Citizens Community Bancorp Inc.
Form DEF 14A
April 15, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant ý Filed by a party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12
CITIZENS COMMUNITY BANCORP, INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)
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CITIZENS COMMUNITY BANCORP, INC.
2174 EASTRIDGE CENTER
EAU CLAIRE, WISCONSIN 54701
Notice of Annual Meeting of Stockholders
to be held on June 6, 2019

The Annual Meeting of Stockholders of Citizens Community Bancorp, Inc., a Maryland corporation (the "Company" or "Citizens"), will be held at the Holiday Inn Eau Claire located at 4751 Owen Ayres Ct, Eau Claire, Wisconsin 54701, on Thursday, June 6, 2019, at 4:00 p.m. local time, for the following purposes:

1. To elect Stephen Bianchi, James Lang and James Moll to serve on our Board of Directors, each for a three-year term.
2. To approve the ratification of the appointment of Baker Tilly Virchow Krause, LLP as Citizens' independent registered public accounting firm for the fiscal year ending December 31, 2019.
3. To approve a non-binding advisory proposal on executive compensation.
4. To take action with respect to any other matters that may be properly brought before the meeting and that might be considered by the stockholders of a Maryland corporation at their Annual Meeting.

Any action may be taken on the foregoing proposals at the annual meeting on the date specified above, or on any date or dates to which the meeting may be adjourned or postponed. Stockholders of record at the close of business on April 5, 2019 are entitled to notice of and to vote at the annual meeting and any adjournment or postponement thereof.

Whether or not you plan to attend the meeting in person, you are requested to complete, sign and date the enclosed proxy card, which is solicited on behalf of the Board of Directors, and to mail it promptly in the enclosed envelope. Your vote is important to ensure that a majority of our stock is represented. The prompt return of proxy cards will save the Company the expense of further requests for proxies to ensure a quorum at the meeting. If you send in your proxy card, you may still decide to attend the annual meeting and vote your shares in person. Your proxy is revocable in accordance with the procedures set forth in the accompanying proxy statement. Stockholders holding shares in brokerage accounts ("street name" holders) who wish to vote at the annual meeting will need to obtain a proxy form and voting instructions from the institution that holds their shares.

If you have any questions or require assistance with voting your proxy card, please contact our proxy solicitor Regan & Associates at 800-737-3426.

By order of the Board of Directors
Stephen M. Bianchi,
President and Chief Executive Officer, Chairman of the Board
Eau Claire, Wisconsin
April 15, 2019

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CITIZENS COMMUNITY BANCORP, INC.
2174 EASTRIDGE CENTER
EAU CLAIRE, WISCONSIN 54701
Proxy Statement for the 2019 Annual Meeting of Stockholders
to be Held on June 6, 2019
Important Notice Regarding the Availability of Proxy Materials for the
2019 Annual Meeting of Stockholders to be Held on June 6, 2019:
The Notice of Annual Meeting, this Proxy Statement and the Accompanying Annual Report
are Available on the Internet at: https://www.cstproxy.com/ccf/2019

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Citizens Community Bancorp, Inc. (the "Company" or "Citizens") of proxies to be used at the Annual Meeting of Stockholders (the "Annual Meeting") of Citizens for the purposes set forth in the accompanying Notice of Annual Meeting to be held at the Holiday Inn Eau Claire located at 4751 Owen Ayres Ct, Eau Claire, Wisconsin 54701, on Thursday, June 6, 2019, at 4:00 p.m. local time, and any adjournments thereof. Only stockholders of record at the close of business on April 5, 2019 will be entitled to notice of and to vote at the Annual Meeting.

Our principal executive offices are located at 2174 EastRidge Center, Eau Claire, Wisconsin 54701. It is expected that this Proxy Statement and the form of Proxy will be mailed to stockholders on or about April 15, 2019.

GENERAL INFORMATION

Proxies and Voting Procedures

Stockholders can vote by completing and returning a proxy card in the form accompanying this Proxy Statement or, if shares are held in "street name," by completing a voting instruction form provided by your broker.

The shares represented by each validly executed proxy received by Citizens or its authorized agents in time will be voted at the Annual Meeting in accordance with the instructions thereon. If no instructions are specified in a signed proxy returned to Citizens, the shares represented thereby will be voted FOR the election of the directors listed in the enclosed proxy card, FOR the ratification of Baker Tilly Virchow Krause, LLP as Citizens' independent registered public accounting firm for the fiscal year ending December 31, 2019, and FOR the approval of the non-binding advisory proposal on executive compensation. If any other matters are properly presented at the Annual Meeting, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the individuals named as proxies and acting thereunder will have the authority to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. If the Annual Meeting is adjourned or postponed, a proxy will remain valid and may be voted at the adjourned or postponed meeting. As of the date of printing of this Proxy Statement, we do not know of any other matters that are to be presented at the Annual Meeting other than the matters referred to in the accompanying Notice of Annual Meeting. However, if any other matters are properly presented at the Annual Meeting, it is intended that the persons named in the proxy will vote on such matters in accordance with their judgment.

Stockholders may revoke proxies at any time before it is voted by giving us written notice or by a later executed proxy submitted by mail. Attendance at the Annual Meeting will not automatically revoke a proxy, but a stockholder attending the Annual Meeting may request a ballot and vote in person, thereby revoking a prior granted proxy. The cost of solicitation of proxies will be borne by Citizens. Solicitation will be made primarily by use of the mail; however, some solicitation may be made by our employees, without additional compensation, by telephone, by facsimile or in person. We have also retained Regan and Associates to assist us with the solicitation of proxies for the Annual Meeting for a fee of not less than $8,000 plus a reasonable amount to cover the expenses of such solicitation firm.

Stockholders Entitled to Vote

Citizens common stock, $0.01 par value per share (the "Common Stock"), is the only class of voting security of the Company. Only stockholders of record at the close of business on April 5, 2019 will be entitled to notice of and to vote at the Annual Meeting. On the record date, we had outstanding 10,990,033 shares of our Common Stock, entitled to one vote per share.

Quorum; Required Vote

Stockholders holding a majority of the shares of Common Stock entitled to vote at the Annual Meeting, either present in person or by proxy, shall constitute a quorum with respect to the meeting. Directors will be elected by a plurality of the votes cast at the Annual Meeting by stockholders present in person or by proxy, meaning that the three individuals receiving the largest number of votes will be elected as directors. The ratification of the appointment of the independent registered public accounting firm and the non-binding advisory proposal on executive compensation each require the affirmative vote of a majority of the votes cast at the Annual Meeting by stockholders present in person or by proxy. Abstentions and broker nonvotes (i.e., shares held by brokers in street name, voting on certain matters due to discretionary authority or instructions from the beneficial owners but not voting on other matters due to lack of authority to vote on such matters without instructions from the beneficial owner) will count as present for purposes of determining quorum, but will not be counted as votes cast with regard to the election of directors or any other proposal. The Inspector of Election appointed by our Board of Directors will count the votes and ballots.

Certain shares of our issued and outstanding Common Stock are held by participants in our 401(k) Profit Sharing Plan (the "401(k) Plan"). If you hold shares of our Common Stock in the 401(k) Plan, the trustee for the 401(k) Plan will vote the shares you hold through the plan as you direct. We will provide plan participants who hold Common Stock through the 401(k) plan with forms on which participants may communicate their voting instructions. In the event that a 401(k) Plan participant fails to give timely voting instructions to the trustee of the 401(k) Plan with respect to the voting of shares of our Common Stock at the Annual Meeting that are allocated to the participant in the 401(k) Plan, then the trustee shall vote such shares in such manner as directed by the Plan Administrator.

PROPOSAL 1:
ELECTION OF DIRECTORS

It is intended that shares represented by proxies in the enclosed form will be voted FOR the election of Stephen Bianchi, James Lang and James Moll to serve as directors for a three year term. Our Board of Directors is divided into three classes, with the term of office of each class ending in successive years. Accordingly, three directors are to be elected at the Annual Meeting to serve as Class I directors for a term of three years expiring at our annual meeting of stockholders in 2022. The continuing directors, the Class II and Class III directors, will serve until the annual meetings of stockholders in 2020 and 2021, respectively, and until their successors are duly elected and qualified.

As indicated below, the persons nominated by our Board of Directors are incumbent directors. We anticipate that the nominees for election as directors will be candidates when the election is held. However, if any of the nominees should be unable or unwilling to serve, the proxies, pursuant to the authority granted to them by our Board of Directors, will have discretionary authority to select and vote for substituted nominees (except where the proxy withholds authority with respect to the election of directors). As noted above, our directors are elected by a plurality of the votes cast by holders of our Common Stock, which means the individuals who receive the largest number of votes cast by holders of the Common Stock entitled to vote in the election of directors are elected as directors up to the maximum number of directors (three in the case of the Annual Meeting) to be chosen at the Annual Meeting.

Information with Respect to Nominees and Continuing Directors

Below is information as of the date of this Proxy Statement about each nominee for election to our Board of Directors at the Annual Meeting and each director whose term continues after the Annual Meeting. The information presented includes information each nominee or continuing director has given Citizens about his or her age, his or her principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he or she currently serves as a director or has served as a director during the past five years. The information presented also includes a description for each director of the specific experience, qualifications, attributes and skills that led to the conclusion that he or she should serve as a director. Our Governance and Nomination Committee regularly evaluates the mix of experience, qualifications, attributes and skills of the Company’s directors using a matrix of areas that the Committee considers important for Citizens’ business. In addition to the information presented below regarding the nominee’s specific experience, qualifications, attributes and skills that led the Governance and Nomination Committee to the conclusion that the nominee should serve or continue to serve as a director, the Governance and Nomination Committee also considered the qualifications and criteria described below under “Corporate Governance Matters - Director Nominations” with the objective of creating a complementary mix of directors.

Board of Directors Recommendation

The Board of Directors recommends a vote FOR the election of Stephen Bianchi, James Lang and James Moll to serve as directors of Citizens for a three year term.

Name, Principal Occupation for Past Five Years and Directorships	Age	Director Since (1)
Nominees for election at the Annual Meeting (Class I):		
STEPHEN M. BIANCHI	55	2017
Mr. Bianchi has served as a member of our Board since May 2017 and was appointed as Chairman of the Board in October 2018. Mr. Bianchi has served as President and Chief Executive Officer of the Company and President and a director of Citizens Community Federal N.A., the Company's wholly owned subsidiary (the "Bank"), since June 2016. Mr. Bianchi served as President and Chief Executive Officer of HF Financial Corp. and Home Federal Bank, both based in Sioux Falls, South Dakota from October 2011 through May 2016. Mr. Bianchi was a member of the board of directors of Home Federal Bank. Mr. Bianchi also served in several senior management positions at Wells Fargo Bank and Associated Bank prior to his employment with HF Financial Corp. and Home Federal Bank. Mr. Bianchi holds an MBA from Providence College and a B.S. in Finance from Providence College and has over 30 years of banking experience. Among other qualifications, Mr. Bianchi brings to the Board extensive executive leadership.		
JAMES R. LANG	76	2012
Mr. Lang has served as a member of our Board since November 2012. Mr. Lang has over 40 years of leadership experience in the financial service and manufacturing industries with an emphasis on strategic realignment, revenue enhancement, mergers and acquisitions and financial performance. Mr. Lang has been the owner and President of Advantech Manufacturing, Inc., a company engaged in the business of manufacturing products for the dry particle sizing industry, since April 1998. Additionally, Mr. Lang has held several executive positions at Firstar Bank. Most recently serving as Chairman, President and Chief Executive Officer at Firstar Bank Iowa, NA from April 1991 to April 1996. Mr. Lang is a member of the Compensation Committee of our Board of Directors. Mr. Lang brings to the Board substantial experience in the banking industry and extensive leadership experience, all of which led to the conclusion that he should serve as a director of Citizens.		
JAMES D. MOLL	68	2017
Mr. Moll has served as a member of our Board since January 2018. Mr. Moll served as the Chief Financial Officer of Wells Financial Corp. (Wells) and its subsidiary, Wells Federal Bank from 1995 to 2016 and served as the Chief Executive Officer and President of Wells from 2015 until August of 2017 when the sale of Wells to the Company was completed. Mr. Moll also served on the Board of Directors of Wells from 2013 until the completion of the sale of the company in 2017. Mr. Moll holds a B.A. in Economics from St. John’s University, Collegeville, MN and a B.S. in Accounting from Minnesota State University, Mankato, MN. Mr. Moll is a Certified Public Accountant. Mr. Moll is a member of the Risk Oversight Committee of our Board. Mr. Moll brings substantial experience in the banking industry and extensive leadership experience, all of which led to the conclusion that he should serve as a director of Citizens.		

Name, Principal Occupation for Past Five Years and Directorships	Age	Director Since (1)
Incumbent Directors: Class II Directors - Terms Expiring 2020		
RICHARD MCHUGH	76	1985
Mr. McHugh has served as a member of our Board since 1985 and has served as Lead Director since October 2018. Prior to being appointed as Lead Director, Mr. McHugh served as the Chairman of our Board since 1988. Neither the Chairman of the Board nor the Lead Director positions are considered one of our officers or employees. Mr. McHugh has been the majority owner and President of Choice Products USA, LLC for the past 35 years. Choice Products is engaged in the national distribution of products for the fundraising industry. Mr. McHugh is also a managing partner and an owner of Choice Commercial LLC, which specializes in leasing & storage handling of products. Mr. McHugh is the Governance and Nomination Committee chair and a member of the Audit Committee of our Board. The Board benefits from Mr. McHugh's leadership and business acumen in the Eau Claire community, as well as his tenure on the Board of Directors and in-depth knowledge of our business.		
MICHAEL L. SWENSON	68	2011
Mr. Swenson has served as a member of our Board since May 2011. Prior to his retirement in 2012, Mr. Swenson was the President and CEO of Northern States Power Company - Wisconsin (an Xcel Energy Company and an electric and natural gas utility holding company) in Eau Claire, Wisconsin and had served as an engineer in various executive roles with Xcel Energy for over a decade. Mr. Swenson is the Compensation Committee chair and a member of the Governance and Nomination Committee of our Board. The Board benefits from Mr. Swenson's executive and leadership expertise all of which led to the conclusion that he should serve as a director of Citizens.		
FRANCIS E. FELBER	66	2017
Mr. Felber has served as a member of our Board since September 2017. Mr. Felber brings over 40 years of experience in the agricultural industry to the Board. His career includes time at the Minneapolis Grain Exchange as a grain merchant and merchandised grain on the Chicago Board of Trade. In 1975, Mr. Felber joined his family's feed and grain country elevator in southern Minnesota and worked there until it was sold in 1982. He remained in the grain, feed and agronomy business until he joined Jerome Foods, Inc. (Jennie-O Turkey Store, Inc.) in 1990 to manage the Feed Ingredient Purchasing Department. In 2007, Mr. Felber founded Ag Risk Managers Insurance Agency LLC, which specializes in the risk management of crops and livestock. Mr. Felber is a member of the Governance and Nomination Committee of our Board. Mr. Felber brings to the Board substantial experience in the agricultural industry and extensive leadership experience, all of which led to the conclusion that he should serve as a director of Citizens.		
Incumbent Directors: Class III Directors - Terms Expiring 2021		
KRISTINA M. BOURGET	54	2018
Ms. Bourget has served as a member of our Board since March 2018. Ms. Bourget has practiced law for over 25 years in Eau Claire, Wisconsin. She is currently Vice President and General Counsel at Wisconsin Independent Network (WIN) where she has been employed since 2015. From 2013 to 2015, Ms. Bourget served as circuit court judge in Eau Claire County, Wisconsin. From 2010 until she was appointed to the bench, she was a stockholder at Bourget Law where she focused on trademark and business matters. From 1998 to 2009, Ms. Bourget served as corporate counsel at Xcel Energy where she was responsible for a wide variety of legal issues. From 1991 to 1997, Ms. Bourget practiced law with Kelly & Ryberg. Ms. Bourget graduated from the University of Wisconsin Law School (cum laude and Order of the Coif) and holds a BBA in Finance and a minor in Accounting from the University of Wisconsin-Eau Claire. Ms. Bourget is the Risk Oversight Committee chair and is a member of the Audit Committee and Compensation Committee of our Board. Ms. Bourget brings to the Board brings to the Board of Directors professional experience related to corporate law, leadership		

experience, and a financial background, all of which lead to the conclusion she should serve as a director of Citizens.

TIMOTHY L. OLSON	59	2018

Mr. Olson has served as a member of our Board since March 2018. Mr. Olson is Developer/Co-owner of Arrowhead Properties, LLC and former Vice President of Finance/Co-owner of Royal Construction, Inc., a commercial general contractor/construction management firm in Eau Claire, from 1999 until 2015. Mr. Olson earned his BA and MBA from UW-Eau Claire and has been licensed as a CPA in Wisconsin since 1983. Over the past 23 years, Mr. Olson has been involved in the development and financial management and ownership of a multitude of commercial & multi-family real estate properties in northwest Wisconsin. He also has served as Board Chair for the Eau Claire Chamber of Commerce. Mr. Olson is the Audit Committee Chair. The Board benefits from Mr. Olson's leadership and business acumen in the Eau Claire community and his qualification as an “audit committee financial expert” under the rules of the Securities and Exchange Commission (the "SEC").

(1) Includes service as a director of Citizens Community Federal National Association (the "Bank") and its predecessors.

DIRECTOR COMPENSATION

General Information

Non-employee directors received cash compensation and equity-based compensation retainers for their service on our Board of Directors. For fiscal 2018, each of our non-employee directors, except our Chairman, received an annual retainer consisting of $12,000 cash and $7,000 of a restricted stock award, pro-rated based on length of service, and our non-employee Chairman received an annual retainer of $25,000. Additionally, each non-employee director received $1,000 for each Board meeting attended. Directors are members of our Compensation Committee, Audit Committee, Risk Oversight Committee and Governance and Nomination Committee, as well as Board Member Representatives of our Asset Liability Committee and Credit Committee. In fiscal 2018, the chairman of each of these Committees received an additional $1,000 per meeting for attendance at each Committee meeting, and each member, other than the chairman, received $500 for attendance at each Committee meeting.

For the 2018 transition period and fiscal 2019, we changed our non-employee director compensation to include a greater proportion of equity-based compensation. The annual retainer is paid in the form of restricted stock awards. The annual retainer awards for a twelve month period are in the amount of $25,000 for the Lead Director or non-employee Chairman and $19,000 for each other non-employee director. The retainer awards for the 2018 transition period and fiscal 2019 were paid in one restricted stock award for the cumulative fifteen month period at 125% of the annual retainer amount, and there will not be another annual retainer award for fiscal 2019.

Non-employee directors will continue to receive cash compensation of $1,000 for each Board meeting attended. The chairman of each Committee will receive an additional $1,000 per meeting for attendance at each Committee meeting, and each member other than the chairman receives $500 for attendance at each Committee meeting. The annual retainer restricted stock awards awarded for fiscal 2019 included awards for the transition period from October 1, 2018 to December 31, 2018.

Director Compensation

The following table summarizes the director compensation for all of our non-employee directors for the 2018 transition period from October 1, 2018 to December 31, 2018 and fiscal 2018 (as also reported on our Form 10-K filed with the SEC on December 10, 2018).

Name	Period	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	All Other Compensation ($)	Total ($)
Kristina Bourget (3)	TP 2018	$7,000	$23,744	$ —	$30,744
	FY 2018	11,500	9,499	—	20,999
Francis E. Felber	TP 2018	6,000	23,744	—	29,744
	FY 2018	38,500	7,004	—	45,504
James R. Lang	TP 2018	5,500	23,744	—	29,244
	FY 2018	49,500	7,004	—	56,504
Richard McHugh	TP 2018	5,500	31,244	—	36,744
	FY 2018	42,000	7,004	—	49,004
James D. Moll (4)	TP 2018	7,000	23,744	—	30,744
	FY 2018	27,500	5,250	—	32,750
Tim Olson (3)	TP 2018	5,500	23,744	—	29,244
	FY 2018	15,000	9,499	—	24,499
Mike Swenson	TP 2018	6,000	23,744	—	29,744
	FY 2018	38,000	7,004	—	45,004
David B. Westrate (5)	TP 2018	—	—	—	—
	FY 2018	19,000	3,495	—	22,495
Brian R. Schilling (5)	TP 2018	—	—	—	—
	FY 2018	17,500	3,495	—	20,995
Timothy A. Nettesheim (6)	TP 2018	—	—	—	—
	FY 2018	9,000	—	—	9,000

(1) The amount in this column reflects the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of the annual restricted stock awards, which vest in full at the end of the 2019 fiscal year, subject to pro-rata vesting for a termination of service on the Board other than for cause. Restricted stock awards made during the 2018 transition period consist of awards for the cumulative fifteen month period for the 2018 transition period and fiscal 2019.

(2) Annual restricted stock awards vest in full at the end of the then-current fiscal year, subject to pro-rata vesting for a termination of service on the Board other than for cause.

(3) Mr. Olson and Ms. Bourget were elected to the Board of Directors in March 2018.

(4) Mr. Moll began serving on our Board of Directors in January 2018.

(5) Messrs. Schilling's and Westrate's terms on the Board of Directors expired in March 2018.

(6) Mr. Nettesheim resigned from our Board of Directors effective January 1, 2018.

DIRECTORS' MEETINGS AND COMMITTEES

Directors and Director Attendance

Our Board of Directors held 5 meetings during the 2018 transition period and 18 times in fiscal 2018, and during the 2018 transition period and fiscal 2018 all of our directors attended at least 75% of the meetings of our Board of Directors and the committees thereof on which they served.

Executive sessions or meetings of outside (non-management) directors without management present are included on the agenda for each regularly scheduled Board of Directors meeting for a general discussion of relevant subjects.

During the 2018 transition period, the outside directors met in executive session at least two times, and in fiscal 2018, the outside directors met in executive session at least two times in accordance with the requirements of the NASDAQ Stock Market ("NASDAQ"). The committees of our Board of Directors consist of the Audit Committee, the Compensation Committee, the Governance and Nomination Committee

and the Credit Committee. The chart below identifies our directors that serve on each of these committees as of the date of this Proxy Statement, along with the number of meetings held by each committee during the 2018 transition period and fiscal 2018:

	Audit	Compensation	Governance & Nomination	Risk Oversight
Number of Meetings:				
TP 2018	1	1	-	1
FY 2018	6	6	4	2
Name of Director:				
Stephen M. Bianchi				
Richard McHugh	X		X*	
Kristina Bourget	X	X		X*
Francis E. Felber			X	
James R. Lang		X		
James D. Moll				X
Timothy Olson	X*			
Michael L. Swenson		X*	X	

X = committee member; * = committee chairman

Audit Committee

The Audit Committee is responsible for assisting our Board of Directors with oversight of: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) our independent auditor's qualifications and independence; (4) the performance of our internal accounting function and independent auditors; and (5) preparing the Audit Committee Report required to be included in this Amendment. Our Audit Committee has the direct authority and responsibility to appoint, compensate, oversee and where appropriate, replace or retain the independent auditor, and is an "audit committee" for purposes of Section 3(a)(58)(A) of the Exchange Act.

Each member of our Audit Committee is able to read and understand fundamental financial statements, including our balance sheet, income statement, and cash flow statement. Our Board of Directors has determined that at least one of the members of our Audit Committee qualifies as an "audit committee financial expert" as defined by the rules of the SEC. Our Board of Directors has determined that Mr. Olson qualifies as an "audit committee financial expert" based on his work experience and duties as a vice president of finance and co-owner of businesses and his education and qualification as a certified public accountant.

Our directors that serve as members of our Audit Committee are Ms. Bourget and Messrs. McHugh and Olson. On January 24, 2019, Mr. Olson assumed the role as Audit Committee Chair and Mr. Moll ceased to be a member of the Audit Committee. Based on the review described below under "Corporate Governance Matters - Director Independence," our Board of Directors has determined that each member of the Audit Committee is independent under applicable standards and rules of NASDAQ and the SEC.

Compensation Committee

The Compensation Committee, in addition to such other duties as may be specified by our Board of Directors, (1) determines the compensation levels of our Chief Executive Officer and other executive officers, including salary rates, participation in incentive compensation and benefit plans, fringe benefits, non-cash perquisites and other forms of compensation; (2) reviews and makes recommendations to our Board of Directors with respect to bank wide incentive compensation plans and equity-based plans; and (3) reviews and makes recommendations to our Board of Directors with respect to the compensation of our outside directors. The Compensation Committee also administers our restricted stock, stock option and other stock incentive plans.

Many key compensation decisions are made during the first quarter of the fiscal year as the Compensation Committee meets to: (1) review performance for the prior year under our cash bonus plan for executive officers and senior managers, (2) determine awards under our 2018 Equity Incentive Plan, and (3) set compensation targets and objectives for the coming year. However, our Compensation Committee also views compensation as an ongoing process and may convene special meetings in addition to its regularly scheduled meetings throughout the year for purposes of evaluation, planning and appropriate action.

Our directors that serve as members of our Compensation Committee are Ms. Bourget, Messrs. Lang and Swenson. On January 24, 2019, Mr. Lang joined the Compensation Committee and Mr. Moll ceased to be a member of the Compensation Committee. As such, Mr. Moll attended meetings of the Compensation Committee during the 2018 transition period and fiscal 2018. Based

on the review described below under “Corporate Governance Matters - Director Independence,” our Board of Directors has determined that each member of the Compensation Committee is independent, is a non-employee director and is an outside director under the applicable standards and rules of NASDAQ, the SEC and the Internal Revenue Service, respectively.

General and administrative	154	63	545	203
Total stock-based compensation expense	$ 230	$ 166	$ 896	$ 369

As of September 30, 2016, the Company had $2.4 million of total unrecognized stock-based compensation, net of estimated forfeitures, related to outstanding stock options that will be recognized over a weighted-average period of 3.41 years.

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The Company uses the Black-Scholes model for valuing its options and awards granted to employees and non-employees. Stock-based compensation in connection with non-employee grants was immaterial for the three and nine months ended September 30, 2016 and 2015. The following table illustrates the input assumptions used to value employee stock option grants for the three and nine months ended September 30, 2016 and 2015 (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	1.26%	1.07% - 1.73%	1.06 - 1.97%	1.07% - 2.01%
Expected volatility	89%	89%	89%	89%
Expected term (years)	6.08	6.08	6.08	6.08

11. Restructuring and Severance

In January 2016, the Company terminated the employment of its Chief Executive Officer (CEO). Pursuant to the terms of his employment agreement, the Company was obligated to its former CEO for certain severance payments, continuation of benefits, and acceleration of vesting of the remaining outstanding unvested stock options. For the three months ended March 31, 2016, the Company had recorded a liability and an expense of $0.4 million for postemployment severance and benefits and a stock-based compensation expense of approximately $16,000 related to the acceleration of vesting of the former CEO s stock options. For the nine months ended September 30, 2016, the Company had paid $0.4 million of the postemployment severance and benefits, with $7,500 remaining included within accrued compensation on the condensed consolidated balance sheet.

In March 2016, the Company consolidated its operations with the primary focus on continued development of M207 (previously known as ZP-Triptan). In accordance with ASC 420, Exit or Disposal Cost Obligations, the aggregate restructuring charges of approximately $0.5 million represent one-time termination benefits, comprised principally of severance, benefit continuation costs and outplacement services. For the three months ended March 31, 2016, the Company had recorded $0.5 million as a liability and an expense and a stock-based compensation expense of approximately $5,000 on the acceleration of vesting of certain stock options related to the elimination of certain senior positions in connection with the workforce reduction. For the nine months ended September 30, 2016, the Company paid approximately $0.5 million, with approximately $31,000 remaining included within accrued compensation on the condensed consolidated balance sheet.

12. Going Concern

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. As of September 30, 2016, the Company has an accumulated deficit of $189.0 million as well as negative cash flows from operating activities. Presently, the Company does not have sufficient cash resources to meet its plans in the next twelve months following September 30, 2016. The Company will continue to require substantial funds to continue research and development, including clinical trials of its product candidate. Management s plans in order to meet its operating cash flow requirements include financing activities such as private placements of its common stock, preferred stock offerings, issuances of debt and convertible debt instruments and collaborative or other arrangements with corporate sources.

These factors raise substantial doubt regarding the Company s ability to continue as a going concern. There are no assurances that such additional funding will be achieved and that the Company will succeed in its future operations. The Company s inability to obtain required funding in the near future or its inability to obtain funding on favorable terms will have a material adverse effect on its operations and strategic development plan for future growth. If the Company cannot successfully raise additional capital and implement its strategic development plan, its liquidity, financial condition and business prospects will be materially and adversely affected, and the Company may have to cease operations.

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13. Subsequent Event

On October 12, 2016, we received a deficiency letter from the Listing Qualifications Department of The NASDAQ Stock Market notifying us that, for the preceding 30 consecutive business days, the bid price for our common stock had closed below the minimum $1.00 per share requirement for continued inclusion on The NASDAQ Global Market pursuant to NASDAQ Listing Rule 5550(a)(2). In accordance with NASDAQ Listing Rule 5810(c)(3)(A), the Company has been provided an initial period of 180 calendar days, or until April 10, 2017, to regain compliance with the Rule. If, at any time before April 10, 2017, the bid price for the Company s common stock closes at $1.00 or more for a minimum of 10 consecutive business days as required under Listing Rule 5810(c)(3)(A), the Staff will provide written notification to the Company that it complies with the Rule.

If the Company does not regain compliance with the Rule by April 10, 2017, the Company may be eligible for an additional 180 calendar day compliance period. To qualify, the Company will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards, with the exception of the bid price requirement, and will need to provide written notice to the Staff of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split if necessary.

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

The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities and Exchange Commission, or SEC, on March 29, 2016. This discussion contains forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such forward looking statements involve risks and uncertainties. We use words such as may, continue, goal, would, could, might, anticipate, intend, forecast, designated, approximate, will, expect, anticipate, estimate, intend, p believe, should or negatives of these words and similar expressions and references to future periods to identify forward-looking statements. Although we believe the expectations reflected in these forward- looking statements are reasonable, such statements are inherently subject to risk and we can give no assurances that our expectations will prove to be correct. These statements appearing throughout this Quarterly Report on Form 10-Q are statements regarding our intent, belief, or current expectations, primarily regarding our operations. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. As a result of many factors, such as those set forth under Risk Factors under Item 1A of Part II below, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

Overview

Zosano Pharma is a clinical stage company focusing on providing rapid symptom relief to patients using known therapeutics, specifically for central nervous system indications, with well-established safety and efficacy, but altering their delivery profile using the Company s proprietary intracutaneous delivery system, which we believe may offer rapid and consistent drug delivery and improved ease of use over current means of administration.

The focus of our development efforts is on our product candidate M207. M207 is our proprietary formulation of zolmitriptan, one of a class of serotonin receptor agonists known as triptans, used for the treatment of migraine. Migraine is a debilitating neurological disease, symptoms of which include moderate to severe headache pain, nausea and vomiting, and abnormal sensitivity to light and sound. Our M207 intracutaneous microneedle patch is applied to an individual s upper arm to deliver zolmitriptan to the central nervous system, with the objective of providing rapid onset relief from migraine symptoms.

Recent Developments

Following is a summary of selected recent developments affecting our business that have occurred since December 31, 2015.

In March 2016, we announced the decision to prioritize our clinical development effort on M207 and to suspend further development related to our other candidates, Daily B104 and Weekly B206 (previously known as Daily ZP-PTH and Weekly ZP-PTH, respectively) and D107 (previously known as ZP-Glucagon), until such time that we can appropriately fund such development through strategic partnerships or additional financing. As a result of this decision, we streamlined our organization to effectively use our funds for this purpose. The workforce reduction is expected to reduce our expenses by approximately $2.0 million, net of severance costs, for the fiscal year, 2016.

In July 2016, we announced the dosing of the first subject in the M207 pivotal efficacy trial, known as Zotrip study. The Zotrip trial is a multicenter, double-blinded, randomized, placebo-controlled trial comparing three doses of M207 (1.0 mg, 1.9 mg, and 3.8 mg) to placebo for the treatment of a single migraine attack.

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On November 8, 2016, we announced that we had achieved sufficient patient enrollment in the Zotrip trial to reach the goal of approximately 360 randomized patients, and subsequently we closed enrollment. We are on track to announce results of the Zotrip trial in the first quarter of 2017.

M207 Clinical Trials

The ongoing Zotrip pivotal efficacy trial is a multicenter, double-blind, randomized, placebo-controlled trial comparing three doses of M207 (1.0 mg, 1.9 mg, and 3.8 mg) to placebo for the treatment of a single migraine attack. We expect to enroll enough subjects to randomize approximately three hundred sixty subjects in the Zotrip trial at 36 centers across the United States. Subjects are recruited into the Zotrip trial if they have a history of at least one year of episodic, acute migraines with or without aura. Upon recruitment, subjects undergo a screening and run-in period to ensure they meet the key eligibility criterion of 2-8 migraine attacks per month, documented using an electronic diary. Successfully screened subjects are then randomized into the treatment/dosing period and have 8 weeks to confirm and administer blinded treatment for a single migraine attack.

Based on the Company s discussions with the FDA and the FDA s October 2014 Draft Guidance Migraine: Developing Drugs for Acute Treatment, the co-primary endpoints of this study are:

(i) pain freedom at 2 hours post-dosing, and

(ii) freedom from each subject s most bothersome symptom at 2 hours post-dosing.

Furthermore, the FDA has indicated that a single, positive, pivotal efficacy study, in addition to a safety study, will be sufficient data to file for regulatory approval under the 505(b)(2) pathway. The Company intends to conduct the safety study after completion of the Zotrip trial.

The planned safety study, will follow after the completion of the efficacy study upon confirming the commercial dose selection. We will require additional financing to initiate this safety study. According to FDA guidance, the safety study is designed to enroll a total of 250 subjects, who historically had experienced two to eight migraines per month, with the goal of retaining 150 subjects who have completed at least six months of follow up and 50 subjects who have completed 12 months of follow up. The safety study is planned to be an open-label study with investigator visits at months one, three, six, nine and twelve to record adverse events. The primary objective of the safety study is to measure adverse events and local tolerability during repeated administration. Other endpoints are electrocardiography, and laboratory parameters, as well as percentage of headaches with pain-free response.

While we are considering pursuing clinical development and regulatory approval of our M207 product candidate through commercialization, we remain open to opportunities with potential strategic partners to ensure our product candidate will receive the best chance of commercial success.

Critical Accounting Policies and Significant Judgments and Estimates

Our management s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of our financial statements in conformity with U.S. GAAP requires our management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. Our management believes judgment is involved in determining revenue recognition, the fair value-based measurement of

stock-based compensation, accruals and warrant valuations. Our management evaluates estimates and assumptions as facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates and assumptions, and those differences could be material to the consolidated financial statements. If our assumptions change, we may need to revise our estimates, or take other corrective actions, either of which may also have a material adverse effect on our condensed consolidated statements of operations and comprehensive loss, liquidity and financial condition.

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We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

There have been no significant and material changes in our critical accounting policies and use of estimates during the three and nine months ended September 30, 2016, as compared to those disclosed in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission.

Financial Operations Overview

As of September 30, 2016, we had an accumulated deficit of approximately $189.0 million. We have incurred significant losses and expect to incur significant and increasing losses in the foreseeable future as we advance our product candidates into later stages of development and, if approved, commercialization.

We expect our research and development expenses and manufacturing expenses related to clinical trials to increase significantly as we continue to advance our product candidates through clinical development. Because of the numerous risks and uncertainties associated with our technology and drug development, we are unable to predict the timing or amount of expenses incurred or when, or if, we will be able to achieve profitability.

Revenue

Our revenue to date has been generated primarily from non-refundable license fee payments and reimbursements for research and development expenses under our former collaboration and license agreements with strategic partners. Our collaboration agreements with Lilly and Novo Nordisk have been terminated. We cannot assure you that we will receive additional collaboration revenue in the future.

Research and development expenses

Research and development expenses represent costs incurred to conduct research, such as the discovery and development of our proprietary product candidates. We recognize all research and development costs as they are incurred.

Research and development expenses consist of:

- production costs which include, but are not limited to, employee-related expenses, including salaries, benefits and stock-based compensation expense, and fees paid to conduct nonclinical studies, drug formulation, and cost of consumables used in nonclinical and clinical trials;

- expenses related to the purchase of active pharmaceutical ingredients and raw materials for the production of our intracutaneous microneedle patch system, including fees paid to contract manufacturing organizations or CMOs;

fees paid to contract research organizations, or CROs, clinical consultants, clinical trial sites and vendors, including institutional review boards, or IRBs, in conjunction with implementing and monitoring our clinical trials and acquiring and evaluating clinical trial data, including all related fees, such as for investigator grants, patient screening fees, laboratory work and statistical compilation and analysis;

fees paid to conduct clinical studies, drug formulation, and cost of consumables used in nonclinical and clinical trials;

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other consulting fees paid to third parties; and

allocation of certain shared costs, such as facilities-related costs and IT support services.

For the immediate future, our research and development efforts and resources will be focused primarily on advancing our product candidate M207 through clinical development. We are actively seeking opportunities to enter into collaborations with strategic partners to further the clinical and commercial development of our other product candidates, such as Daily B104, Weekly B206 and D107.

We cannot forecast with any degree of certainty if any of our product candidates will be subject to future collaborations or how such arrangements would affect our development plans or capital requirements. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

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 otherwise included in research and development.

Other expenses

Interest expense, net. Interest expense, net of interest income, consists primarily of interest costs related to our debt and the amortization of debt discount and issuance costs. Interest expense for the three and nine months ended September 30, 2016 reflects accrued and paid interest related to the term loan with Hercules Technology Growth Capital, Inc., or Hercules, and the related amortization of debt discount and issuance costs. Interest expense for the nine months ended September 30, 2015 reflects accrued interest on the secured promissory note payable to BMV Direct SOTRS LP, one of our largest stockholders, as well as on the term loan with Hercules and the related amortization of debt discount and issuance costs. Interest expense for the nine months ended September 30, 2015, also includes interest accrued on our related parties convertible promissory notes.

Other income (expense) and warrant revaluation income. Other income or expense consists of certain miscellaneous income or expenses that are not included in other categories of the consolidated statement of operations. For the nine months ended September 30, 2016, other income consists primarily of a $51,000 gain from the sale of equipment. For the nine months ended September 30, 2015, the Company recorded warrant revaluation income of $48,000 that resulted from the re-measurement of our common stock warrant liability issued in connection with the Hercules loan. We recorded changes to the fair value of the common stock warrants as income or loss at each balance sheet date until they were reclassified to permanent equity in the first quarter 2015. As such, there was no income or expense recorded for the three months ended September 30, 2015.

Results of Operations

Comparison of the three months ended September 30, 2016 and 2015

Revenue

Due to the completion of the feasibility study and conclusion of work under the collaboration agreement with Novo Nordisk which was terminated in 2015, there were no revenues for the three months ended September 30, 2016 and 2015.

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Research and development expenses

	Three Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
Research and development	$ 5,124	$ 6,627	$ (1,503)	-23%

Research and development expenses decreased approximately $1.5 million, or 23%, for the three months ended September 30, 2016 as compared to the same period in 2015. The decision to suspend development of product candidates, Daily B104, Weekly B206 and D107, resulted in a decrease of approximately $4.3 million primarily related to production costs for the manufacturing of clinical trial material for those product candidates.

The focus of our development efforts on product candidate M207, beginning March 2016, resulted in an increase of approximately $2.9 million primarily related to CRO costs.

General and administrative expenses

	Three Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
General and administrative	$ 2,010	$ 1,719	$ 291	17%

General and administrative expenses increased approximately $0.3 million, or 17%, for the three months ended September 30, 2016 as compared to the same period in 2015. General and administrative expenses increased approximately $0.4 million due primarily to increases in stock based compensation related to performance grants, legal and consulting costs. These increases were partially offset by a decrease of approximately $0.1 million in personnel costs.

Other income (expense)

	Three Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
Interest expense, net	$ (314)	$ (314)	$ -	0%
Other income	-	41	(41)	-100%

Interest expense, net, was unchanged for the three months ended September 30, 2016 as compared to the same period in 2015.

Other income decreased approximately $41,000 for the three months ended September 30, 2016 as compared to the same period in 2015. The decrease was primarily related to a non-recurring reimbursement on an insurance claim in 2015.

Comparison of the nine months ended September 30, 2016 and 2015

Revenue

	Nine Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
Revenue				
License fee revenue	$ -	$ 170	$ (170)	-100%
Collaborative development support services	-	143	(143)	-100%
Total revenue	$ -	$ 313	$ (313)	-100%

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Total revenue decreased $0.3 million, or 100%, for the nine months ended September 30, 2016 as compared to the same period in 2015. The decrease was due to the completion of feasibility study and conclusion of work under the collaboration agreement with Novo Nordisk which was terminated in 2015.

Research and development expenses

	Nine Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
Research and development	$ 15,044	$ 14,701	$ 343	2%

Research and development expenses increased approximately $0.3 million, or 2%, for the nine months ended September 30, 2016 as compared to the same period in 2015. The increase was primarily due to the initiation of clinical development of M207. Product costs for M207 increased approximately $7.8 million, primarily for manufacturing personnel costs in connection with the production of clinical trial materials, CRO costs, M207 efficacy study start-up costs and certain preclinical studies related to the submission of M207 s IND application. New asset development costs also increased $0.8 million.

Increases was offset by a decrease of approximately $8.2 million for manufacturing production and product-related studies as a result of our decision to suspend development of product candidates, Daily B104, Weekly B206 and D107.

General and administrative expenses

	Nine Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			
General and administrative	$ 6,137	$ 4,797	$ 1,340	28%

General and administrative expenses increased approximately $1.3 million, or 28%, for the nine months ended September 30, 2016 as compared to the same period in 2015. This increase was primarily due to approximately $0.4 million in non-recurring charges related to the reduction in force in March 2016, increased stock based compensation expense of approximately $0.3 million partially related to performance awards that vested in the second quarter of 2016 upon reaching pivotal clinical trial goals, an increase of approximately $0.3 million related to insurance and infrastructure expenses, and approximately $0.2 million in outside services and contractors.

Other expenses

	Nine Months Ended September 30,		Change	
	2016	2015	Amount	%
	(In thousands)			

Interest expense, net	$ (951)	$ (1,247)	$ 296	-24%
Other income	49	49	-	0%
Warrant revaluation income	-	48	(48)	-100%
Loss on debt extinguishment	-	(446)	446	-100%

Interest expense, net, decreased approximately $0.3 million, or 24%, for the nine months ended September 30, 2016 as compared to the same period in 2015. The decrease in interest expense was primarily due to savings from the restructuring of our term loan with Hercules in June 2015 at a lower interest rate.

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Other income was unchanged for the periods presented. For the nine months ended September 30, 2016, other income consists primarily of a gain of approximately $51,000 recorded from sale of equipment, and for the nine months ended September 30, 2015, other income consists of a non-recurring reimbursement on an insurance claim.

For the nine months ended September 30, 2015, we recorded warrant revaluation income, which resulted from the re-measurement of the fair value of our common stock warrant liability issued in connection with the Hercules term loan in June 2014.

Loss on debt extinguishment was related to the restructuring and consolidation of our outstanding debt in June 2015. The amended Hercules Term Loan had substantially different terms than the original loan, and the original debt was considered extinguished. We accounted for the extinguishment based on relative fair value of the loan and recorded a loss on debt extinguishment of $0.4 million in the three months ended June 30, 2015.

Liquidity and Capital Resources

We have incurred operating losses and negative cash flows from operating activities since inception, and as of September 30, 2016, had an accumulated deficit of $189.0 million. We expect to incur additional losses in the future as we continue our research and development, clinical and pre-commercialization manufacturing activities for our product candidates.

From our inception in October 2006 to our initial public offering in January 2015, we have funded our operations primarily through private placements of our preferred stock, secured and unsecured borrowings from private investors, bank credit facilities, and licensing and service revenue from our license and collaboration agreements. On January 30, 2015, we completed our IPO, in which we issued 4,500,000 shares of our common stock at a price of $11.00 per share, resulting in net proceeds of approximately $44.2 million, after deducting underwriting discounts and commissions and payment of offering expenses. Concurrent with the closing of our IPO on January 30, 2015, we issued and sold an additional 1,363,636 shares of our common stock to Lilly in a separate private placement for net proceeds of $14.5 million, after deducting a private placement fee. On February 27, 2015, we issued and sold an additional 110,000 shares of our common stock at a price of $11.00 per share pursuant to the partial exercise of the overallotment option granted to the underwriters in our initial public offering, resulting in net proceeds to us of approximately $1.1 million after deducting underwriting discounts and commissions. On August 19, 2016, we completed a Private Investment in Public Equity (PIPE) offering and issued an aggregate 4,800,000 shares of common stock and warrants to purchase 9,600,000 shares of common stock for net proceeds of $6.6 million.

As of September 30, 2016, we had approximately $23.1 million in cash, cash equivalents and marketable securities. We anticipate that we will not be able to satisfy our cash requirements over the next twelve months and shall be required to seek additional financing to enable us to complete all development activities necessary for NDA filing.

We will continue to require additional financing to develop our product candidates and fund operating losses. We will seek funds through equity or debt financings, collaborative or other arrangements with corporate sources, or through other sources of financing. Adequate additional funding may not be available to us on acceptable terms or at all. 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 but not limited to:

- the scope, progress, expansion, costs, and results of our clinical trials;

the scope, progress, expansion, and costs of manufacturing our product candidates;
the timing of and costs involved in obtaining regulatory approvals;
the type, number, costs, and results of the product candidate development programs which we are pursuing or may choose to pursue in the future;
our ability to establish and maintain development partnering arrangements;
the emergence of competing technologies and other adverse market developments;

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the costs of maintaining, expanding, and protecting our intellectual property portfolio, including potential litigation costs and liabilities;
if approved, the resources we devote to marketing, commercializing our product candidates; and
the costs associated with being a public company.

If we are unable to raise additional funds when needed, we may be required to delay, reduce, or terminate some or all of our 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.

The following table shows a summary of our cash flows for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Net cash (used in) provided by:		
Operating activities	$ (18,804)	$ (17,530)
Investing activities	26,052	(39,342)
Financing activities	5,284	60,533
Net increase (decrease) in cash and cash equivalents	$ 12,532	$ 3,661

Operating Cash Flow: Net cash used in operating activities was approximately $18.8 million and $17.5 million for the nine months ended September 30, 2016 and 2015, respectively. Net cash used during the first nine months of 2016 was primarily due to personnel costs related to manufacturing M207 clinical trial materials, preclinical study costs, certain termination benefits paid to a former executive, cost associated with our workforce reduction in March 2016 and professional fees and administrative expenses incurred in the course of our continuing operations. Net cash used during the first nine months of 2015 was primarily the result of clinical and non-clinical costs, personnel costs related to the hiring of key personnel with critical manufacturing know-how to ramp up our production of clinical trial materials in preparation of our planned clinical trials, professional fees and administrative expenses incurred in the course of our continuing operations.

Investing Cash Flow: Net cash provided by investing activities was approximately $26.1 million for the nine months ended September 30, 2016, as compared to net cash used in investing activities of approximately $39.3 million for the same period in 2015. Net cash provided by investing activities during the first nine months of 2016 was primarily the result of the maturity of certain marketable securities in our investment portfolio. Net cash used in investing activities during the first nine months of 2015 was primarily due to the purchase of $42.6 million of marketable securities for investment, partially offset by the maturities of $3.5 million of our investment in marketable securities.

Financing Cash Flow: Net cash provided by financing activities was approximately $5.3 million and $60.5 million for the nine months ended September 30, 2016 and 2015, respectively. Net cash generated by financing activities during first nine months of 2016 was due to net proceeds of $6.6 million from the PIPE offering, which was completed in August 2016. Financing proceeds were offset by principal payments on the Hercules Loan of $1.4 million. Net cash generated by financing activities during first nine months of 2015 included approximately $60.0 million of net proceeds from our initial public offering of securities and concurrent private placement with Lilly.

Contractual Obligations and Commitments

Our primary contractual obligations as of September 30, 2016 consist of operating leases of approximately $1.6 million and long-term debt obligations of approximately $15.9 million (including end of term payments and periodic interest payments). Operating leases represent our future minimum rental commitments under our operating leases. Long-term debt obligations include our secured term loan facility with Hercules.

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Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment. The new guidance simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2016. The Company is currently evaluating the impact of this accounting standard.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The new standard is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted as early as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of this accounting standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The amendment addresses eight specific cash flow issues with the objective of reducing diversity in practice. The new standard is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this accounting standard.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements, such as structured finance, special purpose entities or variable interest entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. We had cash and cash equivalents of $19.2 million as of September 30, 2016, which consisted of bank deposits and money market funds. We also had $3.9 million of investments in short-term marketable securities as of September 30, 2016, which consisted of certificates of deposit, corporate notes and bonds, and U.S. government agency bonds. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term marketable securities. Any interest-bearing instruments carry a degree of risk; however, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, a hypothetical immediate 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the 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 Securities and Exchange Commission s rules and forms.

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Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2016 identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not party to any material pending legal proceedings. However, we may from time to time become involved in litigation relating to claims arising in the ordinary course of our business.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2015 includes a detailed discussion of our risk factors under the heading Part I, Item 1A Risk Factors. There have been no material changes from such risk factors during the nine months ended September 30, 2016. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2015 and all other information contained in or incorporated by reference in this Quarterly Report on Form 10-Q before making an investment decision. If any of the risks discussed in the Annual Report on Form 10-K actually occur, they may materially harm our business, financial condition, operating results, cash flows or growth prospects. As a result, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, financial condition, operating results, cash flows or growth prospects and could result in a complete loss of your investment.

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

On January 30, 2015, we consummated the closing of our initial public offering, (IPO), of common stock pursuant to our Registration Statement on Form S-1 (File No. 333-196983), as amended, which was declared effective by the Securities and Exchange Commission, or SEC, on January 26, 2015.

As of September 30, 2016, we have used all net proceeds of the IPO to fund M207, Daily B104, and D107 product candidates, to service our debt obligation with Hercules, to expand and enhance our manufacturing capabilities, and for working capital and other general corporate purposes.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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SIGNATURES

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

Dated: November 9, 2016

Zosano Pharma Corporation

(Registrant)

/s/ Konstantinos Alataris
Konstantinos Alataris, Ph.D.
Chief Executive Officer and President

/s/ Georgia Erbez
Georgia Erbez
Interim Chief Financial Officer and

Chief Business Officer

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EXHIBIT INDEX

Exhibit number	Description
4.1	Form of Series A warrant (included as exhibit to Securities Purchase Agreement)
4.2	Form of Series B warrant (included as exhibit to Securities Purchase Agreement)
10.1	Securities Purchase Agreement (Incorporate by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K filed with the Commission on August 15, 2016)
10.2	Erbez Employment Agreement (Incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K filed with the Commission on September 7, 2016)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document XBRL
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

* *Exhibit 32.1 is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.*