UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2019
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: 001-36361

Aravive, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**2834**	**26-4106690**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

River Oaks Tower
3730 Kirby Drive, Suite 1200
Houston, Texas 77098
(Address of principal executive offices)
(936) 355-1910
(Registrant's Telephone Number, including area code)
LyondellBasell Tower
1221 McKinney Street, Suite 3200
Houston, Texas 77010
(Former Name, Former Address and Former Fiscal Year, if changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	**ARAV**	**Nasdaq Global Select Market**

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period than the registrant was required to submit 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 definition 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	☐	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 August 1, 2019, there were 11,284,964 outstanding shares of common stock, par value $0.0001 per share, of Aravive, Inc.

ARAVIVE, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2019

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARAVIVE, INC. (FORMERLY KNOWN AS VERSARTIS, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	$ 48,384	$ 56,992
Prepaid expenses and other current assets	3,667	1,038
Total current assets	52,051	58,030
Restricted cash	2,409	2,396
Property and equipment, net	1,996	32
Operating lease right-of-use assets	9,501	—
Build-to-suit lease asset	—	8,651
Intangible asset, net	280	341
Other assets	509	20
Total assets	66,746	69,470
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 711	$ 426
Accrued liabilities	1,400	1,365
Operating lease obligation, current portion	2,505	—
Deferred revenue	—	146
Total current liabilities	4,616	1,937
Contingent payable	264	264
Operating lease obligation	8,995	—
Build-to-suit lease obligation	—	7,324
Total liabilities	13,875	9,525
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock, $0.0001 par value, 100,000,000 shares authorized at June 30, 2019 and December 31, 2018; 11,284,580 and 11,266,151 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	1	1
Additional paid-in capital	512,511	510,509
Accumulated deficit	(459,641)	(450,565)
Total stockholders' equity	52,871	59,945
Total liabilities and stockholders' equity	$ 66,746	$ 69,470

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARAVIVE, INC. (FORMERLY KNOWN AS VERSARTIS, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Grant revenue	$ 3,054	$ —	$ 4,753	$ —
Operating expenses				
Research and development	3,637	3,438	$ 6,485	$ 7,038
General and administrative	3,291	6,003	7,881	10,920
Total operating expenses	6,928	9,441	14,366	17,958
Loss from operations	(3,874)	(9,441)	(9,613)	(17,958)
Interest income	233	249	579	442
Other income (expense), net	597	(656)	1,286	(1,313)
Net loss	$ (3,044)	$ (9,848)	$ (7,748)	$ (18,829)
Net loss per share - basic and diluted	$ (0.27)	$ (1.64)	$ (0.69)	$ (3.14)
Weighted-average common shares used to compute basic and diluted net loss per share	11,280	6,023	11,277	6,002

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARAVIVE, INC. (FORMERLY KNOWN AS VERSARTIS, INC.)
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)
(in thousands, except share data)

	Three and Six Months Ended June 30, 2019				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balances at January 1, 2019	11,266,151	$ 1	$ 510,509	$ (450,565)	$ 59,945
Issuance of common stock under employee benefit plans	10,349	—	—	—	—
Stock-based compensation	—	—	1,048	—	1,048
Cumulative-effect adjustment to equity due to adoption of ASU 2016-02	—	—	—	(1,328)	(1,328)
Net loss	—	—	—	(4,704)	(4,704)
Balances at March 31, 2019	11,276,500	1	511,557	(456,597)	54,961
Issuance of common stock upon exercise of options	2,000	—	2	—	2
Issuance of common stock under employee benefit plans	6,080	—	11	—	11
Stock-based compensation	—	—	941	—	941
Net loss	—	—	—	(3,044)	(3,044)
Balances at June 30, 2019	11,284,580	$ 1	$ 512,511	$ (459,641)	$ 52,871

	Three and Six Months Ended June 30, 2018				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balances at January 1, 2018	5,989,645	$ 1	$ 456,984	$ (374,232)	$ 82,753
Issuance of common stock upon exercise of options	3,643	—	35	—	35
Issuance of common stock under employee benefit plans	18,300	—	—	—	—
Stock-based compensation	—	—	2,820	—	2,820
Net loss	—	—	—	(8,981)	(8,981)
Balances at March 31, 2018	6,011,588	1	459,839	(383,213)	76,627
Issuance of common stock under employee benefit plans	28,477	—	—	—	—
Stock-based compensation	—	—	2,155	—	2,155
Net loss	—	—	—	(9,848)	(9,848)
Balances at June 30, 2018	6,040,065	$ 1	$ 461,994	$ (393,061)	$ 68,934

The accompanying notes are an integral part of these condensed consolidated financial statements.

ARAVIVE, INC. (FORMERLY KNOWN AS VERSARTIS, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net loss	$ (7,748)	$ (18,829)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	248	236
Stock-based compensation expense	1,989	4,976
Changes in assets and liabilities		
Prepaid expenses and other assets	(3,118)	(124)
Accounts payable	284	(695)
Deferred revenue	(146)	—
Accrued and other liabilities	(117)	(860)
Net cash used in operating activities	(8,608)	(15,296)
Cash flows from financing activities		
Inducement on build-to-suit lease obligation	—	1,896
Proceeds from issuance of common stock in connection with employee benefit plans	13	35
Net cash provided by financing activities	13	1,931
Net change in cash, cash equivalents, and restricted cash	(8,595)	(13,365)
Cash, cash equivalents, and restricted cash at beginning of period	59,388	83,529
Cash, cash equivalents, and restricted cash at end of period	$ 50,793	$ 70,164

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. Formation and Business of the Company

Aravive, Inc. ("Aravive" or the "Company") was incorporated on December 10, 2008 in the State of Delaware. Aravive is a clinical stage biopharmaceutical company developing treatments designed to halt the progression of life-threatening diseases, including cancer and fibrosis. Prior to the merger with Aravive Biologics, Inc. (the "Merger"), Aravive (then known as Versartis, Inc.) was an endocrine-focused biopharmaceutical company that was developing a long-acting recombinant human growth hormone for the treatment of growth hormone deficiency. The "Company" refers to Aravive as a combined company following the completion of the Merger with Aravive Biologics, Inc. ("Private Aravive"). The Merger became effective on October 12, 2018. On October 15, 2018, Versartis, Inc. changed its name to Aravive, Inc.

The Company has been primarily performing research and development activities, including clinical trials, filing patent applications, and raising capital to support and expand these activities. Its headquarters and principal operations are located in Houston, Texas.

The Company's product candidates, AVB-S6, are a set of novel, ultra high-affinity, decoy proteins that target the GAS6-AXL pathway. By capturing serum GAS6, these high affinity decoy proteins starve the AXL pathway of its signal, potentially halting the biological programming that promotes disease progression. AXL signaling plays an important role in multiple types of malignancies by promoting metastasis, cancer cell survival, resistance to treatments, and immune suppression. The GAS6-AXL signaling pathway also plays a significant role in fibrogenesis. The Company's lead product candidate is AVB-500 (previously referred to as AVB-S6-500).

The Company has generated preclinical data for AVB-S6 proteins in both acute myeloid leukemia and certain advanced solid tumors including ovarian, renal, pancreatic, and breast cancers. The Company's current development program benefits from the availability of a complementary serum-based biomarker that it expects will help accelerate drug development and reduce risk by allowing the Company to select a pharmacologically active dose. In its Phase 1 clinical trial with its clinical lead product candidate, AVB-500, the Company established proof of mechanism by demonstrating full GAS6 neutralization at all doses tested. Importantly, the lead protein candidate had a favorable safety profile preclinically and in the first in human study. The Company has initiated the Phase 1b portion of a Phase 1b/2 clinical trial of AVB-500 combined with standard of care therapies in patients with platinum-resistant ovarian cancer. We intend to expand development into additional oncology and fibrotic indications.

In July 2016, Private Aravive was approved for a $20 million Product Development Award from the Cancer Prevention and Research Institute of Texas ("CPRIT Grant"). The CPRIT Grant is expected to allow Private Aravive to develop the product candidates referenced above through clinical trials. The CPRIT Grant is effective as of June 1, 2016 and terminates on November 30, 2019. After the termination date, Private Aravive is not permitted to retain any unused grant award proceeds without CPRIT's approval, but Private Aravive's royalty and other obligations, including its obligation to repay the disbursed grant proceeds under certain circumstances, survive the termination of the agreement. The CPRIT Grant is subject to customary CPRIT funding conditions including a matching funds requirement where Private Aravive will match 50% of funding from the CPRIT Grant. Consequently, Private Aravive was required to raise $10.0 million in matching funds over the three-year project. Private Aravive has raised all of its required $10.0 million in matching funds.

Private Aravive's award from CPRIT requires it to pay CPRIT a portion of its revenues from sales of certain products by it, or received from its licensees or sublicensees, at tiered percentages of revenue in the low- to mid-single digits until the aggregate amount of such payments equals 400% of the grant award proceeds, and thereafter at a rate of less than one percent for as long as Private Aravive maintains government exclusivity. In addition, the grant contract also contains a provision that provides for repayment to CPRIT of the full amount of the grant proceeds under certain specified circumstances involving relocation of Private Aravive's principal place of business outside Texas.

As consideration for the rights granted as part of a license agreement with Stanford University, Private Aravive is obligated to pay yearly license fees and milestone payments, and a royalty based on net sales of products covered by the patent-related rights. More specifically, Private Aravive is obligated to pay Stanford University (i) annual license payments (ii) milestone payments of up to an aggregate of $1,000,000 upon achievement of clinical and regulatory milestones, and (iii) royalties equal to a percentage (in the low single digits) of net sales of licensed products; provided that the annual license payments made will offset (and be credited against) any royalties due in such license year. In the event of a sublicense to a third party of any rights based on the patents that are solely owned by Stanford University, Private Aravive is obligated to pay royalties to Stanford University equal to a percentage of what Private Aravive would have been required to pay to Stanford University had it sold the products under sublicense itself. In addition, in such event it is required to pay to Stanford University a percent of sublicensing income. In the event of a termination, Private Aravive will be obligated to pay all amounts that accrued prior to such termination.

Unaudited Interim Financial Information

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of June 30, 2019 and, its results of operations for each of the three and six months ended June 30, 2019 and 2018, and cash flows for the six months ended June 30, 2019, and 2018. The December 31, 2018 condensed consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles in the United States of America, or GAAP. The results for interim periods are not necessarily indicative of the results for the entire year or any other interim period. The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K filed by the Company on March 15, 2019 or the Annual Report with the U.S. Securities and Exchange Commission, or the SEC.

2. Summary of Significant Accounting Policies

Significant Accounting Policies

As of January 1, 2019, the Company adopted ASC 842 – *Leases*, as discussed in the section titled "Recent Accounting Pronouncements" of this Note 2. As a result, the Company added a new significant accounting policy "Leases" as described below. There have been no other significant changes to the Company's accounting policies described in the Annual Report.

Basis of Presentation and Use of Estimates

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

The accompanying unaudited condensed consolidated financial position as of June 30, 2019 and as of December 31, 2018, the results of operations for each of the three and six months ended June 30, 2019 and 2018, and cash flows for the six months ended June 30, 2019 and 2018 include the accounts of Aravive, Inc. and its wholly-owned subsidiaries, Versartis Cayman Holdings Company, incorporated in 2014, Versartis GmbH, incorporated in 2015 and Private Aravive, incorporated in 2007, which was not included as a subsidiary in 2018. After 2015, the Cayman and GmbH subsidiaries became dormant. All intercompany accounts and transactions have been eliminated. The U.S. dollar is the functional currency for all of the Company's subsidiaries and consolidated operations.

As of June 30, 2019, the Company had a cash and cash equivalents balance of approximately $48.4 million consisting of cash and cash equivalents in highly liquid U.S. money market funds. The Company believes that its existing cash and cash equivalents will be sufficient to sustain operations for at least the next 12 months from the issuance of these financial statements, based on its current business plan. The Company's expected primary use of cash will be to fund the Company's clinical development programs, specifically for its product candidate AVB-500. Since inception, the Company has incurred net losses and negative cash flows from operations supporting the Company's clinical development programs and related general and administrative expenses. At June 30, 2019, the Company had an accumulated deficit of approximately $459.6 million and working capital of approximately $47.4 million. The Company expects to continue to incur losses supporting its clinical development program and related administrative expenses. The Company anticipates it may need additional financing to support its business plan as it moves forward. Although management has been successful in raising capital in the past, there can be no assurance that the Company will be successful or that any needed financing will be available in the future at terms acceptable to the Company.

Segments

The Company operates in one segment. Management uses one measurement of performance and does not segregate its business for internal reporting. All long-lived assets are maintained in the United States of America.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. All of the Company's cash and cash equivalents are held at several financial institutions that management believes are of high credit quality. Such deposits may exceed federally insured limits.

Risk and Uncertainties

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, uncertainty of results of clinical trials and reaching milestones, uncertainty of regulatory approval of the Company's potential drug candidates, uncertainty of market acceptance of the Company's products, competition from substitute products and larger companies, securing and protecting proprietary technology, strategic relationships or a strategic transaction and dependence on key individuals and sole source suppliers.

Products developed by the Company require clearances from the U.S. Food and Drug Administration, or the FDA, the Pharmaceuticals Medicines and Devices Agency, or the PMDA, or other international regulatory agencies prior to commercial sales. There can be no assurance that the products will receive the necessary clearances. If the Company was denied clearance, clearance was delayed, or the Company was unable to maintain clearance, it could have a materially adverse impact on the Company.

The Company expects to incur substantial operating losses for the next several years and will need to obtain additional financing in order to develop, launch and commercialize any product candidates for which it receives regulatory approval.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2019 and December 31, 2018, the Company's cash and cash equivalents were held at multiple institutions in the United States and included deposits in money market funds which were unrestricted as to withdrawal or use.

Restricted Cash

Restricted cash includes cash and cash equivalents that is restricted through legal contracts, regulations or the Company's intention to use the cash for a specific purpose. The Company's restricted cash primarily relates to the letter of credit provided to its Landlord for the Company's facilities in Menlo Park, California (as described in Note 5) to secure its obligations under the lease.

Property and Equipment, Net

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, generally between three and five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life or the term of the lease. Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the balance sheet and any resulting gain or loss is reflected in operations in the period realized.

Leases

The Company adopted ASC 842 on January 1, 2019. For the periods prior to January 1, 2019, the Company's leases were accounted for under ASC 840. The Company leases all of its office space in conducting its business. At inception, the Company determines whether an agreement represents a lease and at commencement the Company evaluates each lease agreement to determine whether the lease is an operating or financing lease. As described below under "Recent Accounting Pronouncements", the Company adopted the Financial Accounting Standards Board Accounting Standards Update, or ASU, "Leases," or ASU 2016-02. The Company elected to adopt the standard on January 1, 2019 using the alternative transition method provided by ASU 2018-11 whereby the Company recorded right-of-use ("ROU") assets and lease liabilities for its existing leases as of January 1, 2019, as well as a cumulative-effect adjustment to accumulated deficit of initially applying the new standard as of January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company has elected the practical expedients to not reassess its prior conclusions about lease identification under the new standard, to not reassess lease classification, and to not reassess initial direct costs. The Company has elected the practical expedient allowing the use-of-hindsight which doesn't require the Company to reassess the lease term of its leases based on all facts and circumstances through the effective date.

The new guidance also provides practical expedients for ongoing lease accounting. The Company has elected the recognition exemption for short-term lease for all leases that qualify. Under this exemption, the Company will not recognize ROU assets or lease liabilities on the balance sheet for those leases that qualify as a short-term lease, which includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company has also elected the practical expedient to not separate lease and non-lease components for all equipment and real-estate leases.

With the adoption of ASU 2016-02, the Company recorded an operating lease right-of-use asset and an operating lease obligation on the consolidated balance sheet. ROU assets represent the Company's ROU of the underlying asset for the lease term and the lease obligation represents the Company's commitment to make the lease payments arising from the lease. ROU obligations are recognized at the commencement date based on the present value of remaining lease payments over the lease term and ROU assets are calculated as the lease liability, adjusted by unamortized initial direct costs, unamortized lease incentives received, cumulative deferred or prepaid lease payments, and accumulated impairment losses. As the Company's leases do not provide an implicit rate, the Company has used an estimated incremental borrowing rate based on the information available at the adoption date in determining the present value of lease payments. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms. Variable lease costs such as common area costs and property taxes are expensed as incurred. For all lease agreements the Company has combined lease and nonlease components. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Prior to the Company's adoption of ASU 2016-02, when the Company's lease agreements contained renewal options, tenant improvement allowances, rent holidays and rent escalation clauses, the Company recorded a deferred rent asset or liability equal to the difference between the rent expense and the future minimum lease payments due. The lease expense related to operating leases was recognized on a straight-line basis in the statements of operations over the term of each lease.

Impairment of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by the comparison of the carrying amount to the future net cash flows which the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value (i.e. determined through estimating projected discounted future net cash flows or other acceptable methods of determining fair value) arising from the asset. There have been no such impairments of long-lived assets as of June 30, 2019 or December 31, 2018.

Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, prepaid expenses, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these items.

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity for the related assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments consist of Level 1 assets as of June 30, 2019. Level 1 securities are comprised of highly liquid money market funds.

Preclinical and Clinical Trial Accruals

The Company's clinical trial accruals are based on estimates of patient enrollment and related costs at clinical investigator sites as well as estimates for the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations, or CROs, that conduct and manage clinical trials on the Company's behalf.

The Company estimates preclinical and clinical trial expenses based on the services performed, pursuant to contracts with research institutions and clinical research organizations that conduct and manage preclinical studies and clinical trials on its behalf. In accruing service fees, the Company estimates the time period over which services will be performed and the level of patient enrollment and activity expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses until the services are rendered.

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs include, but are not limited to, payroll and personnel expenses, laboratory supplies, consulting costs, external research and development expenses and allocated overhead, including rent, equipment depreciation, and utilities. Costs to acquire technologies to be used in research and development that have not reached technological feasibility and have no alternative future use are expensed to research and development costs when incurred.

Income Taxes

The Company accounts for income taxes under the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is greater than percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

Stock-Based Compensation

For stock options granted to employees, the Company recognizes compensation expense for all stock-based awards based on the grant-date estimated fair value. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The fair value of stock options is determined using the Black-Scholes option pricing model. The determination of fair value for stock-based awards on the date of grant using an option pricing model requires management to make certain assumptions regarding a number of complex and subjective variables.

Stock-based compensation expense related to stock options granted to nonemployees is recognized based on the fair value of the stock options, determined using the Black-Scholes option pricing model, as they are earned. The awards generally vest over the time period the Company expects to receive services from the nonemployee.

Stock-based compensation expense, net of estimated forfeitures, is reflected in the condensed consolidated statements of operations and comprehensive loss as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating Expenses				
Research and development	$ 112	$ 877	$ 198	$ 1,759
General and administrative	829	1,278	1,791	3,216
Total	$ 941	$ 2,155	$ 1,989	$ 4,975

Comprehensive Loss

Comprehensive loss is defined as a change in equity of a business enterprise during a period, resulting from transactions from non-owner sources. Specifically, the Company includes cumulative foreign currency translation adjustments and net unrealized gains and losses on effective cash flow hedges. There was no difference between net loss and comprehensive loss for all periods presented.

Net Loss per Share of Common Stock

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, stock options, restricted stock units and shares issued under the Company's Employee Stock Purchase Plan are considered to be potentially dilutive securities. Because the Company has reported a net loss for all of the periods presented, diluted net loss per common share is the same as basic net loss per common share for those periods.

Intangible Asset

Intangible assets consist of an assembled workforce which was acquired as part of the Merger. Intangible assets with definite lives are amortized based on their pattern of economic benefit over their estimated useful lives and reviewed periodically for impairment. The estimated useful life of the assembled workforce is 3 years.

Revenue Recognition

The Company's sole source of revenue for 2019 and 2018 was grant revenue related to the CPRIT contract, which is being recognized when qualifying costs are incurred and there is reasonable assurance that the conditions of the award have been met for collection. Proceeds received prior to the costs being incurred or the conditions of the award being met are recognized as deferred revenue until the services are performed and the conditions of the award are met.

As of June 30, 2019, the Company has recognized $4.8 million from the CPRIT grant. Funds received are reflected in deferred revenue as a liability until revenue is earned. Grant revenue is recognized when qualifying costs are incurred. As of June 30, 2019, the Company had an unbilled receivable from CPRIT of $2.0 million, which is reflected in prepaids and other current assets on the accompanying consolidated balance sheet.

Quarterly reclassifications

Certain reclassifications of prior period amounts have been made within the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019. Specifically, during the fourth quarter ended December 31, 2018, the Company determined that the amount related to the inducement on build-to-suit lease obligation as reflected within one line in the investing activities section of the unaudited consolidated statement of cash flows for the six month period ended June 30, 2018 included in the Form 10-Q, should have been classified as cash flows provided from financing activities. There is no impact to the consolidated statements of operations and comprehensive loss or consolidated balance sheets for any of these periods. The Company evaluated the effect of this misclassification and concluded it was not material to any of its previously issued unaudited consolidated financial statements. Upon revision, cash flows from investing activities for the six-month period ended June 30, 2018, decreased by $1.9 million and cash flows from financing activities for the respective periods increased by $1.9 million. This adjustment had no impact to the Company's financial position, results of operations or cash flows as of and for the year ended December 31, 2018.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by us as of the specified effective date. Unless otherwise discussed, the impact of recently issued standards that are not yet effective is not expected to have a material impact on the Company's financial position or results of operations upon adoption.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*. This amendment provides additional guidance related to share-based payment transactions for acquiring goods or services from nonemployees. The guidance will be effective for the Company for fiscal years beginning after December 15, 2018, including the interim periods within that fiscal year. The Company has adopted this new guidance as of January 1, 2019, which had no material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transaction) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This amendment applies to all entities that make or receive grants or contributions. This ASU is effective for public companies serving as a resource recipient for fiscal years beginning after June 15, 2018, including interim periods within that fiscal year. The Company has adopted this guidance as of January 1, 2019 which had no material impact to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. The new standard requires that all lessees recognize the assets and liabilities that arise from leases on the balance sheet and disclose qualitative and quantitative information about its leasing arrangements. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842)--Targeted Improvements, that allows entities to apply the provisions of the new standard at the effective date (e.g. January 1, 2019), as opposed to the earliest period presented under the modified retrospective transition approach (January 1, 2017) and recognize a cumulative-effect adjustment to the opening balance of accumulated deficit in the period of adoption. The modified retrospective approach includes a number of optional practical expedients primarily focused on leases that commenced before the effective date of Topic 842, including continuing to account for leases that commence before the effective date in accordance with previous guidance, unless the lease is modified. The Company adopted ASC Topic 842 with the cumulative effect of adoption recognized to retained earnings on January 1, 2019, as described in Note 2.

As a result of the adoption of ASC 842 on January 1, 2019, the Company derecognized $8.6 million for the existing asset; $7.3 million for the obligation and $1.3 million to the opening balance of the accumulated deficit. The existing asset and obligation on the consolidated balance sheet resulted from the build-to-suit lease arrangement at the 1020 Space, which did not meet the criteria for "sale-leaseback" treatment at the time construction was completed in 2017, and the Company has applied the general lessee transition guidance to this lease. Based on the Company's assessment of the 1020 Space, qualifies as an operating lease under ASC 842.

Additionally, as a result of adoption of ASC 842, the Company recognized operating lease ROU assets of approximately $10.4 million, $2.1 million of leasehold improvements, an operating lease obligation of $12.6 million and derecognition of deferred rent of $0.1 million as of January 1, 2019.

3. Balance Sheet Components

Prepaid expenses and other current assets (in thousands)

	June 30, 2019	December 31, 2018
Preclinical and clinical (1)	$ 745	$ 416
Lease receivable	906	606
Unbilled receivable from CPRIT	2,000	—
Other	16	16
Total	$ 3,667	$ 1,038

(1) These prepayments consist primarily of advances to the Company's contract manufacturers and contract research organizations

Property and equipment, net (in thousands)

	June 30, 2019	December 31, 2018
Equipment and furniture	$ 1,442	$ 1,442
Buildings, leasehold and building improvements	2,674	134
	4,116	1,576
Less: Accumulated depreciation and amortization	(2,120)	(1,544)
Property and equipment, net	$ 1,996	$ 32

Depreciation expense was approximately $0.1 million and $0.2 million for the three and six months ended June 30, 2019 and 2018, respectively. Additionally, as a result of the adoption of ASC 842, the Company recognized accumulated depreciation of approximately $0.5 million for its leasehold improvements associated with the 1020 Space as of January 1, 2019.

Accrued Liabilities (in thousands)

	June 30, 2019	December 31, 2018
Payroll and related	$ 800	$ 509
Preclinical and clinical	600	563
Other	—	293
Total	$ 1,400	$ 1,365

4. Fair Value Measurements

The Company's financial instruments consist principally of cash and cash equivalents, prepaid expenses, accounts payable and accrued liabilities. The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	Fair Value Measurements at June 30, 2019 (unaudited)	
	Total	Level 1
Assets		
Money market funds	$ 36,363	$ 36,363

	Fair Value Measurements at December 31, 2018	
	Total	Level 1
Assets		
Money market funds	$ 48,389	$ 48,389

5. Leases

In March 2017, the Company entered into an operating facility lease agreement for approximately 34,500 rentable square feet located at 1020 Marsh Road, Menlo Park, California or the 1020 Space. The lease commenced in August 2017 for a period of 87 months with one renewal option for a five-year term. The Company did not include the renewal option period as the Company determined it was not reasonably certain the lease would be renewed as of the modification date.

In October 2018, the Company executed a sublease agreement in Palo Alto, California for approximately 4,240 square feet for office space. The rental term of the sublease commenced on October 30, 2018 and expires August 31, 2020.

During the three and six months ended June 30, 2019, the Company's operating lease costs were $0.5 million and $1.1 million, respectively and cash paid for amounts included in the measurement of lease obligations for operating cash flows from operating leases for the six months ended June 30, 2019 was $1.3 million. As of June 30, 2019, the Company's operating leases had a weighted average remaining lease term of 5.6 years and a weighted average discount rate of 7.75%, which approximates the Company's incremental borrowing rate.

As of June 30, 2019, minimum lease payments under non-cancelable operating leases by period were expected to be as follows (in thousands):

Year Ending December 31,		
2019 (6 months remaining)	$	1,336
2020		2,668
2021		2,618
2022		2,697
2023		2,777
Thereafter		2,373
Total operating lease payments		14,469
Less imputed interest		(2,969)
Total operating lease obligations		11,500
Less current operating lease obligations		(2,505)
Noncurrent operating lease obligations	$	8,995

1020 Marsh Sublease

In August 2018, the Company entered into an operating sublease agreement with EVA Automation, Inc. ("EVA") for the 1020 Space referenced above. The 1020 Space Sublease commenced on October 1, 2018 for 72 months. EVA is entitled to an abatement of base rent of approximately $0.9 million for the first five full calendar months of the term of the sublease. Lease income associated with this sublease is recorded in other income in the accompanying consolidated statement of operations. The Company has recorded lease income associated with this sublease of approximately $0.6 million and $1.3 million for the three and six months ended June 30, 2019, respectively. During the six months ended June 30, 2019, cash received from EVA was $0.8 million, which amount was included in other current assets for operating cash flows.

Future base rent and additional rent EVA shall pay to the Company over the sublease term as of June 30, 2019, are as follows (in thousands):

Year Ending December 31,		
2019 (6 months remaining)	$	1,258
2020		2,563
2021		2,628
2022		2,695
2023		2,764
Thereafter		2,355
Total	$	14,263

6. Commitments and Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

As of June 30, 2019 and 2018 the Company is contingently committed to make development and sales-related milestone payments of up to $30.0 million under certain circumstances, and other payments of $10.0 million, as well as royalties relating to potential future product sales under the License Agreement with Amunix. On May 28, 2019, the Company provided notice of termination to Amunix Operating, Inc. terminating the License Agreement. Pursuant to the terms of the License Agreement, the termination is effective as of August 26, 2019.

7. Stockholders' Equity

Equity Incentive Plans

The Company's Board of Directors, or Board, and stockholders previously approved the 2014 Equity Incentive Plan, or the 2014 Plan, which became effective on March 21, 2014. As of June 30, 2019, the total number of shares of common stock available for issuance under the 2014 Plan was approximately 723,462. Unless the Board provides otherwise, beginning on January 1, 2015, and continuing until the expiration of the 2014 Plan, the total number of shares of common stock available for issuance under the 2014 Plan will automatically increase annually on January 1 by 4.5% of the total number of issued and outstanding shares of common stock as of December 31 of the immediately preceding year.

In March 2014, the Board and stockholders approved the 2014 Employee Stock Purchase Plan, or the ESPP, which became effective as of March 5, 2014. The Company initially reserved a total of 150,000 shares of common stock for issuance under the ESPP. Unless the Board provides otherwise, beginning on January 1, 2015, and continuing until the expiration of the ESPP, the total number of shares of common stock available for issuance under the ESPP will automatically increase annually on January 1 by the lesser of (i) 1% of the total number of issued and outstanding shares of common stock as of December 31 of the immediately preceding year, or (ii) 300,000 shares of common stock.

As part of the Merger, the Company assumed the 2010 Stock Option Plan (the "2010 Plan") from Private Aravive. The Company has reserved a total of 1,368,060 shares of common stock for issuance under the 2010 Plan. As of June 30, 2019, the total number of shares of common stock available for issuance under the 2010 Plan was approximately 108,839. The 2010 Plan provides for granting of equity awards, including restricted stock and incentive and nonqualified stock options to purchase common stock, to employees, directors, officers and independent consultants of the Company. Options granted to employees and consultants under the Plan generally vest 25% after one year of service, and ratably on a monthly basis over the following three years. Options expire ten years from the date of grant.

As part of the Merger, the Company assumed the 2017 Stock Option Plan (the "2017 Plan") from Private Aravive. The Company has reserved a total of approximately 1,051,544 shares of common stock for issuance under the 2017 Plan. As of June 30, 2019, the total number of shares of common stock available for issuance under the 2017 Plan was approximately 551,133. The 2017 Plan provides for granting of equity awards, including restricted stock and incentive and nonqualified stock options to purchase common stock, to employees, directors, officers and independent consultants of the Company. Options granted to employees and consultants under the Plan generally vest 25% after one year of service, and ratably on a monthly basis over the following three years. Options expire ten years from the date of grant.

Activity under the Company's stock option plans is set forth below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balances, January 1, 2019	1,515,923	$ 18.65		
Options granted	438,328	5.53		
Options cancelled	(97,382)	96.15		
Options exercised	(2,000)	0.66		
Balances, June 30, 2019	1,854,869	$ 11.48	7.1	$ 6,804
Outstanding and expected to vest as of June 30, 2019	1,821,599	$ 11.55	7.1	$ 6,796
Exercisable as of June 30, 2019	1,464,578	$ 11.86	6.5	$ 6,692

Stock Options Granted to Employees

During the six months ended June 30, 2019, the Company granted stock options to officers, directors and employees to purchase shares of common stock with a weighted-average grant date fair value of $4.69 per share. The fair value is being expensed over the vesting period of the options, which is usually 4 years on a straight-line basis as the services are being provided. No tax benefits were realized from options and other share-based payment arrangements during the periods.

As of June 30, 2019, total unrecognized employee stock-based compensation related to stock options granted was $2.8 million, which is expected to be recognized over the weighted-average remaining vesting period of 3.4 years.

The fair value of employee stock options was estimated using the Black-Scholes model with the following weighted-average assumptions:

	June 30, 2019
Expected volatility	111.0%
Risk-free interest rate	2.5%
Dividend yield	0.0%
Expected life (in years)	6.0

Restricted Stock Units

Restricted stock units are shares of common stock which are forfeited if the employee leaves the Company prior to vesting. These stock units offer employees the opportunity to earn shares of the Company's stock over time, rather than options that give the employee the right to purchase stock at a set price. As a result of these restricted stock units, the Company recognized $0.4 million and $0.7 million in compensation expense during the three months ended June 30, 2019 and 2018, respectively and $0.8 million and $1.9 million during the six months ended June 30, 2019 and 2018, respectively. As all of the restricted stock vests through 2018 and beyond, the Company will continue to recognize stock-based compensation expense related to the grants of these restricted stock units. If all of the remaining restricted stock units that were granted in prior years vest, the Company will recognize approximately $1.5 million in compensation expense over a weighted average remaining period of 1.6 years. However, no compensation expense will be recognized for restricted stock units that do not vest.

8. Net loss per share of Common Stock

The following table summarizes the computation of basic and diluted net loss per share of the Company (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	$ (3,044)	$ (9,848)	$ (7,748)	$ (18,829)
Basic and diluted net loss per common share	$ (0.27)	$ (1.64)	$ (0.69)	$ (3.14)
Weighted-average shares used to compute basic and diluted net loss per share	11,280	6,023	11,277	6,002

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss per common share by the weighted-average number of common shares and dilutive common stock equivalents outstanding for the period, determined using the treasury-stock method and the as-if converted method, for convertible securities, if inclusion of these is dilutive. Because the Company has reported a net loss for all periods presented, diluted net loss per share is the same as basic net loss per common share for those periods.

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

You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2018, included in our Annual Report on Form 10-K filed on March 15, 2019, or the 2018 Annual Report, with the U.S. Securities and Exchange Commission, or SEC.

Special note regarding forward-looking statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below and those identified under Part 1, Item 1A of the 2018 Annual Report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a clinical stage biopharmaceutical company developing treatments designed to halt the progression of life-threatening diseases, including cancer and fibrosis. Prior to the merger (the "Merger") with Aravive Biologics, Inc. ("Private Aravive"), we (then known as Versartis, Inc.) were an endocrine-focused biopharmaceutical company that was developing a long-acting recombinant human growth hormone for the treatment of growth hormone deficiency.

Our focus has been primarily performing research and development activities, including clinical trials, filing patent applications, and raising capital to support and expand these activities. Our headquarters and principal operations are located in Houston, Texas.

Our product candidates, AVB-S6, are a set of novel, ultra high-affinity, decoy proteins that target the GAS6-AXL pathway. By capturing serum GAS6, these high affinity decoy proteins starve the AXL pathway of its signal, potentially halting the biological programming that promotes disease progression. AXL signaling plays an important role in multiple types of malignancies by promoting metastasis, cancer cell survival, resistance to treatments, and immune suppression. The GAS6-AXL signaling pathway also plays a significant role in fibrogenesis. Our lead product candidate is AVB-500 (previously referred to as AVB-S6-500).

We have generated preclinical data for AVB-S6 proteins in both acute myeloid leukemia and certain advanced solid tumors including ovarian, renal, pancreatic, and breast cancers. Our current development program benefits from the availability of a complementary serum-based biomarker that it expects will help accelerate drug development and reduce risk by allowing us to select a pharmacologically active dose. In our Phase 1 clinical trial with its clinical lead product candidate, AVB-500, we have established proof of mechanism by demonstrating full GAS6 neutralization at all doses tested. Importantly, AVB-500 had a favorable safety profile preclinically and in the first in human study. We have initiated the Phase 1b portion of a Phase 1b/2 clinical trial of AVB-500 combined with standard of care therapies in patients with platinum-resistant ovarian cancer. We intend to expand development into additional oncology and fibrotic indications.

Recent Developments

On July 31, 2019, we issued a press release announcing that the preliminary efficacy data from our ongoing clinical trial with AVB-500 showed compelling anti-tumor activity in the 12 patients treated from the first cohort of the ongoing Phase 1b portion of the Phase 1b/2 trial of AVB-500 in patients with platinum-resistant recurrent ovarian cancer where response to standard of care chemotherapy alone in patients is typically 10-15 percent.

The open-label, Phase 1b safety lead-in portion of the efficacy and safety study of AVB-500 in patients with platinum-resistant recurrent ovarian cancer enrolled patients into two cohorts, one investigating a combination of AVB-500 with pegylated liposomal doxorubicin (PLD) and the other, a combination of AVB-500 with paclitaxel (PAC). The overall best response rate (ORR) in the AVB-500 combination cohorts to date by investigator determined RECIST v1.1 criteria was greater than response rates observed historically with standard of care chemotherapy alone in this clinical setting. We therefore have decided to expand enrollment in the Phase 1b portion of the study, to validate the unanticipated early positive efficacy signal.

Important Note

This Management's Discussion and Analysis includes a discussion of our operations for the quarter ended June 30, 2019, which reflects the operations of Private Aravive, that are not included in the discussion for the three and six months ended June 30, 2018 due to the fact that the Merger was consummated in October 2018. Accordingly, the results of operations reported for the three and six months ended June 30, 2019 and 2018, in this Management's Discussion and Analysis are not comparable.

Due to the substantial changes in our assets, liabilities and operations resulting from the completion of the Merger on October 12, 2018, our historical financial results do not provide a reasonable basis from which to predict the merged company's future financial results or condition.

References in this report to "we," "us," "our" and similar first-person expressions refer to Aravive, Inc. (formerly known as Versartis, Inc.) and its subsidiaries, including Private Aravive. References to "Versartis, Inc." or "Private Aravive" refer to those respective companies prior to the completion of their merger in October 2018.

Financial overview

Revenue

We have never generated net income from operations on an annual basis, and, as of June 30, 2019, we had an accumulated deficit of approximately $459.6 million, primarily as a result of research and development and general and administrative expenses. We have never earned revenue from commercial sales of any of our product candidates. We generated grant revenue of approximately $3.1 and $4.8 million for the three and six months ended June 30, 2019 and $1.4 million for the year ended December 31, 2018, respectively.

In the future, we may generate revenue from a variety of sources, including product sales if we develop products which are approved for sale, license fees, milestones, research and development and royalty payments in connection with strategic collaborations or government contracts, or licenses of our intellectual property.

Research and development expenses

Research and development costs are expensed as incurred. Research and development expense includes payroll and personnel expenses; consulting costs; external contract research and development expenses; and allocated overhead, including rent, equipment depreciation and utilities, and relate to both company-sponsored programs as well as costs incurred pursuant to reimbursement arrangements. Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed.

As part of the process of preparing our consolidated financial statements, we are required to estimate our accrued research and development expenses. This process involves reviewing contracts and purchase orders, reviewing the terms of our license agreements, communicating with our applicable personnel to identify services that have been performed on our behalf, and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each consolidated balance sheet date in our consolidated financial statements based on facts and circumstances known to us at that time. We periodically confirm the accuracy of our estimates with the service providers and make adjustments if necessary. Examples of estimated accrued research and development expenses include fees to:

- contract manufacturers in connection with the production of clinical trial materials;
- contract research organizations and other service providers in connection with clinical studies;
- investigative sites in connection with clinical studies;
- vendors in connection with preclinical development activities; and
- professional service fees for consulting and related services.

We base our expenses related to clinical studies on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract, and may result in uneven payment flows and expense recognition. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. Our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in our reporting changes in estimates in any particular period. To date, there have been no material differences from our estimates to the amount actually incurred. However, due to the nature of these estimates, we cannot assure you that we will not make changes to our estimates in the future as we become aware of additional information about the status or conduct of our clinical studies or other research activity.

General and administrative expenses

General and administrative expenses consist principally of personnel-related costs, professional fees for legal, consulting, audit and tax services, rent and other general operating expenses not included in research and development.

Other income (expense), net

Other income (expense), net is primarily comprised of sublease income for our 1020 Marsh property lease, interest charges related to our build-to-suite lease obligation, and gains and losses on foreign currency transactions related to third party contracts with foreign-based contract manufacturing organizations.

Critical accounting policies, significant judgments and use of estimates

Our management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are more fully described in Note 2 of the accompanying unaudited condensed consolidated financial statements and in Note 2 to our audited consolidated financial statements contained in the 2018 Annual Report.

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842)"* ("ASU 2016-02"). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 became effective for us on January 1, 2019, we wrote off our previously recorded build-to-suit asset as a result of adoption and recorded a right-of-use asset for our existing leases. The full adoption impact of the ASU 2016-02 is illustrated in the accompanying consolidated financial statements.

Other than as discussed above, there have been no significant or material changes in our critical accounting policies during the six months ended June 30, 2019, as compared to those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Use of Estimates" in the 2018 Annual Report.

Results of operations

Comparison of the Three and Six Months Ended June 30, 2019 and 2018

The following table summarizes our net loss during the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Increase/ (Decrease)		Six Months Ended June 30,		Increase/ (Decrease)	
	2019	2018			2019	2018		
Revenue:								
Grant revenue	$ 3,054	$ —	3,054	NM (1)	$ 4,753	$ —	4,753	NM (1)
Operating expenses:								
Research and development	3,637	3,438	199	6%	6,485	7,038	(553)	-8%
General and administrative	3,291	6,003	(2,712)	-45%	7,881	10,920	(3,039)	-28%
Total operating expenses	6,928	9,441	(2,513)	-27%	14,366	17,958	(3,592)	-20%
Loss from operations	(3,874)	(9,441)	(5,567)	-59%	(9,613)	(17,958)	(8,345)	-46%
Interest income	233	249	(16)	-6%	579	442	137	31%
Other income (expense), net	597	(656)	(1,253)	-191%	1,286	(1,313)	(2,599)	-198%
Net loss	$ (3,044)	$ (9,848)	$ (6,804)	-69%	$ (7,748)	$ (18,829)	$ (11,081)	-59%

(1) Not meaningful

Grant revenue

Grant revenue for the three and six months ended June 30, 2019 was $3.1 million and $4.8 million which was derived solely from the CPRIT grant for the research and development of AVB-500.

Research and development expense

Research and development expense increased by $0.2 million, or 6%, to $3.6 million for the three months ended June 30, 2019 from $3.4 million for the same period in 2018. For the six months ended June 30, 2019 research and development decreased $0.6 million or 8%, to $6.5 million from $7.0 million for the same period in 2018. The increase in the three months ended June 30, 2019 was primarily due to increased expenses incurred in the research and development of AVB-500 in 2019 compared to the continued winddown expenses in 2018 relating to the somavaaratan program which was terminated following the Phase 3 VELOCITY trial failure. The decrease in the six months ended June 30, 2019 was primarily due to the lower expenses incurred in the research and development of AVB-500 in 2019 as compared to the winddown expenses in 2018.

General and administrative expense

General and administrative expense decreased by $2.7 million, or 45%, to $3.3 million for the three months ended June 30, 2019 from $6.0 million for the same period in 2018. For the six months ended June 30, 2019 general and administrative expense decreased $3.0 million or 28%, to $7.9 million from $10.9 million for the same period in 2018. The decrease was primarily driven by a reduction in our workforce and other operating expenses as a result of the termination of the somavaratan program following the Phase 3 VELOCITY trial failure. The decrease is partially offset by an increase in our operating lease expenses in 2019 related to the adoption of the new lease accounting standard.

Other income (expense), net

Other expense, decreased by $1.3 million, or 191%, to $0.6 million of other income for the three months ended June 30, 2019 from $0.7 million of other expense for the same period in 2018. For the six months ended June 30, 2019 other expense decreased $2.6 million, or 198%, to $1.3 million of other income from $1.3 million of other expense for same period in 2018. This decrease in other expense for both the three and six months ended June 30, 2019 was primarily due to sublease income of approximately $0.7 million and $1.3 million for the three and six months ended June 30, 2019 respectively and a reduction in interest charges related to our build-to-suite lease obligation which was accounted as part of general and administrative expense in 2019 due to the adoption of the new lease accounting standard.

Liquidity and capital resources

Since our inception and through June 30, 2019, we have financed our operations through private placements of our equity securities, debt financing, CPRIT grant proceeds, and our initial public offering in 2014 along with additional common stock offerings in January 2015 and October of 2016, as well as a $40.0 million upfront payment received from our strategic license agreement with Teijin. At June 30, 2019, we had cash and cash equivalents of approximately $48.4 million, a majority of which is invested in money market funds at several highly rated financial institutions. As a result of the Merger with Private Aravive, we have acquired approximately $5.3 million of additional cash and cash equivalents, and as a merged company our primary use of our capital will be to fund our clinical development programs, specifically for our product candidate AVB-500. During the six months ended June 30, 2019 we have received approximately $2.6 million of additional funding from our CPRIT research grant. At June 30, 2019, we have an unbilled receivable balance from CPRIT of $2.0 million.

We will need to obtain additional financing to pursue our clinical development programs, build out our pipeline and fund operations for the foreseeable future and we will continue to seek funds through equity or debt financings, collaborative or other arrangements with corporate sources, or through other sources of financing. Although management has been successful in raising capital in the past, there can be no assurance that we will be successful or that any needed financing will be available in the future at terms acceptable to us. Our failure to raise capital as and when needed could have a negative impact on our financial condition and our ability to pursue our business strategies. We anticipate that we will need to raise substantial additional capital, the requirements of which will depend on many factors, including:

- the rate of progress and cost of any future potential clinical studies;
- the timing of, and costs involved in, seeking and obtaining approvals from the FDA and other regulatory authorities;
- the cost of preparing to manufacture on a larger scale;
- the costs of commercialization activities if any future product candidate is approved, including product sales, marketing, manufacturing and distribution;
- the degree and rate of market acceptance of any products launched by us or future partners;

- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- our ability to enter into additional collaboration, licensing, commercialization or other arrangements and the terms and timing of such arrangements; and
- the emergence of competing technologies or other adverse market developments.

If we are unable to raise additional funds when needed, we may be required to delay, reduce, or terminate some or all of potential development programs and clinical trials. We may also be required to sell or license to others technologies or clinical product candidates or programs that we would prefer to develop and commercialize ourselves.

Cash flows

The following table sets forth the primary sources and uses of cash and cash equivalents for each of the periods presented below:

	Six Months June 30,	
	2019	2018
	(In thousands)	
Net cash (used in) provided by:		
Operating activities	$ (8,608)	$ (15,296)
Investing activities	—	—
Financing activities	13	1,931
Net decrease in cash and cash equivalents	$ (8,595)	$ (13,365)

Cash used in operating activities

Net cash used in operating activities was $8.6 million and $15.3 million in the six months ended June 30, 2019 and 2018, respectively. Cash used in operating activities in 2019 is primarily attributable to the use of funds in our operations related to the development of AVB-500 our product candidate. Cash used in operating activities in 2019 decreased significantly compared to 2018 due to the termination of a number of supplier contracts that occurred in 2018 partially offset by the receipt of CPRIT funds of approximately $2.6 million in the first two quarters of 2019.

Cash used in investing activities

Net cash used in investing activities was zero in each of the six months ended June 30, 2019 and 2018.

Cash provided by financing activities

Net cash provided by financing activities was $13 thousand and $1.9 million in the six months ended June 30, 2019 and 2018, respectively. Cash provided by financing activities in 2018, primarily relates to inducement payments received from the landlord of our leased facility in Menlo Park, California and proceeds from issuance of common stock in connection with employee benefit plans.

As of June 30, 2019, we had cash and cash equivalents of approximately $48.4 million. We believe that our existing cash and cash equivalents will be sufficient to sustain operations for at least the next 12 months from the issuance of these financial statements, based on our current business plan.

Contractual obligations and commitments

During the six months ended June 30, 2019, there were no other material changes to our contractual obligations and commitments described under Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2018 Annual Report.

Off-balance sheet arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Item 3. Quantitative and qualitative disclosures about market risk

Interest Rate and Market Risk

The primary objective of our investment activities is to preserve our capital to fund our operations. We also seek to maximize income from our cash and cash equivalents without assuming significant risk. To achieve our objectives, we invest our cash and cash equivalents in money market funds. As of June 30, 2019, we had cash and cash equivalents of approximately $48.4 million consisting of cash and investments in highly liquid U.S. money market funds. A portion of our investments may be subject to interest rate risk and could decrease in value if market interest rates increase. However, because our investments are substantially all short-term in duration, we believe that our exposure to interest rate risk is not significant and a 1% movement in market interest rates would not have a significant impact on the total value of our portfolio. We actively monitor changes in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation as of June 30, 2019 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our "disclosure controls and procedures." Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, defines "disclosure controls and procedures" as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to a company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at June 30, 2019.

Changes in Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019, and has concluded that there was no change during such quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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 inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. As set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II: OTHER INFORMATION

Item 1. Legal proceedings

We are not currently subject to any material legal proceedings.

Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should consider carefully the following risks, together with all the other information in this Form 10-Q, including our condensed consolidated financial statements and notes thereto. If any of the following risks actually materializes, our operating results, financial condition and liquidity could be materially adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment. The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, "Risk Factors," contained in our 2018 Form 10-K. Except as disclosed below, there have been no material changes from the risk factors disclosed in our 2018 Form 10-K.

Risks related to our financial position and capital requirements.

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

We have incurred significant operating losses in each year since our inception and expect to incur substantial and increasing losses for the foreseeable future. As of June 30, 2019, we had an accumulated deficit of approximately $459.6 million. Other than our financial statements for the quarter ended June 30, 2019 and year ended December 31, 2018, our historical financial statements are solely those of Versartis, Inc., our accumulated deficit does not reflect the cumulative deficit of Private Aravive.

To date, we have financed our operations primarily through private placements of our convertible preferred stock, grant proceeds, the initial public offering of our common stock in 2014 and follow-on public offerings of our common stock in 2015 and 2016. A significant portion of Private Aravive's funding has been through a $20 million grant we received from the Cancer Prevention and Research Institute of Texas, or CPRIT. We have devoted substantially all of our efforts to research and development, including clinical studies, but have not completed development of any product candidate, and our Phase 3 clinical trial of somavaratan failed to meet its primary endpoint. We anticipate that our expenses will increase to the extent we:

- continue the research and development of our only product candidate, AVB-500, and any future product candidates;
- conduct additional clinical studies of AVB-500 in the future;
- seek to discover or in-license additional product candidates;
- seek regulatory approvals for AVB-500 and any future product candidates that successfully complete clinical studies;
- establish a sales, marketing and distribution infrastructure and scale-up manufacturing capabilities to commercialize AVB-500 or other future product candidates if they obtain regulatory approval, including process improvements in order to manufacture AVB-500 at commercial scale; and
- enhance operational, financial and information management systems and hire more personnel, including personnel to support development of AVB-500 and any future product candidates and, if a product candidate is approved, our commercialization efforts.

To be profitable in the future, we must succeed in developing and eventually commercializing AVB-500 as well as other products with significant market potential. This will require us to be successful in a range of activities, including advancing AVB-500 and any future product candidates, completing clinical studies of these product candidates, obtaining regulatory approval for these product candidates and manufacturing, marketing and selling those products for which we may obtain regulatory approval. We may not succeed in these activities and may never generate revenue that is sufficient to be profitable in the future. Even if we are profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to achieve sustained profitability would depress the value of our company and could impair our ability to raise capital, expand our business, diversify our product candidates, market our product candidates, if approved, or continue our operations.

To date, our only completed clinical trial with AVB-500 has been our recently completed Phase 1 clinical trial with 42 dosed subjects. We expect our research and development expenses to increase significantly as our product candidates advance in clinical development. Because of numerous risks and uncertainties involved in our business, the timing or amount of increased development expenses cannot be accurately predicted and, our expenses could increase beyond expectations if we are required by the FDA, or comparable non-U.S. regulatory authorities, to perform studies or clinical trials in addition to those we currently anticipate. Even if our product candidate is approved for commercial sale, we anticipate incurring significant costs associated with the commercial launch of and the related commercial-scale manufacturing requirements for our product candidate. As a result, we expect to continue to incur significant and increasing operating losses and negative cash flows for the foreseeable future. Because of the numerous risks and uncertainties associated with biopharmaceutical product development and commercialization, we are unable to accurately predict the timing or amount of future expenses or when, or if, we will be able to achieve or maintain profitability. These losses have had and will continue to have an adverse effect on our financial position and working capital.

We will need additional funds to support our operations, and such funding may not be available to us on acceptable terms, or at all, which would force us to delay, reduce or suspend our research and development programs and other operations or commercialization efforts. Raising additional capital may subject us to unfavorable terms, cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our product candidates and technologies.

The completion of the development and the potential commercialization of AVB-500 and any future product candidates, should they receive approval, will require substantial funds. As of June 30, 2019, we had approximately $48.4 million in cash and cash equivalents. We believe that our existing cash and cash equivalents, will be sufficient to sustain operations for at least the next 12 months based on our existing business plan; however, our existing cash and cash equivalents will not be sufficient to enable us to complete the clinical development and commercialization of AVB-500. Our future financing requirements will depend on many factors, some of which are beyond our control, including the following: the rate of progress and cost of our future clinical studies;

- the rate of progress and cost of our future clinical studies;
- the timing of, and costs involved in, seeking and obtaining approvals from the FDA and other regulatory authorities;
- the cost of preparing to manufacture AVB-500 on a larger scale, should we elect to do so;
- the costs of commercialization activities if AVB-500 or any future product candidate is approved, including product sales, marketing, manufacturing and distribution;
- the degree and rate of market acceptance of any products launched by us or future partners;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- our ability to enter into additional collaboration, licensing, commercialization or other arrangements and the terms and timing of such arrangements;
- the emergence of competing technologies or other adverse market developments; and
- the costs of attracting, hiring and retaining qualified personnel.

We do not have any material committed external source of funds or other support for our development efforts, and the failure of our Phase 3 VELOCITY trial to meet its primary endpoint may make it more difficult to raise funds in the future. Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs through a combination of public or private equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements and other marketing and distribution arrangements. Additional financing may not be available to us when we need it or it may not be available on favorable terms. In addition, certain SEC and Nasdaq limitations with respect to fundraising may make it more difficult to raise additional funds. If we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish certain valuable rights to AVB-500 or potential future product candidates, technologies, future revenue streams or research programs, or grant licenses on terms that may not be favorable to us. If we raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders' rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of, or suspend one or more of our clinical studies or research and development programs or our commercialization efforts.

Risks Related To Our Business

Reliance on government funding for our programs may impose requirements that limit our ability to take certain actions, and subject us to potential financial penalties, which could materially and adversely affect our business, financial condition and results of operations.

A significant portion of our funding has been through a grant Private Aravive received from CPRIT. The CPRIT Grant (as described below) includes provisions that reflect the government's substantial rights and remedies, many of which are not typically found in commercial contracts, including powers of the government to potentially require repayment of all or a portion of the grant award proceeds, in certain cases with interest, in the event we violate certain covenants pertaining to various matters that include any potential relocation outside of the State of Texas. CPRIT has granted subsequent to the end of the quarter an extension of its grant termination date from May 31, 2019 to November 30, 2019. After the termination date, we are not permitted to retain any unused grant award proceeds without CPRIT's approval, but our royalty and other obligations, including our obligation to repay the disbursed grant proceeds under certain circumstances, survive the termination of the agreement. We have received $18.0 million of the grant proceeds and expect to expend all of the grant award proceeds by the agreement termination date. We have recorded a CPRIT receivable balance of $2.0 million for the remaining grant award for reimbursement of eligible expenses.

Our award from CPRIT requires us to pay CPRIT a portion of our revenues from sales of certain products by us, or received from our licensees or sublicensees, at tiered percentages of revenue in the low- to mid-single digits until the aggregate amount of such payments equals 400% of the grant award proceeds, and thereafter at a rate of less than one percent for as long as we maintain government exclusivity, subject to our right, under certain circumstances, to make a one-time payment in a specified amount to CPRIT to terminate such payment obligations. In addition, the grant contract also contains a provision that provides for repayment to CPRIT of some amount not to exceed the full amount of the grant proceeds under certain specified circumstances involving relocation of our principal place of business outside Texas.

The CPRIT Grant requires us, as a Texas-based company, to meet certain criteria, including among other things, that we maintain our headquarters in Texas and use certain vendors, consultants and employees that are located in Texas. As we expand our operations, we will need to hire additional qualified personnel with expertise in preclinical testing, clinical research and testing, government regulation, formulation and manufacturing, sales and marketing and accounting and financing located in Texas. We will compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and there can be no assurance that the search for such personnel will be successful, especially in light of the territorial restrictions imposed by CPRIT. Attracting and retaining qualified personnel will be critical to our access to the CPRIT Grant.

If we fail to maintain compliance with any such requirements that may apply to us now or in the future, we may be subject to potential liability and to termination of our contract, including potentially the CPRIT Grant, which could result in significant expense to us.

Risks Related to the ownership of our common stock

Our stock price may be volatile, and investors in our common stock could incur substantial losses.

Our stock price has fluctuated in the past and may be volatile in the future. From January 1, 2015 through June 30, 2019, the reported sale price of our common stock has fluctuated between $3.07 and $144.00 per share. Following the announcement of the failure of our Phase 3 clinical trial to meet its primary endpoint in September 2017, our stock price declined substantially. The stock market in general and the market for biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investment in our common stock. The market price for our common stock may be influenced by many factors, including the following:

- investor reaction to our new business strategy resulting from the Merger;
- the success of competitive products or technologies;
- results of clinical studies of AVB-500 or future product candidates or those of our competitors;
- regulatory or legal developments in the United States and other countries, especially changes in laws or regulations applicable to our products;
- introductions and announcements of new products by us, results of clinical trials, our commercialization partners, or our competitors, and the timing of these introductions or announcements;
- actions taken by regulatory agencies with respect to our products, clinical studies, manufacturing process or sales and marketing terms;

- variations in our financial results or those of companies that are perceived to be similar to us;
- the success of our efforts to acquire or in-license additional products or product candidates;
- developments concerning our collaborations, including but not limited to those with our sources of manufacturing supply and our commercialization partners;
- developments concerning our ability to bring our manufacturing processes to scale in a cost-effective manner;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our products;
- our ability or inability to raise additional capital and the terms on which we raise it;
- the recruitment or departure of key personnel;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- actual or anticipated changes in earnings estimates or changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally;
- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- general economic, industry and market conditions; and
- the other risks described in this "Risk factors" section.

These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

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

None.

Item 5. Other Information

On August 5, 2019, the Board adopted resolutions (the "Resolutions") ratifying the issuance of certain options to purchase common stock granted to employees and a consultant pursuant to Section 204 of the General Corporation Law of the State of Delaware (the "Ratification"). A copy of the Resolutions adopted by the Board setting forth the information with respect to the Ratification required under Section 204 of the General Corporation Law of the State of Delaware is attached hereto as Exhibit 99.1. Any claim that the defective corporate acts (including all putative options) identified in the Resolutions are void or voidable due to the failure of authorization, or any claim that the Court of Chancery of the State of Delaware should declare in its discretion that the ratifications not be effective or be effective only on certain conditions, must be brought within 120 days from the date of the filing of this Quarterly Report on Form 10-Q**.**

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporation by Reference			
		Form	SEC File No.	Exhibit	Filing Date
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.				
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.				
32.1*+	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.				
32.2*+	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.				
99.1*	Ratification of Option Grants				
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				

* Filed Herewith.

\+ This certification accompanies the Quarterly Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

ARAVIVE, INC.
(Registrant)

Date: August 7, 2019

/s/ Jay P. Shepard
Jay P. Shepard
Chief Executive Officer
(Principal Executive Officer)

ARAVIVE, INC.
(Registrant)

Date: August 7, 2019

/s/ Vinay Shah
Vinay Shah
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jay P. Shepard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aravive, 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. The registrant's other certifying officer and I are 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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. The registrant's other certifying officer and I have disclosed, based on our 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: August 7, 2019

By: /s/ Jay P. Shepard
Name: Jay P. Shepard
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Vinay Shah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aravive, 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. The registrant's other certifying officer and I are 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 our 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. The registrant's other certifying officer and I have disclosed, based on our 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: August 7, 2019

By: /s/ Vinay Shah
Name: Vinay Shah
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, Jay P. Shepard, Chief Executive Officer (Principal Executive Officer) of Aravive, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

Dated: August 7, 2019

By: /s/ Jay P. Shepard
Name: Jay P. Shepard
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

I, Vinay Shah, Chief Financial Officer (Principal Financial Officer) of Aravive, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

Dated: August 7, 2019

By: /s/ Vinay Shah

Name: Vinay Shah
Title: Chief Financial Officer
(Principal Financial Officer)

Ratification of Option Grants

WHEREAS, on each of the dates set forth below, management of the Corporation issued to each of the individuals named below options to purchase shares of the Corporation's common stock (collectively, the "Options"), upon the terms set forth below (such grants each an "Option Grant" and collectively, the "Option Grants"); however, due to an administrative error, management did not have the authority to issue the Options and the Option Grants were not approved by the governing body that has such authority, the Compensation Committee of the Board;

Position at Company	Number of Shares of Common Stock Underlying Option Grant	Exercise Price	Grant Date	Vesting-
Employee	5,100	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	5,100	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	5,100	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	15,100	$5.83	2/28/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months
Employee	13,000	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	10,500	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	5,100	$5.83	2/28/19	Pro rata monthly over 48 months
Employee	1,900	$3.54	1/28/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months
Employee	15,000	$5.87	3/1/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months

Employee	11,500	$5.92	3/4/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months
Employee	3,600	$8.20	3/25/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months
Employee	15,100	$6.43	4/15/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months
Consultant	12,000	$3.54	1/28/19	Pro rata over 6 months
Employee	15,100	$6.42	5/15/19	¼ vest on the first year anniversary and 1/36 vest pro rata monthly over 36 months

WHEREAS, in consultation with counsel, the Board has determined that the issuance of the Options and the Option Grants(the "Options Issuances") may constitute defective corporate acts (as defined in Section 204(h) of the DGCL), because the Corporation failed to authorize management with the appropriate authority to have granted such Options and the Compensation Committee of the Board had not authorized the Option Issuances; and

WHEREAS, the Board deems it to be advisable and in the best interests of the Corporation and its stockholders to authorize, ratify and approve the Option Issuances in accordance with Section 204 of the DGCL.

NOW THEREFOR BE IT RESOLVED, that each of the Option Issuances is the defective corporate act to be ratified; and

RESOLVED, FURTHER, that the nature of the failure of authorization in respect of the Options Issuances is the failure of each Option Grant to have been duly authorized by the Board or the Compensation Committee of the Board in accordance with Section 157 of the DGCL; and

RESOLVED, FURTHER, that the Option Issuances be, and hereby are, authorized, ratified and approved in all respects in accordance with Section 204 of the DGCL and the Options, when previously issued and in accordance with these resolutions, shall be considered validly issued, fully paid and non-assessable as of the respective dates of issuance; and

RESOLVED, FURTHER, that the Corporation be, and hereby is, authorized, empowered and directed to perform its obligations under any agreements entered into in connection with the

Option Grants, including, without limitation, issuing shares of the Corporation's common stock upon the exercise of the Options pursuant to the terms of the Option Grants and any related stock plan.

Actions in Furtherance of Ratification

WHEREAS, any claim that any defective corporate act reference herein being ratified under Section 204 of the DGCL is void or voidable due to the failure(s) of authorization, or that the Delaware Court of Chancery should declare in its discretion that the ratification thereof in accordance with Section 204 of the DGCL not be effective or be effective only on certain conditions must be brought within the later of 120 days from the relevant validation effective time and the time at which the notice, if any, required by Section 204(g) is given.

NOW THEREFOR BE IT RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Corporation, to deliver a notice of ratification of the defective corporate acts set forth herein in the form and containing the information required by Section 204 of the DGCL; and

RESOLVED, FURTHER, that, any time before the relevant validation effective time in respect of the ratification or any of the defective corporate acts identified herein, the Board may abandon the ratification of such act or acts; and

RESOLVED, FURTHER, that the officers of the Corporation be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Corporation, to take any and all actions, to negotiate for and enter into agreements and amendments to agreements, to perform all such acts and things, to execute, file, deliver or record in the name and on behalf of the Corporation, all such certificates, instruments, agreements or other documents, and to make all such payments as they, in their judgment, or in the judgment of any one or more of them, may deem necessary, advisable or appropriate in order to carry out the purpose and intent of, or consummate the transactions contemplated by the foregoing resolutions and/or all of the transactions contemplated therein or thereby, the authorization therefor to be conclusively evidenced by the taking of such action or the execution and delivery of such certificates, instruments, agreements or documents.