017 . The option exercise by Novartis followed notification by us of the initia tion of the Phase 2b ENCORE-LF trial.

Pursuant to the Collaboration Agreement, we are responsible for completing the three ENCORE trials and the POLT-HCV-SVR trial described above. We and Novartis will share the costs of these four Phase 2b trials equally after the effective date of the license grant under the Collaboration Agreement. Novartis will be responsible for 100% of certain expenses for required registration-supportive nonclinical activities. Novartis will be responsible for the development of emricasan beyond the four Phase 2b trials described above, including the Phase 3 development of emricasan single agent products and all development for emricasan combination products, and Novartis has agreed to use commercially reasonable efforts to develop and commercialize emricasan products. A joint steering committee comprised of representatives from our company and Novartis will oversee the collaboration, development and commercialization of emricasan products.

Under the Collaboration Agreement, Novartis paid us an upfront payment of $50.0 million. In addition to the $7.0 million option exercise payment, we are eligible to receive up to an aggregate of $650.0 million in milestone payments, as well as royalties.

We also plan to expand our development pipeline by developing our existing preclinical product candidates or by purchasing or in-licensing product candidates. In addition to liver disease, we may pursue the development of product candidates in other disease areas.

Since our inception, our primary activities have been organizational activities, including recruiting personnel, conducting research and development, including clinical trials, and raising capital. We have no products approved for sale, and we have not generated any revenues from product sales to date. We have funded our operations since inception primarily through sales of equity securities and convertible promissory notes and payments made under the Collaboration Agreement, and we have incurred significant operating losses since our inception. We have never been profitable and have incurred net losses of $29.7 million and $24.1 million for the years ended December 31, 2016 and 2015, respectively, and $3.6 million for the three months ended March 31, 2017. As of March 31, 2017, we had an accumulated deficit of $154.2 million.

We expect to continue to incur significant operating losses and negative cash flows from operating activities for the foreseeable future as we continue the clinical development of emricasan and seek regulatory approval for and, if approved, pursue commercialization of emricasan.

As of March 31, 2017, we had cash, cash equivalents and marketable securities of $80.5 million. Although it is difficult to predict future liquidity requirements, we believe that our existing cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next 12 months from the date of the filing of this Form 10-Q. We will need to raise additional capital to fund further operations, including the development of product candidates other than emricasan. We may obtain additional financing in the future through the issuance of our common stock in future public offerings, through other equity or debt financings or through collaborations or partnerships with other companies.

Successful transition to profitability is dependent upon achieving a level of revenues adequate to support our cost structure. We cannot assure you that we will ever be profitable or generate sustained positive cash flow from operating activities and, unless and until we do, we will need to raise substantial additional capital through equity or debt financings or through collaborations or partnerships with other companies. We may not be able to raise additional capital on terms acceptable to us, or at all, and any failure to raise capital as and when needed could have a material adverse effect on our results of operations, financial condition and our ability to execute on our business plan.

**JOBS Act**

In April 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an “emerging growth company.” As an “emerging growth company,” we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable. In addition, we are in the process of

evaluating the benefits of relying on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an "emerging growth company" we choose to rely on such exemptions, we ma y not be required to, among other things, (i) provide an auditor's attestation report on our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit f irm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation betw een executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering, or IPO , or until we no longer meet the requirements of being an "emerging growth company," whichever is earlier.

**Financial Overview**

***Revenues***

Our revenues to date have been generated primarily from the Collaboration Agreement with Novartis. Under the terms of the Collaboration Agreement, we received an upfront payment of $50.0 million. In May 2017, Novartis exercised its option, and subject to customary closing conditions, including required anti-trust approvals, we will receive $7.0 million and are eligible to receive up to $650.0 million in additional payments for development, regulatory and commercial sales milestones, as well as royalties or profit and loss sharing on future product sales, if any.

We currently have no products approved for sale, and we have not generated any revenues from product sales to date. We have not submitted any product candidate for regulatory approval. If we fail to achieve clinical success in the development of emricasan in a timely manner and/or obtain regulatory approval for this product candidate, or to successfully develop other product candidates, our ability to generate future revenues would be materially adversely affected.

***Research and Development Expenses***

The majority of our operating expenses to date have been incurred in research and development activities. Starting in late 2011, research and development expenses have been focused on the development of emricasan. Since acquiring emricasan in 2010, we have incurred $75.1 million in the development of emricasan through March 31, 2017. Our business model is currently focused on the development of emricasan in various liver diseases and is dependent upon our continuing to conduct research and a significant amount of clinical development. Our research and development expenses consist primarily of:

- expenses incurred under agreements with contract research organizations, or CROs, investigative sites and consultants that conduct our clinical trials and our preclinical studies;
- employee-related expenses, which include salaries and benefits;
- the cost of finalizing our chemistry, manufacturing and controls, or CMC, capabilities and providing clinical trial materials; and
- costs associated with other research activities and regulatory approvals.

Research and development costs are expensed as incurred.

At this time, due to the inherently unpredictable nature of preclinical and clinical development, we are unable to estimate with any certainty the costs we will incur in the continued development of emricasan. Clinical development timelines, the probability of success and development costs can differ materially from expectations.

The costs of clinical trials may vary significantly over the life of a project owing to factors that include but are not limited to the following:

- per patient trial costs;
- the number of patients that participate in the clinical trials;
- the number of sites included in the clinical trials;
- the countries in which the clinical trials are conducted;
- the length of time required to enroll eligible patients;

- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up; and
- the efficacy and safety profile of the product candidate.

We are currently focused on advancing emricasan in multiple indications, and our future research and development expenses will depend on its clinical success. In addition, we cannot forecast with any degree of certainty and to what extent Novartis will develop and commercialize emricasan.

Research and development expenditures will continue to be significant and will increase as we continue clinical development of emricasan over at least the next several years. We expect to incur significant development costs as we conduct our ongoing Phase 2b trials of emricasan and develop product candidates other than emricasan.

We do not expect emricasan to be commercially available, if at all, for at least the next several years.

***General and Administrative Expenses***

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, business development and administrative functions. Other general and administrative expenses include costs related to being a public company, as well as insurance, facilities, travel, patent filing and maintenance, legal and consulting expenses.

If emricasan receives regulatory approval, we may incur expenses associated with activities related to commercializing emricasan. Some expenses may be incurred prior to receiving regulatory approval of emricasan. We do not expect to receive any such regulatory approval for at least the next several years.

***Interest Income***

Interest income consists primarily of interest income earned on our cash, cash equivalents and marketable securities.

***Interest Expense***

Interest expense consists of accrued interest on our $15.0 million convertible promissory note payable to Novartis and coupon interest on our $1.0 million promissory note payable to Pfizer Inc.

***Other Income (Expense)***

Other income (expense) includes non-operating transactions such as those caused by currency fluctuations between transaction dates and settlement dates and the conversion of account balances held in foreign currencies to U.S. dollars.

**Critical Accounting Policies and Significant Judgments and Estimates**

Our management's discussion and analysis of financial condition and results of operations is based on our condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. 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 readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

There were no significant changes during the three months ended March 31, 2017 to the critical accounting policies described in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Judgments and Estimates" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 16, 2017.

**Results of Operations**

***Comparison of the Three Months Ended March 31, 2017 and 2016***

*Total Revenues*

Total revenues were $7.0 million for the three months ended March 31, 2017, as compared to $0.0 million for the same period in 2016. For the three months ended March 31, 2017, total revenues consisted of collaboration revenue related to the Collaboration Agreement with Novartis, which was executed in December 2016.

We recognize collaboration revenue on the license portion of deferred revenue on a straight-line basis between the inception of the agreement (or upon exercise with respect to the option exercise fee) through mid 2019 – the estimated period over which we expect to perform the research and development services. Due to the inherently unpredictable nature of product development activities, we periodically review the performance period of the research and development services and will adjust the period over which revenue is recognized when appropriate. Changes in the performance period could materially impact the timing of future revenue recognition.

*Research and Development Expenses*

Research and development expenses were $7.9 million for the three months ended March 31, 2017, as compared to $4.7 million for the same period in 2016. The increase of $3.2 million was primarily due to the progression of our ENCORE program.

*General and Administrative Expenses*

General and administrative expenses were $2.8 million for the three months ended March 31, 2017, as compared to $2.6 million for the same period in 2016. The increase of $0.2 million was primarily due to higher personnel costs, partially offset by lower consulting fees.

Changes in components of Other Income (Expense) were as follows:

*Interest Income*

Interest income was $171,000 for the three months ended March 31, 2017, as compared to $27,000 for the same period in 2016. Interest income consisted of interest earned on our cash, cash equivalents and marketable securities and fluctuates based on changes in investment balances and interest rates.

*Interest Expense*

Interest expense was $97,000 for the three months ended March 31, 2017, as compared to $18,000 for the same period in 2016. The increase was due to higher interest expense related to the $15.0 million convertible promissory note issued to Novartis in February 2017, partially offset by lower interest expense related to the $1.0 million promissory note payable to Pfizer Inc., which was voluntarily prepaid in January 2017.

*Other Expense*

Other expense was $6,000 for the three months ended March 31, 2017, as compared to $7,000 for the same period in 2016. Other expense represents non-operating transactions such as those caused by currency fluctuations between transaction dates and settlement dates and the conversion of account balances held in foreign currencies to U.S. dollars.

**Liquidity and Capital Resources**

We have incurred losses since inception and negative cash flows from operating activities through December 31, 2015. For the year ended December 31, 2016, we had positive net cash flows from operating activities due to the upfront payment related to the Collaboration Agreement with Novartis. As of March 31, 2017, we had an accumulated deficit of $154.2 million. We anticipate that we will continue to incur net losses for the foreseeable future as we continue the development and potential commercialization of emricasan.

Prior to our IPO in July 2013, we funded our operations primarily through private placements of equity and convertible debt securities. In July 2013, we completed our IPO of 6,000,000 shares of common stock at an offering price of $11.00 per share. We received net proceeds of $58.6 million, after deducting underwriting discounts and commissions and offering-related transaction costs.

In August 2014, we entered into an At Market Issuance Sales Agreement, or the Sales Agreement, with MLV & Co. LLC, or MLV, pursuant to which we could sell from time to time, at our option, up to an aggregate of $50.0 million of shares of our common stock through MLV, as sales agent. We terminated the Sales Agreement in December 2016. W e sold 6,305,526 shares of ou r common stock pursuant to the Sales Agreement at a weighted average price per share of $ 2.35 and received net proceeds of $ 14.2 million, after deducting offering-related transaction costs and commissions.

In April 2015, we completed a public offering of 4,025,000 shares of our common stock at a public offering price of $5.75 per share. We received net proceeds of $21.4 million, after deducting underwriting discounts and commissions and offering-related transaction costs.

In December 2016, we entered into the Collaboration Agreement with Novartis pursuant to which we granted Novartis an exclusive option to collaborate with us for the global development and commercialization of emricasan. Under the Collaboration Agreement, Novartis paid us an upfront payment of $50.0 million. In May 2017, Novartis exercised its option, and subject to customary closing conditions, including required anti-trust approvals, we will receive $7.0 million. Concurrent with the entry into the Collaboration Agreement, we entered into an Investment Agreement with Novartis whereby we agreed to sell and Novartis agreed to purchase, convertible promissory notes, in one or two closings, for an aggregate principal amount of up to $15.0 million. In February 2017, we issued to Novartis a convertible promissory note, or the Novartis Note, in the principal amount of $15.0 million. The maturity date of the Novartis Note is December 31, 2019. The Novartis Note bears interest on the unpaid principal balance at a rate of 6% per annum. We may prepay or convert the Novartis Note into shares of our common stock, at our option, until December 31, 2019. Novartis may convert the Novartis Note into shares of our common stock upon a change of control of our company or termination of the Collaboration Agreement by Novartis pursuant to certain provisions. If converted, the principal and accrued interest under the Novartis Note will convert into shares of our common stock at a conversion price equal to 120% of the 20-day trailing average closing price per share of the common stock immediately prior to the conversion date. Upon the occurrence of certain events of default, the Novartis Note requires us to repay the principal balance and any unpaid accrued interest.

At March 31, 2017, we had cash, cash equivalents and marketable securities of $80.5 million. We believe our existing cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next 12 months from the date of the filing of this Form 10-Q. To fund further operations, we will need to raise additional capital. We plan to continue to fund losses from operations and capital funding needs through future equity and debt financing, as well as potential collaborations. The sale of additional equity or convertible debt could result in additional dilution to our stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations. No assurances can be provided that financing will be available in the amounts we need or on terms acceptable to us, if at all. If we are not able to secure adequate additional funding, we may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. Any of these actions could materially harm our business, results of operations and future prospects.

The following table sets forth a summary of the net cash flow activity for each of the periods set forth below:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net cash used in operating activities | $ (8,009,483) | $ (6,898,011) |
| Net cash (used in) provided by investing activities | (45,156,931) | 9,529,744 |
| Net cash provided by financing activities | 11,558,487 | 3,078,212 |
| Net (decrease) increase in cash and cash equivalents | $ (41,607,927) | $ 5,709,945 |

Net cash used in operating activities was $8.0 million and $6.9 million for the three months ended March 31, 2017 and 2016, respectively. The primary use of cash was to fund our operations related to the development of emricasan.

Net cash used in investing activities was $45.2 million for the three months ended March 31, 2017, which consisted primarily of cash used to purchase marketable securities, partially offset by proceeds from maturities of marketable securities. Net cash provided by investing activities was $9.5 million for the three months ended March 31, 2016, which consisted primarily of proceeds from maturities of marketable securities, partially offset by cash used to purchase marketable securities.

Net cash provided by financing activities was $11.6 million for the three months ended March 31, 2017, which consisted primarily of proceeds from the issuance of the $15.0 million Novartis Note in February 2017, partially offset by the voluntary prepayment of the $1.0 million promissory note payable to Pfizer Inc. in January 2017. Net cash provided by financing activities was $3.1 million for the three months ended March 31, 2016, which consisted primarily of net proceeds from sales of common stock pursuant to the Sales Agreement.

**Contractual Obligations and Commitments**

As of March 31, 2017, there have been no material changes outside the ordinary course of our business to the contractual obligations we reported in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations and Commitments" in our annual report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 16, 2017.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2017, there have been no material changes in our market risk from that described in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our annual report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 16, 2017.

## ITEM 4. CONTROLS AND PROCEDURES

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive and financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report on Form 10-Q. Based on such evaluation, our principal executive and financial officer has concluded that, as of such date, our disclosure controls and procedures were effective.

**Inherent Limitations of Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

Our management, including our principal executive and financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material legal proceedings.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in "Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 16, 2017.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

None.

**Issuer Purchases of Equity Securities**

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this quarterly report on Form 10-Q and is incorporated herein by reference.

**SIGNAT URES**

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.

CONATUS PHARMACEUTICALS INC.

Date: May 4, 2017

/s/ Steven J. Mento, Ph.D.
Steven J. Mento, Ph.D.
President and Chief Executive Officer
(principal executive officer and principal financial officer)

Date: May 4, 2017

/s/ Michelle L. Vandertie
Michelle L. Vandertie
Vice President, Finance
(principal accounting officer)

## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1(1) | Amended and Restated Certificate of Incorporation |
| 3.2(1) | Amended and Restated Bylaws |
| 4.1(2) | Specimen Common Stock Certificate |
| 4.2(3) | First Amended and Restated Investor Rights Agreement, dated February 9, 2011 |
| 4.3(3) | Form of Warrant issued to investors in the Registrant's 2013 bridge financing |
| 4.4(2) | Form of Warrant issued to lenders under the Loan and Security Agreement, dated July 3, 2013, by and among the Registrant, Oxford Finance LLC, Silicon Valley Bank and the other lenders party thereto |
| 10.1# | Amended and Restated Non-Employee Director Compensation Program, dated January 1, 2017 |
| 10.2# | Amended and Restated Employment Agreement, dated January 26, 2017, by and between Daniel L. Ripley and the Registrant |
| 10.3# | General Release of Claims, dated March 31, 2017, by and between Charles J. Cashion and the Registrant |
| 10.4(4) | Convertible Promissory Note, dated February 15, 2017, issued by the Registrant to Novartis Pharma AG |
| 31.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended |
| 32.1* | Certification of Principal Executive Officer and Principle Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the SEC on August 1, 2013.
(2) Incorporated by reference to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-189305), filed with the SEC on July 8, 2013.
(3) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration No. 333- 189305), filed with the SEC on June 14, 2013.
(4) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 16, 2017.
# Indicates management contract or compensatory plan.
* This certification is being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Exhibit 10.1**

**CONATUS PHARMACEUTICALS INC.**

**NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM**

**(As Amended and Restated Effective January 1, 2017)**

Non-employee members of the board of directors (the " ***Board*** ") of Conatus Pharmaceuticals Inc. (the " ***Company*** ") shall be eligible to receive cash and equity compensation as set forth in this Non-Employee Director Compensation Program (this " ***Program*** "). The cash and equity compensation described in this Program shall be paid or be made, as applicable, automatically and without further action of the Board, to each member of the Board who is not an employee of the Company or any parent or subsidiary of the Company (each, a " ***Non-Employee Director*** ") who may be eligible to receive such cash or equity compensation, unless such Non-Employee Director declines the receipt of such cash or equity compensation by written notice to the Company. This Program shall remain in effect until it is revised or rescinded by further action of the Board. This Program may be amended, modified or terminated by the Board at any time in its sole discretion. The terms and conditions of this Program shall supersede any prior cash and/or equity compensation arrangements between the Company and any of its Non-Employee Directors. No Non-Employee Director shall have any rights hereunder, except with respect to stock options granted pursuant to the Program.

1. Cash Compensation .

(a) Annual Retainers . Each Non-Employee Director shall be eligible to receive an annual retainer of $40,000 for service on the Board.

(b) Additional Annual Retainers . In addition, a Non-Employee Director shall receive the following additional annual retainers, as applicable:

(i) Chairperson of the Board . A Non-Employee Director serving as Chairperson of the Board shall receive an additional annual retainer of $45,000 for such service.

(ii) Audit Committee . A Non-Employee Director serving as Chairperson of the Audit Committee shall receive an additional annual retainer of $15,000 for such service. A Non-Employee Director serving as a member of the Audit Committee (other than the Chairperson) shall receive an additional annual retainer of $7,500 for such service.

(iii) Compensation Committee . A Non-Employee Director serving as Chairperson of the Compensation Committee shall receive an additional annual retainer of $10,000 for such service. A Non-Employee Director serving as a member of the Compensation Committee (other than the Chairperson) shall receive an additional annual retainer of $6,000 for such service.

(iv) Nominating and Corporate Governance Committee . A Non-Employee Director serving as Chairperson of the Nominating and Corporate Governance Committee shall receive an additional annual retainer of $7,000 for such service. A Non-Employee Director serving as a member of the Nominating and Corporate Governance Committee (other than the Chairperson) shall receive an additional annual retainer of $3,500 for such service.

(c) Payment of Retainers . T he annual retainers described in Sections 1(a) and 1(b) shall be earned on a quarterly basis based on a calendar quarter and shall be paid by the Company in arrears not later than the fifteenth day following the end of each calendar quarter. In the event a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable positions described in Section 1(b), for an entire calendar quarter, the retainer paid to such Non-Employee Director shall be prorated for the portion of such calendar quarter actually served as a Non-Employee Director, or in such position, as applicable.

2. Equity Compensation . Non-Employee Directors shall be granted the equity awards described below. The awards described below shall be granted under and shall be subject to the terms and provisions of the Company's 2013 Incentive Award Plan or any other applicable Company equity incentive plan then-maintained by the Company (the " ***Equity Plan*** ") and shall be granted subject to the execution and delivery of award agreements, including attached exhibits, in substantially the forms previously approved by the Board, setting forth the vesting schedule applicable to such awards and such other terms as may be required by the Equity Plan. All applicable terms of the Equity Plan apply to this Program as if fully set forth herein, and all grants of stock options hereby are subject in all respects to the terms of the Equity Plan.

(a) IPO Awards . On the closing date of the Company's initial public offering, each Non-Employee Director shall be eligible to receive an option to purchase 30,000 shares of the Company's common stock (subject to adjustment as provided in the Equity Plan), and the Chairperson of the Board shall be eligible to receive an option to purchase an additional 20,000 shares of the Company's common stock (subject to adjustment as provided in the Equity Plan). The awards described in this Section 2(a) shall be referred to as " ***IPO Awards*** ."

(b) Initial Awards . Each Non-Employee Director who is initially elected or appointed to the Board shall be eligible to receive an option to purchase 30,000 shares of the Company's common stock (subject to adjustment as provided in the Equity Plan) on the date of such initial election or appointment. The awards described in this Section 2(b) shall be referred to as " ***Initial Awards*** ." No Non-Employee Director shall be granted more than one (1) Initial Award.

(c) Subsequent Awards . A Non-Employee Director who (i) has been serving on the Board for at least six months as of the date of any annual meeting of the Company's stockholders and (ii) will continue to serve as a Non-Employee Director immediately following such meeting, shall be automatically granted an option to purchase 20,000 shares of the Company's common stock (subject to adjustment as provided in the Equity Plan) on the date of such annual meeting, and the Chairperson of the Board shall be eligible to receive an option to purchase an additional 25,000 shares of the Company's common stock (subject to adjustment as provided in the Equity Plan). The awards described in this Section 2(c) shall be referred to as " ***Subsequent Awards*** ." For the avoidance of doubt, a Non-Employee Director elected for the first time to the Board at an annual meeting of the Company's stockholders shall only receive an Initial Award in connection with such election, and shall not receive any Subsequent Award on the date of such meeting as well.

(d) Termination of Employment of Employee Directors . Members of the Board who are employees of the Company or any parent or subsidiary of the Company who subsequently terminate their employment with the Company and any parent or subsidiary of the Company and remain on the Board will not receive an Initial Award pursuant to Section 2(b) above, but to the extent that they are otherwise eligible, will be eligible to receive, after termination from employment with the Company and any parent or subsidiary of the Company, Subsequent Awards as described in Section 2(c) above.

(e) Terms of Awards Granted to Non-Employee Directors

(i) Purchase Price . The per share exercise price of each option granted to a Non-Employee Director shall equal the Fair Market Value (as defined in the Equity Plan) of a share of common stock on the date the option is granted; provided, however, that the per share exercise price of each IPO Award shall be the greater of (A) the Fair Market Value of a share of common stock on the date the option is granted or (B) the initial price to the public of the Company's common stock in the initial public offering.

(ii) Vesting . Each IPO Award and each Initial Award shall vest and become exercisable in substantially equal installments on each of the first three (3) anniversaries of the date of grant, subject to the Non-Employee Director continuing in service on the Board through each such vesting date. Each Subsequent Award shall vest and/or become exercisable on the first anniversary of the date of grant, subject to the Non-Employee Director continuing in service on the Board through such vesting date. No portion of an IPO Award, an Initial Award or Subsequent Award which is unvested and/or exercisable at the time of a Non-Employee Director's termination of service on the Board shall become vested and/or exercisable thereafter. All of a Non-Employee Director's Initial Awards and Subsequent Awards shall vest in full upon the occurrence of a Change in Control (as defined in the Equity Plan).

(iii) Term . The term of each stock option granted to a Non-Employee Director shall be ten (10) years from the date the option is granted. Upon a Non-Employee Director's cessation of service on the Board for any reason, his or her options to purchase shares of the Company's common stock granted under this Program shall remain exercisable for twelve (12) months following the cessation of his or her service on the Board (or such longer period as the Board may determine in its discretion on or after the date of grant of such stock options).

* * * * *

**Exhibit 10.2**

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT (this " Agreement ") is entered into by and between Conatus Pharmaceuticals Inc., a Delaware corporation (the " Company "), and Daniel L. Ripley (" Employee "), and shall be effective as of January 26, 2017 (the " Effective Date ").

WHEREAS, the Company and Employee are parties to that certain Employment Agreement effective as of October 2, 2014 (the "Original Agreement").

WHEREAS, the Company and Employee desire to amend and restate the Original Agreement on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties agree as follows:

1. Definitions . As used in this Agreement, the following terms shall have the following meanings:

(a) Board . " Board " means the Board of Directors of the Company.

(b) Cause . " Cause " means any of the following:

(i) the commission of an act of fraud, embezzlement or dishonesty by Employee that has a material adverse impact on the Company or any successor or affiliate thereof;

(ii) a conviction of, or plea of "guilty" or "no contest" to, a felony by Employee or any crime involving fraud, misappropriation, embezzlement or moral turpitude;

(iii) any unauthorized use or disclosure by Employee of confidential information or trade secrets of the Company or any successor or affiliate thereof that has a material adverse impact on any such entity;

(iv) Employee's gross negligence, insubordination or material violation of any duty of loyalty to the Company or any other material misconduct on the part of Employee;

(v) Employee's ongoing and repeated failure or refusal to perform or neglect of Employee's duties as required by this Agreement, which failure, refusal or neglect continues for fifteen (15) days following Employee's receipt of written notice from the Board or the Company's Chief Executive Officer (the " CEO ") stating with specificity the nature of such failure, refusal or neglect; or

(vi) Employee's breach of any material provision of this Agreement;

provided , however , that prior to the determination that "Cause" under this Section 1(b) has occurred, the Company shall (w) provide to Employee in writing, in reasonable detail, the reasons for the determination that such "Cause" exists, (x) other than with respect to clause (v) above which specifies the applicable period of time for Employee to remedy his or her breach, afford Employee a reasonable opportunity to remedy any such breach (if such breach is capable of being remedied), (y) provide Employee an opportunity to be heard prior to the final decision to terminate Employee's employment hereunder for such "Cause" and (z) make any decision that such "Cause" exists in good faith.

The foregoing definition shall not in any way preclude or restrict the right of the Company or any successor or affiliate thereof to discharge or dismiss Employee for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of this Agreement, to constitute grounds for termination for Cause.

(c) Change of Control . " Change of Control " means and includes each of the following:

(i) a transaction or series of transactions (other than an offering of common stock of the Company to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the " Exchange Act "), and the rules thereunder) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(ii) during any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in subsections (i) or (iii) of this Section 1(c)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) the consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of a merger, consolidation, reorganization, or business combination, a sale or other disposition of all or substantially all of the Company's assets, or the acquisition of assets or stock of another entity, in each case, other than a transaction

(A) which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the " Successor Entity ")) directly or indirectly, at least fifty percent (50%) of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(B) after which no person or group beneficially owns voting securities representing fifty percent (50%) or more of the combined voting power of the Successor Entity; provided , however , that no person or group shall be treated for purposes of this subsection (iii) as beneficially owning fifty percent (50%) or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(iv) the Company's stockholders approve a liquidation or dissolution of the Company.

For purposes of subsection (i) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of the Company's stockholders, and for purposes of subsection (iii) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of the Company's stockholders.

Notwithstanding the foregoing, a transaction shall not constitute a " Change of Control " if: (i) its sole purpose is to change the state of the Company's incorporation; (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction; (iii) it constitutes the Company's initial public offering of its securities; or (iv) it is a transaction effected primarily for the purpose of financing the Company with cash (as determined by the Board in its discretion and without regard to whether such transaction is effectuated by a merger, equity financing or otherwise).

(d) Code . " Code " means the Internal Revenue Code of 1986, as amended from time to time, and the Treasury Regulations and other guidance issued thereunder.

(e) Good Reason . Employee's resignation for " Good Reason " means Employee's resignation following the occurrence of any of the following events or conditions without Employee's written consent:

(i) a material diminution in Employee's authority, duties or responsibilities;

(ii) a material diminution in Employee's base compensation, except in connection with a general reduction in the base compensation of the Company's or any successor's or affiliate's personnel with similar status and responsibilities;

(iii) a material change in the geographic location at which Employee must perform his or her duties (and the Company and Employee agree that any requirement that Employee be based at any place outside a 50-mile radius of his or her place of employment as of the Effective Date, except for reasonably required travel on the Company's or any successor's or affiliate's business that is not materially greater than such travel requirements prior to the Effective Date, shall be considered a material change); or

(iv) any other action or inaction that constitutes a material breach by the Company or any successor or affiliate of its obligations to Employee under this Agreement.

Notwithstanding the foregoing, Good Reason shall only exist if Employee shall have provided the Company with written notice within ninety (90) days of the initial occurrence of any of the foregoing events or conditions, and the Company or any successor or affiliate fails to eliminate the conditions constituting Good Reason within thirty (30) days after receipt of written notice of such event or condition from Employee. Employee's termination by reason of resignation from employment with the Company for Good Reason shall be treated as involuntary. Employee's resignation from employment with the Company for "Good Reason" must occur within twelve (12) months following the initial occurrence of one of the foregoing events or conditions.

(f) Permanent Disability . Employee's " Permanent Disability " shall be deemed to have occurred if Employee shall become physically or mentally incapacitated or disabled or otherwise unable fully to discharge his or her duties hereunder for a period of ninety (90) consecutive calendar days or for one hundred twenty (120) calendar days in any one hundred eighty (180) calendar-day period. The existence of Employee's Permanent Disability shall be determined by the Company on the advice of a physician chosen by the Company and the Company reserves the right to have the Employee examined by a physician chosen by the Company at the Company's expense.

(g) Stock Awards . " Stock Awards " means all stock options, restricted stock and such other awards granted pursuant to the Company's stock option and equity incentive award plans or agreements and any shares of stock issued upon exercise thereof.

2. Employment Period . During the term of Employee's employment hereunder (the " Employment Period "), Employee shall be considered an employee of the Company. The Company and Employee acknowledge that Employee's employment during the Employment Period will be at-will, as defined under applicable law, and that Employee's employment with the Company during the Employment Period may be terminated by either party at any time for any or no reason, with or without notice. If Employee's employment during the Employment Period terminates for any reason, Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided in this Agreement.

3. Services to Be Rendered .

(a) Duties and Responsibilities . Employee shall serve as Senior Vice President, Business Development, Program and Alliance Management, of the Company. In the performance of such duties, Employee shall report directly to the CEO and shall be subject to the direction of the CEO and to such limits upon Employee's authority as the CEO may from time to time impose. In the event of the CEO's incapacity or unavailability, Employee shall be subject to the direction of the Board or its designee. Employee hereby consents to serve as an officer and/or director of the Company or any subsidiary or affiliate thereof without any additional salary or compensation, if so requested by the Board or the CEO. Employee's primary place of work shall be the Company's facility in San Diego, California, or such other location within San Diego County as may be designated by the Board or the CEO from time to time. Employee shall also render services at such other places within or outside the United States as the Board or the CEO may direct from time to time. Employee shall be subject to and comply with the policies and procedures generally applicable to employees of the Company to the extent the same are not inconsistent with any term of this Agreement.

(b) Exclusive Services . Employee shall be employed by the Company on a full-time basis. Employee shall at all times faithfully, industriously and to the best of his or her ability, experience and talent perform to the satisfaction of the Board and the CEO all of the duties that may be assigned to Employee hereunder and shall devote substantially all of his or her productive time and efforts to the performance of such duties.

4. Compensation and Benefits During Employment Period . During the Employment Period, the Company shall pay or provide, as the case may be, to Employee the compensation and other benefits and rights set forth in this Section 4.

(a) Base Salary . Effective January 1, 2017, the Company shall pay to Employee a base salary of $284,625 per year, payable in accordance with the Company's usual pay practices (and in any event no less frequently than bi-monthly). Employee's base salary shall be subject to review annually by and at the sole discretion of the Board or its designee.

(b) Annual Bonus . Employee shall be eligible to earn, for each fiscal year of the Company ending during the Employment Period, an annual cash performance bonus (an " Annual Bonus ") based on Employee's and/or the Company's attainment of objective financial or other operating criteria established by the Board or its designee . Upon full attainment of the aforementioned criteria, as determined by the Board or its designee, the Annual Bonus will be equal to thirty-five percent (35%) of Employee's then-current base salary actually paid for such fiscal year. The Annual Bonus shall be paid to Employee by the Company between January 1 st and March 15 th of the calendar year following the end of

the fiscal year to which such Annual Bonus relates. Employee's receipt of an Annual Bonus shall be conditioned on Employee's continued employment with the Company on the date such Annual Bonus is paid. The Annual Bonus shall be pro-rated for any partial fiscal year during the Employment Period. As of the Effective Date, the Company's fiscal year ends on December 31. In the event of any change to the Company's fiscal year, the aforementioned financial or other operating criteria established by the Board or its designee for purposes of determining Employee's Annual Bonus shall be adjusted in a manner mutually agreeable to the Company and Employee so as not to disadvantage either party.

(c) Benefits. Employee shall be entitled to participate in benefits under the Company's benefit plans and arrangements, including, without limitation, any employee benefit plan or arrangement made available in the future by the Company to its senior executives, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. The Company shall have the right to amend or delete any such benefit plan or arrangement made available by the Company to its senior executives and not otherwise specifically provided for herein. The Company's failure to continue provide Employee with benefits substantially equivalent (in terms of benefit levels and/or reward opportunities) to those provided to Employee under each material employee benefit plan, program and practice of the Company as in effect immediately prior to the Effective Date, except in connection with a general reduction in the benefits of the Company's or any successor's or affiliate's personnel with similar status and responsibilities, shall constitute a material breach of this Agreement by the Company.

(d) Expenses. The Company shall reimburse Employee for reasonable out-of-pocket business expenses incurred in connection with the performance of his or her duties hereunder, subject to (i) such policies as the Company may from time to time establish, (ii) Employee furnishing the Company with evidence in the form of receipts satisfactory to the Company substantiating the claimed expenditures, (iii) Employee receiving advance approval from the CEO in the case of expenses for travel outside of North America, and (iv) Employee receiving advance approval from the CEO in the case of expenses (or a series of related expenses) in excess of $10,000. Any amounts payable under this Section 4(d) shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv) and shall be paid on or before the last day of Employee 's taxable year following the taxable year in which Employee incurred the expenses. The amounts provided under this Section 4(d) during any taxable year of Employee 's will not affect such amounts provided in any other taxable year of Employee 's, and Employee 's right to reimbursement for such amounts shall not be subject to liquidation or exchange for any other benefit.

(e) Paid Time Off; Vacation. Employee shall be entitled to such periods of paid time off (" PTO ") each year as provided under the Company's PTO policy and as otherwise provided for senior executive officers.

(f) Stock Awards. Employee shall be entitled to participate in any equity or other employee benefit plan that is generally available to senior executive officers, as distinguished from general management, of the Company. Except as otherwise provided in this Agreement, Employee's participation in and benefits under any such plan shall be on the terms and subject to the conditions specified in the governing document of the particular plan.

(g) Acceleration of Vesting of Stock Awards.

(i) The vesting and/or exercisability of fifty percent (50%) of the then-unvested and outstanding portion of each of Employee's Stock Awards shall be automatically accelerated on the date of a Change of Control, and the remaining fifty percent (50%) of the then-unvested and outstanding portion of each of Employee's Stock Awards shall vest and/or become exercisable on the first to occur of (A) the first anniversary of the Change of Control or (B) the date of Employee's termination of employment by the Company without Cause or by Employee for Good Reason.

(ii) Subject to Section 5(c), if Employee's employment is terminated by the Company without Cause or by Employee for Good Reason, the vesting and/or exercisability of each of Employee's outstanding Stock Awards shall be automatically accelerated on the date of termination as to the number of Stock Awards that would vest over the twelve (12) month period following the date of termination had Employee remained continuously employed by the Company during such period.

(iii) The foregoing provisions are hereby deemed to be a part of each Stock Award and to supersede any less favorable provision in any agreement or plan regarding such Stock Award.

5. Termination of Employment Period and Severance . Employee shall be entitled to receive benefits upon termination of the Employment Period only as set forth in this Section 5.

(a) Termination Without Cause or For Good Reason . If Employee's employment is terminated by the Company without Cause or by Employee for Good Reason, Employee shall be entitled to receive, in lieu of any severance benefits to which Employee may otherwise be entitled under any severance plan or program of the Company, the benefits provided below:

(i) the Company shall pay to Employee his or her fully earned but unpaid base salary, when due, through the date of termination at the rate then in effect, accrued but unused PTO, plus all other amounts or benefits to which Employee is entitled under any compensation, retirement or benefit plan or practice of the Company at the time of termination in accordance with the terms of such plans or practices;

(ii) subject to Sections 5(c), 5(g) and 5(h) and Employee's continuing compliance with Section 6, Employee shall be entitled to receive Employee's monthly base salary as in effect immediately prior to the date of termination for the twelve (12) month period following the date of termination, payable in a lump sum no later than sixty (60) days following the date of Employee's termination of employment; and

(iii) subject to Sections 5(c), 5(g) and 5(h) and Employee's continuing compliance with Section 6, for the period beginning on the date of termination and ending on the date which is twelve (12) full months following the date of termination (or, if earlier, the date on which the applicable continuation period under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" COBRA ") expires) (the " COBRA Coverage Period "), the Company shall pay for and provide to Employee and his or her eligible dependents who were covered under the Company's health insurance plans immediately prior to the date of termination with healthcare insurance benefits substantially similar to those provided to Employee and his or her eligible dependents immediately prior to the date of termination. If any of the Company's health benefits are self-funded as of the date of termination, or if the Company cannot provide the foregoing benefits in a manner that is exempt from or otherwise compliant with applicable law (including, without limitation, Section 409A of the Code and Section 2716 of the Public Health Service Act), instead of providing continued health insurance benefits as set forth above, the Company shall instead pay to Employee an amount equal to the monthly plan premium payment for Employee and his or her eligible dependents who were covered under the Company's health plans as of the date of termination (calculated by reference to Employee's premiums as of the date of termination) as currently taxable compensation in substantially equal monthly installments over the COBRA Coverage Period (or the remaining portion thereof).

(b) Termination for Cause, Voluntary Resignation Without Good Reason, Death or Permanent Disability . If Employee's employment is terminated by the Company for Cause, by Employee without Good Reason or as a result of Employee's death or Permanent Disability, the Company shall not have any other or further obligations to Employee (or his or her estate) under this Agreement (including any financial obligations) except that Employee (or his or her estate) shall be entitled to receive (i) Employee's fully earned but unpaid base salary, through the date of termination at the rate then in effect, (ii) all accrued but unused PTO, and (iii) all other amounts or benefits to which Employee is entitled under any compensation, retirement or benefit plan or practice of the Company at the time of termination in accordance with the terms of such plans or practices, including, without limitation, any continuation of benefits required by COBRA or applicable law. In addition, if Employee's employment is terminated by the Company for Cause, by Employee without Good Reason or as a result of Employee's death or Permanent Disability, all vesting of Employee's unvested Stock Awards previously granted to him or her by the Company shall cease and none of such unvested Stock Awards shall be exercisable following the date of such termination. The foregoing shall be in addition to, and not in lieu of, any and all other rights and remedies which may be available to the Company under the circumstances, whether at law or in equity.

(c) Release . As a condition to Employee's receipt of any post-termination benefits pursuant to Sections 4(g)(i), 4(g)(ii) or 5(a) above, on or prior to the sixtieth (60 th ) day following the date of Employee's termination of employment, Employee shall have executed and delivered a Release (the " Release ") in a form reasonably acceptable to the Company and any applicable revocation period applicable to such Release shall have expired. Such Release shall specifically relate to all of Employee's rights and claims in existence at the time of such execution, including any claims related to Employee's employment by the Company and his or her termination of employment, and shall exclude any continuing obligations the Company may have to Employee following the date of termination under this Agreement or any other agreement providing for obligations to survive Employee's termination of employment. In the event the Release does not become effective within the sixty (60) day period following the date of Employee's termination of employment, Employee shall not be entitled to any of the aforesaid post-termination benefits.

(d) Exclusive Remedy . Except as otherwise expressly required by law (e.g., COBRA) or as specifically provided herein, all of Employee's rights to salary, severance, benefits, bonuses and other amounts hereunder (if any) accruing after the termination of Employee's employment shall cease upon such termination. In the event of a termination of Employee's employment with the Company, Employee's sole remedy shall be to receive the payments and benefits described in this Section 5. In addition, Employee acknowledges and agrees that he or she is not entitled to any reimbursement by the Company for any taxes payable by Employee as a result of the payments and benefits received by Employee pursuant to this Section 5, including, without limitation, any excise tax imposed by Section 4999 of the Code. Any payments made to Employee under this Section 5 shall be inclusive of any amounts or benefits to which Employee may be entitled pursuant to the Worker Adjustment and Retraining Notification Act, 29 U.S.C. Sections 2101 et seq., and the Department of Labor regulations thereunder, or any similar state statute.

(e) No Mitigation . Employee shall not be required to mitigate the amount of any payment provided for in this Section 5 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 5 be reduced by any compensation earned by Employee as the result of employment by another employer or self-employment or by retirement benefits; provided , however , that loans, advances or other amounts owed by Employee to the Company may be offset by the Company against amounts payable to Employee under this Section 5; provided , further , that, as provided in Section 5(a), Employee's right to continued healthcare and life insurance benefits following his or her termination of employment will terminate on the date on which the applicable continuation period under COBRA expires.

(f) Return of the Company's Property . If Employee's employment is terminated for any reason, the Company shall have the right, at its option, to require Employee to vacate his or her offices prior to or on the effective date of termination and to cease all activities on the Company's behalf. Upon the termination of his or her employment in any manner, as a condition to the Employee's receipt of any post-termination benefits described in this Agreement, Employee shall immediately surrender to the Company all lists, books and records of, or in connection with, the Company's business, and all other property belonging to the Company, it being distinctly understood that all such lists, books and records, and other documents, are the property of the Company. Employee shall deliver to the Company a signed statement certifying compliance with this Section 5(f) prior to the receipt of any post-termination benefits described in this Agreement.

(g) Short-Term Deferral . This Agreement is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the severance payment payable under Section 5(a)(ii) shall be paid no later than the later of: (i) the fifteenth (15 th ) day of the third month following Employee's first taxable year in which such severance benefit is no longer subject to a substantial risk of forfeiture, and (ii) the fifteenth (15 th ) day of the third month following the first taxable year of the Company in which such severance benefit is no longer subject to a substantial risk of forfeiture, as determined in accordance with Section 409A of the Code and any Treasury Regulations and other guidance issued thereunder. To the extent applicable, this Agreement shall be interpreted in accordance with the applicable exemptions from Section 409A of the Code.

(h) Payment Delay . Notwithstanding anything herein to the contrary, to the extent any payments to Employee pursuant to Section 5(a)(ii) are treated as non-qualified deferred compensation subject to Section 409A of the Code, then (i) no amount shall be payable pursuant to such section unless Employee's termination of employment constitutes a "separation from service" with the Company (as such term is defined in Treasury Regulation Section 1.409A-1(h) and any successor provision thereto) (a " Separation from Service "), and (ii) if Employee , at the time of his or her Separation from Service, is determined by the Company to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code and the Company determines that delayed commencement of any portion of the termination benefits payable to Employee pursuant to this Agreement is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code (any such delayed commencement, a " Payment Delay "), then such portion of Employee's termination benefits described in Section 5(a)(ii) shall not be provided to Employee prior to the earlier of (A) the expiration of the six-month period measured from the date of Employee's Separation from Service, (B) the date of Employee's death or (C) such earlier date as is permitted under Section 409A. Upon the expiration of the applicable Code Section 409A(a)(2)(B)(i) deferral period, all payments deferred pursuant to a Payment Delay shall be paid in a lump sum to Employee within thirty (30) days following such expiration, and any remaining payments due under the Agreement shall be paid as otherwise provided herein. The determination of whether Employee is a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code as of the time of his or her Separation from Service shall made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder (including without limitation Treasury Regulation Section 1.409A-1(i) and any successor provision thereto).

(i) Interpretation . To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (and any applicable transition relief under Section 409A of the Code). To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner that no payments payable under this Agreement shall be subject to an "additional tax" as defined in Section 409A(a)(1)(B) of the Code. Each series of installment payments made under this Agreement is hereby designated as a series of "separate payments" within the meaning of Section 409A of the Code.

6. Certain Covenants .

(a) Noncompetition . Except as may otherwise be approved by the Board, during the Employment Period, Employee shall not have any ownership interest (of record or beneficial) in, or perform services as an employee, salesman, consultant, officer or director of, or otherwise aid or assist in any manner, any firm, corporation, partnership, proprietorship or other business that engages in any county, city or part thereof in the United States and/or any foreign country in a business which competes directly or indirectly (as determined by the Board) with the Company's business in such county, city or part thereof, so long as the Company, or any successor in interest of the Company to the business and goodwill of the Company, remains engaged in such business in such county, city or part thereof or continues to solicit customers or potential customers therein; provided , however , that Employee may own, directly or indirectly, solely as an investment, securities of any entity if Employee (x) is not a controlling person of, or a member of a group which controls, such entity; or (y) does not, directly or indirectly, own ten percent (10%) or more of any class of securities of any such entity. Subject to the terms of the Proprietary Information and Inventions Agreement referred to in Section 6(b), nothing in this Agreement shall preclude Employee from devoting time to personal and family investments or serving on community and civic boards, or participating in industry associations, provided such activities do not interfere with his or her duties to the Company, as determined in good faith by the CEO. Employee agrees that he or she will not join any boards, other than community and civic boards (which do not interfere with his or her duties to the Company), without the prior approval of the CEO.

(b) Confidential Information . Employee and the Company have entered into the Company's standard proprietary information and inventions agreement (the " Proprietary Information and Inventions Agreement "). Employee agrees to perform each and every obligation of Employee therein contained.

(c) Solicitation of Employees . Employee shall not during the Employment Period and for the applicable severance period for which Employee receives severance benefits following any termination hereof pursuant to Section 5(a) above (the " Restricted Period "), directly or indirectly, solicit or encourage to leave the employment of the Company or any of its affiliates, any employee of the Company or any of its affiliates.

(d) Solicitation of Consultants . Employee shall not during the Employment Period and for the Restricted Period, directly or indirectly, hire, solicit or encourage to cease work with the Company or any of its affiliates any consultant then under contract with the Company or any of its affiliates within one year of the termination of such consultant's engagement by the Company or any of its affiliates.

(e) Rights and Remedies Upon Breach . If Employee breaches or threatens to commit a breach of any of the provisions of this Section 6 (the " Restrictive Covenants "), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity:

(i) Specific Performance . The right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, all without the need to post a bond or any other security or to prove any amount of actual damage or that money damages would not provide an adequate remedy, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide adequate remedy to the Company;

(ii) Accounting and Indemnification. The right and remedy to require Employee (i) to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits derived or received by Employee or any associated party deriving such benefits as a result of any such breach of the Restrictive Covenants; and (ii) to indemnify the Company against any other losses, damages (including special and consequential damages), costs and expenses, including actual attorneys' fees and court costs, which may be incurred by them and which result from or arise out of any such breach or threatened breach of the Restrictive Covenants; and

(iii) Termination of Severance Payments. In the event Employee breaches any of the provisions of this Section 6, the Company shall be entitled to immediately cease all payments under Section 5(a) above.

(f) Severability of Covenants/Blue Pencilling. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portions. If any court determines that any of the Restrictive Covenants, or any part thereof, are unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced. Employee hereby waives any and all right to attack the validity of the Restrictive Covenants on the grounds of the breadth of their geographic scope or the length of their term.

(g) Enforceability in Jurisdictions. The Company and Employee intend to and do hereby confer jurisdiction to enforce the Restrictive Covenants upon the courts of any jurisdiction within the geographical scope of such covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the Company and Employee that such determination not bar or in any way affect the right of the Company to the relief provided above in the courts of any other jurisdiction within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, such covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

(h) Whistleblower Provision. Nothing herein shall be construed to prohibit Employee from communicating directly with, cooperating with, or providing information to, any government regulator, including, but not limited to, the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, or the U.S. Department of Justice. Employee acknowledges that the Company has provided Employee with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (i) Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of Proprietary Information that is made in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (ii) Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of Proprietary Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (iii) if Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the Proprietary Information to my attorney and use the Proprietary Information in the court proceeding, if Employee files any document containing the Proprietary Information under seal, and does not disclose the Proprietary Information, except pursuant to court order.

(i) Definitions . For purposes of this Section 6, the term " Company " means not only Conatus Pharmaceuticals Inc., but also any company, partnership or entity which, directly or indirectly, controls, is controlled by or is under common control with Conatus Pharmaceuticals Inc.

7. Insurance; Indemnification . The Company shall have the right to take out life, health, accident, "key-man" or other insurance covering Employee, in the name of the Company and at the Company's expense in any amount deemed appropriate by the Company. Employee shall assist the Company in obtaining such insurance, including, without limitation, submitting to any required examinations and providing information and data required by insurance companies. Employee will be provided with indemnification against third party claims related to his or her work for the Company as required by Delaware law. The Company shall provide Employee with directors and officers liability insurance coverage at least as favorable as that which the Company may maintain from time to time for other executive officers.

8. Arbitration . Any dispute, claim or controversy based on, arising out of or relating to this Agreement, or the breach thereof, including questions regarding the arbitrability of a particular dispute, shall be settled by final and binding arbitration in San Diego, California, before a single neutral arbitrator in accordance with the National Rules for the Resolution of Employment Disputes (the " Rules ") of the American Arbitration Association, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction. The Rules may be found online at www.adr.org. Arbitration may be compelled pursuant to the California Arbitration Act (Code of Civil Procedure §§ 1280 et seq .). If the parties are unable to agree upon an arbitrator, one shall be appointed by the AAA in accordance with its Rules. Each party shall pay the fees of its own attorneys, the expenses of its witnesses and all other expenses connected with presenting its case; however , Employee and the Company agree that, to the extent permitted by law, the arbitrator may, in his or her discretion, award reasonable attorneys' fees to the prevailing party ; provided , further , that the prevailing party shall be reimbursed for such fees, costs and expenses within forty-five (45) days following any such award; provided, further, that the parties' obligations pursuant to the provisos set forth above shall terminate on the tenth (10th) anniversary of the date of Employee's termination of employment . Other costs of the arbitration, including the cost of any record or transcripts of the arbitration, AAA's administrative fees, the fee of the arbitrator, and all other fees and costs, shall be borne by the Company. This Section 8 is intended to be the exclusive method for resolving any and all claims by the parties against each other for payment of damages under this Agreement, or relating to Employee's employment; provided , however , that Employee shall retain the right to file administrative charges with or seek relief through any government agency of competent jurisdiction, and to participate in any government investigation, including but not limited to (i) claims for workers' compensation, state disability insurance or unemployment insurance; (ii) claims for unpaid wages or waiting time penalties brought before the California Division of Labor Standards Enforcement; provided , however , that any appeal from an award or from denial of an award of wages and/or waiting time penalties shall be arbitrated pursuant to the terms of this Agreement; and (iii) claims for administrative relief from the United States Equal Employment Opportunity Commission and/or the California Department of Fair Employment and Housing (or any similar agency in any applicable jurisdiction other than California); provided , further , that Employee shall not be entitled to obtain any monetary relief through such agencies other than workers' compensation benefits or unemployment insurance benefits. This Agreement shall not limit either party's right to obtain any provisional remedy, including, without limitation, injunctive or similar relief, from any court of competent jurisdiction as may be necessary to protect their rights and interests pending the outcome of arbitration, including without limitation injunctive relief, in any court of competent jurisdiction pursuant to California Code of Civil Procedure § 1281.8 or any similar statute of an applicable jurisdiction. Seeking any such relief shall not be deemed to be a waiver of such party's right to compel arbitration. Both Employee and the Company expressly waive their right to a jury trial to the extent permitted by applicable law.

9. Miscellaneous .

(a) Modification; Prior Claims . This Agreement and the Employee Proprietary Information and Inventions Agreement set s forth the entire understanding of the parties with respect to the subject matter hereof, supersede s all existing agreements between them concerning such subject matter , including without limitation, the Original Agreement, and may be modified only by a written instrument duly executed by each party. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

(b) Assignment; Assumption by Successor . The rights of the Company under this Agreement may, without the consent of Employee, be assigned by the Company, in its sole and unfettered discretion, to any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and to agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; provided , however , that no such assumption shall relieve the Company of its obligations hereunder. As used in this Agreement, the " Company " shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

(c) Survival . The covenants, agreements, representations and warranties contained in or made in Sections 4, 5, 6, 8 and 9 of this Agreement shall survive any termination of this Agreement.

(d) Third-Party Beneficiaries . This Agreement does not create, and shall not be construed as creating, any rights enforceable by any person not a party to this Agreement.

(e) Waiver . The failure of either party hereto at any time to enforce performance by the other party of any provision of this Agreement shall in no way affect such party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be deemed to be a waiver by such party of any other breach of the same or any other provision hereof.

(f) Section Headings . The headings of the several sections in this Agreement are inserted solely for the convenience of the parties and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(g) Notices . All notices, requests and other communications hereunder shall be in writing and shall be delivered by courier or other means of personal service (including by means of a nationally recognized courier service or professional messenger service), or sent by telex or telecopy or mailed first class, postage prepaid, by certified mail, return receipt requested, in all cases, addressed to the Company or the Board at the Company's principal executive office and to Employee at the most recent address on the Company's payroll records. All notices, requests and other communications shall be deemed given on the date of actual receipt or delivery as evidenced by written receipt, acknowledgement or other evidence of actual receipt or delivery to the address. In case of service by telecopy, a copy of such notice shall be personally delivered or sent by registered or certified mail, in the manner set forth above, within three business days thereafter. Any party hereto may from time to time by notice in writing served as set forth above designate a different address or a different or additional person to which all such notices or communications thereafter are to be given.

(h) Severability . All Sections, clauses and covenants contained in this Agreement are severable, and in the event any of them shall be held to be invalid by any court, this Agreement shall be interpreted as if such invalid Sections, clauses or covenants were not contained herein.

(i) Governing Law and Venue . This Agreement is to be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such State, and without regard to the conflicts of laws principles thereof. Except as provided in Sections 6 and 8, any suit brought hereon shall be brought in the state or federal courts sitting in San Diego, California, the parties hereto hereby waiving any claim or defense that such forum is not convenient or proper. Each party hereby agrees that any such court shall have in personam jurisdiction over it and consents to service of process in any manner authorized by California law.

(j) Non-transferability of Interest . None of the rights of Employee to receive any form of compensation payable pursuant to this Agreement shall be assignable or transferable except through a testamentary disposition or by the laws of descent and distribution upon the death of Employee. Any attempted assignment, transfer, conveyance, or other disposition (other than as aforesaid) of any interest in the rights of Employee to receive any form of compensation to be made by the Company pursuant to this Agreement shall be void.

(k) Gender . Where the context so requires, the use of the masculine gender shall include the feminine and/or neuter genders and the singular shall include the plural, and vice versa, and the word “person” shall include any corporation, firm, partnership or other form of association.

(l) Counterparts . This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

(m) Construction . The language in all parts of this Agreement shall in all cases be construed simply, according to its fair meaning, and not strictly for or against any of the parties hereto. Without limitation, there shall be no presumption against any party on the ground that such party was responsible for drafting this Agreement or any part thereof.

(n) Withholding and other Deductions . All compensation payable to Employee hereunder shall be subject to such deductions as the Company is from time to time required to make pursuant to law, governmental regulation or order.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

CONATUS PHARMACEUTICALS INC.

By: /s/ Steven J. Mento, Ph.D.
Name: Steven J. Mento, Ph.D.
Title: President and CEO

/s/ Daniel L. Ripley
Daniel L. Ripley

**Exhibit 10.3**

**GENERAL RELEASE OF CLAIMS**

THIS GENERAL RELEASE OF CLAIMS (this " Release ") is entered into by and between Conatus Pharmaceuticals, Inc., a Delaware corporation (the " Company "), and Charles J. Cashion (" Employee "), as of the Effective Date (as defined below).

WHEREAS, the Company and Employee are parties to that certain Employment Agreement dated as of December 17, 2008, as amended by that certain Amendment to Employment Agreement, dated July 2, 2013 (together, the " Employment Agreement ");

WHEREAS, Employee has resigned his position with the Company, effective March 31, 2017 (the " Termination Date ");

WHEREAS, the Company would like to provide Employee with certain equity award acceleration and extended exercisability, subject to Employee's execution of this Release; and

WHEREAS, the Company and Employee now wish to fully and finally resolve all matters between them.

NOW, THEREFORE, in consideration of, and subject to, the benefits to be provided to Employee described in Section 2(d) below, the adequacy of which is hereby acknowledged by Employee, and which Employee acknowledges that he would not otherwise be entitled to receive, Employee and the Company hereby agree as follows:

1. Effective Date; Termination of Employment .

(a) Effective Date . This Release shall become effective upon the occurrence of both of the following events: (i) execution of the Release by the parties; and (ii) expiration of the revocation period applicable under Section 3(d) below without Employee having given notice of revocation. The date of the last to occur of the foregoing events shall be referred to in this Release as the " Effective Date ." Until and unless both of the foregoing events occur, this Release shall be null and void. Employee understands that Employee will not be given any severance benefits under this Release unless the Effective Date occurs on or before the date that is thirty (30) days following the Termination Date (as defined below).

(b) Termination of Employment . Employee's employment by the Company will terminate effective as of Termination Date. Employee hereby resigns from his position as Senior Vice President, Finance, Chief Financial Officer and Secretary, and any and all other titles or positions he may hold with the Company (and any of its affiliates and subsidiaries) effective as of the Termination Date. Employee shall execute any additional documentation necessary to effectuate such resignations.

2. Compensation .

(a) Compensation Through Termination Date . On the Termination Date, the Company shall issue to Employee his final paycheck, reflecting (i) Employee's fully earned but unpaid base salary, through the Termination Date at the rate then in effect, and (ii) all accrued, unused paid time off due Employee through the Termination Date. In addition, subject to Section 2(d) below, all vesting of Employee's unvested stock options previously granted to him by the Company shall cease and none of such unvested stock options shall be exercisable following the Termination Date. Subject to Sections 2(b) and (d) below, Employee acknowledges and agrees that with his final check, Employee received all monies, bonuses, commissions, expense reimbursements, paid time off, or other compensation he earned or was due during his employment by the Company.

(b) Expense Reimbursements . The Company, within thirty (30) days after the Termination Date, will reimburse Employee for any and all reasonable and necessary business expenses incurred by Employee in connection with the performance of his job duties prior to the Termination Date, which expenses shall be submitted to the Company with supporting receipts and/or documentation no later than thirty (30) days after the Termination Date.

(c) Benefits . Employee's entitlement to benefits from the Company, and eligibility to participate in the Company's benefit plans, shall cease on the Termination Date, except to the extent Employee elects to and is eligible to receive continued healthcare coverage pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" COBRA "), for himself and any covered dependents, in accordance with the provisions of COBRA.

(d) Acceleration and Extension of Stock Options . In exchange for Employee's agreement to be bound by the terms of this Release, including, but not limited to, the release of claims in Section 3, on the Effective Date, (i) the vesting and/or exercisability of each of Employee's outstanding stock options shall be automatically accelerated as to the number of shares subject to such stock options that would have vested over the two (2) year period following the Termination Date had Employee remained continuously employed by the Company during such period, and (ii) any of Employee's vested stock options (after giving effect to the acceleration in clause (i) above, may be exercised by Employee (or Employee's legal guardian or legal representative) until the date that is two (2) years following the Termination Date ( provided , however , that in no event shall any stock option remain exercisable beyond the original outside expiration date of such stock option). Except as modified above, Employee's stock options shall continue to be governed by the terms and conditions of the stock option agreements and the Company's equity plan pursuant to which such stock options were granted. The foregoing benefits shall be the exclusive benefits to which Employee is entitled in connection with his termination of employment, unless Employee has materially breached the provisions of this Release, in which case the last sentence of Section 4 shall apply.

(e) Return of the Company's Property . On the Termination Date, Employee shall immediately surrender to the Company all lists, books and records of, or in connection with, the Company's business, and all other property belonging to the Company, it being distinctly understood that all such lists, books and records, and other documents, are the property of the Company.

3. General Release of Claims by Employee .

(a) Employee, on behalf of himself and his executors, heirs, administrators, representatives and assigns, hereby agrees to release and forever discharge the Company and all predecessors, successors and their respective parent corporations, affiliates, related, and/or subsidiary entities, and all of their past and present investors, directors, shareholders, officers, general or limited partners, employees, attorneys, agents and representatives, and the employee benefit plans in which Employee is or has been a participant by virtue of his employment with or service to the Company (collectively, the " Company Releasees "), from any and all claims, debts, demands, accounts, judgments, rights, causes of action, equitable relief, damages, costs, charges, complaints, obligations, promises, agreements, controversies, suits, expenses, compensation, responsibility and liability of every kind and character whatsoever (including attorneys' fees and costs), whether in law or equity, known or unknown, asserted or unasserted, suspected or unsuspected (collectively, " Claims "), which Employee has or may have had against such entities based on any events or circumstances arising or occurring on or prior to the date hereof, arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever Employee's employment by or service to the Company or the termination thereof, including any and all claims arising under federal, state, or local laws relating to employment, including without limitation claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, or liability in tort, and claims of any kind that may be brought in any court or administrative agency including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the " ADEA "); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and the California Fair Employment and Housing Act, California Government Code Section 12940, et seq.

Notwithstanding the generality of the foregoing, Employee does not release the following claims:

(i) Claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law;

(ii) Claims for workers' compensation insurance benefits under the terms of any worker's compensation insurance policy or fund of the Company;

(iii) Claims pursuant to the terms and conditions of the federal law known as COBRA;

(iv) Claims for indemnity under the bylaws of the Company, as provided for by California law (including California Labor Code Section 2802) or under any applicable insurance policy with respect to Employee's liability as an employee, director or officer of the Company;

(v) Claims based on any right Employee may have to enforce the Company's executory obligations under this Release;

(vi) Employee's right to bring to the attention of the Equal Employment Opportunity Commission or the California Department of Fair Employment and Housing claims of discrimination; provided , however , that Employee does release his right to secure any damages for alleged discriminatory treatment; and

(vii) Any other Claims that cannot be released as a matter of law.

(b) EMPLOYEE ACKNOWLEDGES THAT HE HAS BEEN ADVISED OF AND IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY HIM OR HER, MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

BEING AWARE OF SAID CODE SECTION, EMPLOYEE HEREBY EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

(c) Employee acknowledges that this Release was presented to him on March 3, 2017, and that Employee is entitled to have twenty-one (21) days' time in which to consider it. Employee further acknowledges that the Company has advised him that he is waiving his rights under the ADEA, and that Employee should consult with an attorney of his choice before signing this Release, and Employee has had sufficient time to consider the terms of this Release. Employee represents and acknowledges that if Employee executes this Release before twenty-one (21) days have elapsed, Employee does so knowingly, voluntarily, and upon the advice and with the approval of Employee's legal counsel (if any), and that Employee voluntarily waives any remaining consideration period.

(d) Employee understands that after executing this Release, Employee has the right to revoke it within seven (7) days after his execution of it. Employee understands that this Release will not become effective and enforceable unless the seven (7) day revocation period passes and Employee does not revoke the Release in writing. Employee understands that this Release may not be revoked after the seven (7) day revocation period has passed. Employee also understands that any revocation of this Release must be made in writing and delivered to Steven J. Mento, Ph.D., the Chief Executive Officer of the Company, at the Company's principal place of business, within the seven (7) day period.

(e) Employee understands that this Release shall become effective, irrevocable, and binding upon Employee on the eighth (8th) day after his execution of it, so long as Employee has not revoked it within the time period and in the manner specified in clause (d) above.

4. Confirmation of Continuing Obligations .

(a) Employee hereby expressly reaffirms his obligations under Section 6 of the Employment Agreement, a copy of which is attached to this Release as Exhibit A and incorporated herein by reference, and under the Company's standard employee proprietary information and inventions agreement (the " Employee Proprietary Information and Inventions Agreement ") a copy of which is attached to this Release as Exhibit B and incorporated herein by reference, and agrees that such obligations shall survive the Termination Date and any termination of his services to the Company. The Company shall be entitled to discontinue the extended exercisability of the Options provided under Section 2(d) in the event of his material breach of this Section 4.

(b) Employee acknowledges that the Company has provided him with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (i) Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of Proprietary Information (as defined in the Employee Proprietary Information and Inventions Agreement) that is made in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (ii) Employee shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of Proprietary Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal, and (iii) if Employee files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Employee may disclose the Proprietary Information to his attorney and use the Proprietary Information in the court proceeding, if he files any document containing the Proprietary Information under seal, and does not disclose the Proprietary Information, except pursuant to court order.

5. Nondisparagement; Confidentiality . Employee agrees that he shall not disparage or otherwise communicate negative statements or opinions about the Company, its board members, officers, employees, shareholders or agents; provided , however , that Employee shall not be prohibited from making such statements or opinions to his immediate family so long as such statements or opinions are not likely to be harmful to the Company, its board members, officers, employees, shareholders or agents or its or their businesses, business reputations, or personal reputations. The Company agrees that neither its board members nor officers shall disparage or otherwise communicate negative statements or opinions about Employee. Except as may be required by law, neither Employee, nor any member of Employee's family, nor anyone else acting by, through, under or in concert with Employee will disclose to any individual or entity (other than Employee's legal or tax advisors) the terms of this Release. Nothing in this Section 5 shall prohibit Employee from testifying in any legal proceeding in which his testimony is compelled by law or court order and no breach of this provision shall occur due to any accurate, legally compelled testimony.

6. Arbitration . Any dispute, claim or controversy based on, arising out of or relating to Employee's employment or this Release shall be settled by final and binding arbitration in San Diego, California, before a single neutral arbitrator in accordance with the National Rules for the Resolution of Employment Disputes (the " Rules ") of the American Arbitration Association, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction. The Rules may be found online at www.adr.org. Arbitration may be compelled pursuant to the California Arbitration Act (Code of Civil Procedure §§ 1280 et seq .). If the parties are unable to agree upon an arbitrator, one shall be appointed by the AAA in accordance with its Rules. Each party shall pay the fees of its own attorneys, the expenses of its witnesses and all other expenses connected with presenting its case; however , Employee and the Company agree that, to the extent permitted by law, the arbitrator may, in his or her discretion, award reasonable attorneys' fees to the prevailing party; provided , further , that the prevailing party shall be reimbursed for such fees, costs and expenses within forty-five (45) days following any such award, but in no event later than the last day of Employee's taxable year following the taxable year in which the fees, costs and expenses were incurred; provided , further , that the parties' obligations pursuant to this sentence shall terminate on the tenth (10 th ) anniversary of the Termination Date. Other costs of the arbitration, including the cost of any record or transcripts of the arbitration, AAA's administrative fees, the fee of the arbitrator, and all other fees and costs, shall be borne by the Company. This Section 6 is intended to be the exclusive method for resolving any and all claims by the parties against each other for payment of damages under this Release or relating to Employee's employment; provided , however , that Employee shall retain the right to file administrative charges with or seek relief through any government agency of competent jurisdiction, and to participate in any government investigation, including but not limited to (i) claims for workers' compensation, state disability insurance or unemployment insurance; (ii) claims for unpaid wages or waiting time penalties brought before the California Division of Labor Standards Enforcement; provided , however , that any appeal from an award or from denial of an award of wages and/or waiting time penalties

shall be arbitrated pursuant to the terms of this Release; and (iii) claims for administrative relief from the United States Equal Employment Opportunity Commission and/or the California Department of Fair Employment and Housing (or any similar agency in any applicable jurisdiction other than California); provided , further , that Employee shall not be entitled to obtain any monetary relief through such agencies other than workers' compensation benefits or unemployment insurance benefits. This Release shall not limit either party's right to obtain any provisional remedy, including, without limitation, injunctive or similar relief, from any court of competent jurisdiction as may be necessary to protect their rights and interests pending the outcome of arbitration, including without limitation injunctive relief, in any court of competent jurisdiction pursuant to California Code of Civil Procedure § 1281.8 or any similar statute of an applicable jurisdiction. Seeking any such relief shall not be deemed to be a waiver of such party's right to compel arbitration. Both Employee and the Company expressly waive their right to a jury trial.

7. Miscellaneous .

(a) Assignment; Assumption by Successor . The rights of the Company under this Release may, without the consent of Employee, be assigned by the Company, in its sole and unfettered discretion, to any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and to agree to perform this Release in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; provided , however , that no such assumption shall relieve the Company of its obligations hereunder. As used in this Release, the " Company " shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Release by operation of law or otherwise.

(c) Survival . The covenants, agreements, representations and warranties contained in or made in Sections 2, 3, 4, 5, 6 and 7 of this Release shall survive Employee's termination of employment or any termination of this Release.

(d) Severability . In the event any provision of this Release is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the Parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

(e) Interpretation; Construction . The headings set forth in this Release are for convenience only and shall not be used in interpreting this Release. This Release has been drafted by legal counsel representing the Company, but Employee has participated in the negotiation of its terms. Furthermore, Employee acknowledges that Employee has had an opportunity to review and revise the Release and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Release. Either party's failure to enforce any provision of this Release shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Release.

(d) Governing Law and Venue . This Release is to be governed by and construed in accordance with the laws of the United States of American and the State of California applicable to contracts made and to be performed wholly within such State, and without regard to the conflicts of laws principles thereof. Except as provided in Section 6, any suit brought hereon shall be brought in the state or federal courts sitting in San Diego, California, the parties hereto hereby waiving any claim or defense that such forum is not convenient or proper. Each party hereby agrees that any such court shall have in personam jurisdiction over it and consents to service of process in any manner authorized by California law.

(e) Entire Agreement; Modification . This Release, the Employee Proprietary Information and Inventions Agreement and Section 6 of the Employment Agreement set forth the entire understanding of the parties with respect to the subject matter hereof, supersedes all existing agreements between them concerning such subject matter. Except as provided in Section 4 hereof with respect to Section 6 of the Employment Agreement, the Employment Agreement shall be superseded entirely by this Release and the Employment Agreement shall be terminated and be of no further force or effect. This Release may be amended or modified only with the written consent of Employee and an authorized representative of the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

(f) Counterparts . This Release may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Release.

(g) Withholding and other Deductions . All compensation payable to Employee hereunder shall be subject to such deductions as the Company is from time to time required to make pursuant to law, governmental regulation or order.

(i) RIGHT TO ADVICE OF COUNSEL . EMPLOYEE ACKNOWLEDGES THAT HE HAS THE RIGHT, AND IS ENCOURAGED, TO CONSULT WITH HIS LAWYER; BY HIS SIGNATURE BELOW, EMPLOYEE ACKNOWLEDGES THAT HE HAS CONSULTED, OR HAS ELECTED NOT TO CONSULT, WITH HIS LAWYER CONCERNING THIS RELEASE .

(Signature Page Follows)

IN WITNESS WHEREOF, the parties have executed this Release as of the dates set forth below.

**CONATUS PHARMACEUTICALS, INC.**

Date: March 22, 2017

By: /s/ Steven J. Mento, Ph.D.
Name: Steven J. Mento, Ph.D.
Title: Chief Executive Officer

**EMPLOYEE**

Date: March 22, 2017

/s/ Charles J. Cashion
Charles J. Cashion

**Exhibit 31.1**

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven J. Mento, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conatus Pharmaceuticals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ Steven J. Mento, Ph.D.
Steven J. Mento, Ph.D.
President and Chief Executive Officer
(principal executive officer and principal financial officer)

**Exhibit 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Conatus Pharmaceuticals Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven J. Mento, Ph.D., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2017

/s/ Steven J. Mento, Ph.D.
Steven J. Mento, Ph.D.
President and Chief Executive Officer
(principal executive officer and principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.