

FATE THERAPEUTICS INC  
Form 10-Q  
August 06, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

From the transition period from            to            .

Commission File Number 001-36076

FATE THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction

65-1311552  
(IRS Employer

of incorporation or organization)

Identification No.)

3535 General Atomics Court, Suite 200, San Diego, CA  
(Address of principal executive offices)

92121  
(Zip Code)

(858) 875-1800

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of August 3, 2018, 53,419,189 shares of the registrant’s common stock, par value \$0.001 per share, were issued and outstanding.

FATE THERAPEUTICS, INC.

FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Fate Therapeutics, Inc.

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2018 (unaudited)	December 31, 2017 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 36,162	\$ 88,952
Short-term investments and related maturity receivables	41,857	11,997
Prepaid expenses and other current assets	2,015	1,647
Total current assets	80,034	102,596
Property and equipment, net	2,894	2,550
Restricted cash	227	122
Other assets	—	24
Total assets	\$ 83,155	\$ 105,292
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,510	\$ 1,678
Accrued expenses	8,376	7,254
CIRM award liability	600	—
Current portion of deferred rent	—	12
Current portion of deferred revenue	1,776	2,105
Long-term debt, current portion	2,011	—
Total current liabilities	16,273	11,049
Deferred rent	1,462	1,347
Deferred revenue	—	724
Accrued expenses	360	175
CIRM award liability	400	—
Long-term debt, net of current portion	12,835	14,808
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized shares—5,000,000		
at June 30, 2018 and December 31, 2017; 2,819,549		
Class A Convertible Preferred shares issued and outstanding		
at June 30, 2018 and December 31, 2017	3	3
Common stock, \$0.001 par value; authorized shares—150,000,000 at	53	53

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June 30, 2018 and December 31, 2017; issued and  
 outstanding—53,388,420 at June 30, 2018 and 52,648,601 at

December 31, 2017

Additional paid-in capital	304,371	295,934
Accumulated other comprehensive loss	(15 )	(3 )
Accumulated deficit	(252,587 )	(218,798 )
Total stockholders' equity	51,825	77,189
Total liabilities and stockholders' equity	\$ 83,155	\$ 105,292

See accompanying notes.

Fate Therapeutics, Inc.

## Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except share and per share data)

	Three Months Ended		Six Months Ended June 30,	
	June 30,	2017	2018	2017
	(unaudited)			
Collaboration revenue	\$ 1,027	\$ 1,026	\$ 2,053	\$ 2,053
Operating expenses:				
Research and development	16,816	7,927	28,292	15,893
General and administrative	3,816	2,669	7,420	5,701
Total operating expenses	20,632	10,596	35,712	21,594
Loss from operations	(19,605 )	(9,570 )	(33,659 )	(19,541 )
Other income (expense):				
Interest income	376	137	707	248
Interest expense	(425 )	(212 )	(837 )	(478 )
Total other expense, net	(49 )	(75 )	(130 )	(230 )
Net loss	\$(19,654 )	\$(9,645 )	\$(33,789 )	\$(19,771 )
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net	(2 )	(5 )	(12 )	(38 )
Comprehensive loss	\$(19,656 )	\$(9,650 )	\$(33,801 )	\$(19,809 )
Net loss per common share, basic and diluted	\$(0.37 )	\$(0.23 )	\$(0.64 )	\$(0.48 )
Weighted-average common shares used to compute basic and diluted net loss per share	53,130,518	41,406,367	52,947,926	41,397,398

See accompanying notes.

Fate Therapeutics, Inc.

## Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
<b>Operating activities</b>		
Net loss	\$(33,789)	\$(19,771)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	567	437
Stock-based compensation	2,867	1,840
Amortization of debt discounts and debt issuance costs	38	43
Amortization of premiums and discounts on investments, net	(212 )	(14 )
Noncash interest expense	185	138
Deferred rent	71	548
Deferred revenue	(1,053 )	(1,053 )
Issuance of common stock for license agreement	4,845	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(336 )	364
Accounts payable and accrued expenses	2,743	1,141
Net cash used in operating activities	(24,074)	(16,327)
<b>Investing activities</b>		
Purchase of property and equipment	(462 )	(566 )
Purchases of short-term investments	(55,660)	(39,971)
Maturities of short-term investments	26,000	3,500
Net cash used in investing activities	(30,122)	(37,037)
<b>Financing activities</b>		
Issuance of common stock from equity incentive plans, net of issuance costs		
	781	66
Issuance costs from public offering of common stock	(270 )	—
Issuance costs from private placement of common stock	—	(65 )
Issuance costs from private placement of preferred stock	—	(128 )
Proceeds from CIRM award	1,000	—
Payments on long-term debt	—	(4,055 )
Net cash provided (used) by financing activities	1,511	(4,182 )
Net change in cash, cash equivalents and restricted cash	(52,685)	(57,546)
Cash, cash equivalents and restricted cash at beginning of the period	89,074	88,731
Cash, cash equivalents and restricted cash at end of the period	\$36,389	\$31,185

See accompanying notes.





Fate Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

## 1. Organization and Summary of Significant Accounting Policies

### Organization

Fate Therapeutics, Inc. (the Company) was incorporated in the state of Delaware on April 27, 2007 and has its principal operations in San Diego, California. The Company is a clinical-stage biopharmaceutical company dedicated to the development of programmed cellular immunotherapies for cancer and immune disorders. The Company's cell therapy pipeline is comprised of NK- and T-cell immuno-oncology programs, including off-the-shelf engineered product candidates derived from clonal master induced pluripotent stem cell (iPSC) lines, and immuno-regulatory programs, including product candidates to prevent life-threatening complications in patients undergoing hematopoietic cell transplantation and to promote immune tolerance in patients with autoimmune disease. Its adoptive cell therapy programs are based on the Company's novel ex vivo cell programming approach, which it applies to modulate the therapeutic function and direct the fate of immune cells.

As of June 30, 2018, the Company has devoted substantially all of its efforts to product development, raising capital and building infrastructure and has not generated any revenues from any sales of its therapeutic products. To date, the Company's revenues have been derived from collaboration agreements and government grants.

### Public Equity Offering

In December 2017, the Company completed a public offering of common stock in which investors purchased 10,953,750 shares of its common stock at a price of \$4.20 per share under the Company's shelf registration statement. Gross proceeds from the offering were \$46.0 million, and, after giving effect to \$3.0 million of costs related to the offering (of which \$0.3 million was paid during the six months ended June 30, 2018), net proceeds were \$43.0 million.

### Use of Estimates

The Company's consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The preparation of the Company's consolidated financial statements requires it to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the Company's consolidated financial statements and accompanying notes. The most significant estimates in the Company's consolidated financial statements relate to accrued expenses. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Fate Therapeutics Ltd., incorporated in the United Kingdom, and Tfinity Therapeutics, Inc., incorporated in the United States. To date, the aggregate operations of these subsidiaries have not been significant and all intercompany transactions and balances have been eliminated in consolidation.

Cash, Cash Equivalents and Restricted Cash

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

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The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheet that sum to the total of the same such amount shown in the Condensed Consolidated Statements of Cash flows as of June 30, 2018 (in thousands):

	June 30, 2018
Cash and cash equivalents	\$36,162
Restricted cash	227
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$36,389

Amounts included in restricted cash represent security deposits required to secure the Company's credit card limit and its facilities lease.

### Short-Term Investments

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income. The amortized cost of available-for-sale debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

### Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP and following the requirements of the SEC for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. In management's opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position and its results of operations and comprehensive loss and its cash flows for the periods presented. These statements do not include all disclosures required by GAAP and should be read in conjunction with the Company's financial statements and accompanying notes for the fiscal year ended December 31, 2017, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed by the Company with the SEC on March 5, 2018. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or any other interim period or any future year or period.

### Revenue Recognition

The Company recognizes revenue in a manner that depicts the transfer of control of a product or a service to a customer and reflects the amount of the consideration the Company is entitled to receive in exchange for such product or service. In doing so, the Company follows a five-step approach: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) the customer obtains control of the product or service. The Company considers the terms of a contract and all relevant facts and circumstances when applying the revenue recognition standard. The Company applies the revenue recognition standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances.

A customer is a party that has entered into a contract with the Company, where the purpose of the contract is to obtain a product or a service that is an output of the Company's ordinary activities in exchange for consideration. To be considered a contract, (i) the contract must be approved (in writing, orally, or in accordance with other customary business practices), (ii) each party's rights regarding the product or the service to be transferred can be identified, (iii) the payment terms for the product or the service to be transferred can be identified, (iv) the contract must have commercial substance (that is, the risk, timing or amount of future cash flows is expected to change as a result of the contract), and (v) it is probable that the Company will collect substantially all of the consideration to which it is entitled to receive in exchange for the transfer of the product or the service.

A performance obligation is defined as a promise to transfer a product or a service to a customer. The Company identifies each promise to transfer a product or a service (or a bundle of products or services, or a series of products and services that are substantially the same and have the same pattern of transfer) that is distinct. A product or a service is distinct if both (i) the customer can benefit from the product or the service either on its own or together with other resources that are readily available to the customer and (ii) the

Company's promise to transfer the product or the service to the customer is separately identifiable from other promises in the contract. Each distinct promise to transfer a product or a service is a unit of accounting for revenue recognition. If a promise to transfer a product or a service is not separately identifiable from other promises in the contract, such promises should be combined into a single performance obligation.

The transaction price is the amount of consideration the Company is entitled to receive in exchange for the transfer of control of a product or a service to a customer. To determine the transaction price, the Company considers the existence of any significant financing component, the effects of any variable elements, noncash considerations and consideration payable to the customer. If a significant financing component exists, the transaction price is adjusted for the time value of money. If an element of variability exists, the Company must estimate the consideration it expects to receive and uses that amount as the basis for recognizing revenue as the product or the service is transferred to the customer. There are two methods for determining the amount of variable consideration: (i) the expected value method, which is the sum of probability-weighted amounts in a range of possible consideration amounts, and (ii) the mostly likely amount method, which identifies the single most likely amount in a range of possible consideration amounts.

If a contract has multiple performance obligations, the Company allocates the transaction price to each distinct performance obligation in an amount that reflects the consideration the Company is entitled to receive in exchange for satisfying each distinct performance obligation. For each distinct performance obligation, revenue is recognized when (or as) the Company transfers control of the product or the service applicable to such performance obligation.

In those instances where the Company first receives consideration in advance of satisfying its performance obligation, the Company classifies such consideration as deferred revenue until (or as) the Company satisfies such performance obligation. In those instances where the Company first satisfies its performance obligation prior to its receipt of consideration, the consideration is recorded as accounts receivable.

The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that would be recognized is one year or less, or if the amount of the asset is immaterial.

#### Stock-Based Compensation

Stock-based compensation expense represents the cost of the grant date fair value of employee stock option and restricted stock unit grants recognized over the requisite service period of the awards (usually the vesting period) on a straight-line basis, net of estimated forfeitures. For stock option grants for which vesting is subject to performance-based milestones, the expense is recorded over the remaining service period after the point when the achievement of the milestone is probable or the performance condition has been achieved. For stock option grants for which vesting is subject to both performance-based milestones and market conditions, expense is recorded over the derived service period after the point when the achievement of the performance-based milestone is probable or the performance condition has been achieved. The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model, with the exception of option grants for which vesting is subject to both performance-based milestones and market conditions, which are valued using a lattice-based model. The fair value of restricted stock units is based on the closing price of the Company's common stock as reported on The NASDAQ Global Market on the date of grant.

The Company accounts for stock options and restricted stock awards to non-employees using the fair value approach. Stock options and restricted stock awards to non-employees are subject to periodic revaluation over their vesting terms. For stock option grants for which vesting is subject to performance-based milestones, the expense is recorded over the remaining service period after the point when the performance condition is determined to be probable of achievement or when it has been achieved.

#### Convertible Preferred Stock

The Company applies the relevant accounting standards to distinguish liabilities from equity when assessing the classification and measurement of preferred stock. Preferred shares subject to mandatory redemptions are considered liabilities and measured at fair value. Conditionally redeemable preferred shares are considered temporary equity. All other preferred shares are considered as stockholders' equity.

The Company applies the relevant accounting standards for derivatives and hedging (in addition to distinguishing liabilities from equity) when accounting for hybrid contracts that contain conversion options. Conversion options must be bifurcated from the host instruments and accounted for as free standing financial instruments according to certain criteria. These criteria include circumstances when (i) the economic characteristics and risks of the embedded derivative instruments are not clearly and closely related to the economic characteristics and risks of the host contract, (ii) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable accounting principles with changes in fair value reported in earnings as they occurred, and (iii) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. The derivative is subsequently measured at fair value at each reporting date, with the changes in fair value reported in earnings.

## Comprehensive Loss

Comprehensive loss is defined as a change in equity during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, which was the only difference between net loss and comprehensive loss for the applicable periods.

## Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, without consideration for common stock equivalents. Dilutive common stock equivalents for the periods presented include convertible preferred stock, warrants for the purchase of common stock, and common stock options and restricted stock units outstanding under the Company's stock option and incentive plan. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

For the three and six months ended June 30, 2018, the Company realized a net loss of \$19.7 million and \$33.8 million, respectively. Shares of potentially dilutive securities totaled 21.6 million for the three and six months ended June 30, 2018, including 14.1 million shares associated with a hypothetical conversion of all outstanding shares of the Company's Class A convertible preferred stock, and an aggregate of 7.4 million shares of common stock issuable upon the exercise of outstanding stock options and the settlement of outstanding restricted stock units.

For the three and six months ended June 30, 2017, the Company realized a net loss of \$9.6 million and \$19.8 million, respectively. Shares of potentially dilutive securities totaled 20.3 million for the three and six months ended June 30, 2017, including 14.1 million shares associated with a hypothetical conversion of all outstanding shares of the Company's Class A convertible preferred stock, and an aggregate of 6.1 million shares of common stock issuable upon the exercise of outstanding stock options and the settlement of outstanding restricted stock units.

## Going Concern Assessment

The Company has assessed its ability to continue as a going concern for a period of one year from the date of the issuance of these financial statements. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year from the financial statement issuance date. The Company determined that there are no conditions or events that raise substantial doubt about its ability to continue as a going concern as of the date of the issuance of these financial statements.

## Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-07 (ASU 2018-07). ASU 2018-07 expands the scope of Accounting Standards Codification (ASC) 718, Compensation- Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. Consistent with the accounting requirement for employee share-based payment awards, nonemployee share-based payment awards within the scope of ASC 718 will be measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018. The Company believes that the adoption of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

In March 2018, the FASB issued ASU 2018-05. ASU 2018-05 amends income tax related SEC paragraphs presented pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118). The SEC issued SAB 118 during December 2017 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information

available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act of 2017 (the Tax Cuts and Jobs Act), which was enacted in December 2017. Amounts recorded by the Company pursuant to ASU 2018-05 in connection with certain deferred tax assets and liabilities are based on reasonable estimates, and additional work is required to complete the accounting. Any subsequent adjustment to these estimated amounts will be recorded to current tax expense in the period when the accounting is complete.

In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017. The Company adopted the update retrospectively to each period presented. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.



In February 2016, the FASB issued ASU 2016-02, Leases, which requires a lessee to recognize a lease liability and a right-of-use asset for all leases with lease terms of more than 12 months. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those years, and early adoption is permitted. Companies may adopt this guidance using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. In July 2018, the FASB issued ASU 2018-11, which provides the option of an additional transition method that allows entities to initially apply the new lease guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. While the Company is continuing to evaluate its significant lease arrangement to assess the potential impact of the adoption of the new lease guidance on its consolidated financial statements, it anticipates that the adoption will result in an increase in the assets and liabilities recorded on its consolidated balance sheet.

In May 2014, the FASB issued ASU 2014-09 (Topic 606), which created a single, principle-based revenue recognition model that will supersede and replace nearly all existing U.S. GAAP revenue recognition guidance. Entities will recognize revenue in a manner that depicts the transfer of goods or services to customers and reflects the amount of the consideration which the entity expects to be entitled to receive in exchange for those goods or services. The model provides that entities follow five steps: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) the customer obtains control of the product or service. For public business entities, ASU 2014-09 is effective beginning in the first quarter of 2018 using one of two prescribed transition methods: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company adopted ASU 2014-09 in the first quarter of 2018 using the full retrospective method. The Company has evaluated the effect that the updated standard had on its internal processes, financial statements and related disclosures, and has determined that the adoption did not have a material impact on the Company's historical Consolidated Financial Statements.

## 2. Collaboration and License Agreements

### Juno Collaboration and License Agreement

On May 4, 2015, the Company entered into a strategic research collaboration and license agreement (the Agreement) with Juno Therapeutics, Inc. (Juno) (acquired by Celgene Corporation) to screen for and identify small molecules that enhance the therapeutic properties of Juno's genetically-engineered T-cell immunotherapies. Under the Agreement, the Company is primarily responsible for screening and identifying small molecule modulators of immunological cells, while Juno is primarily responsible for the development and commercialization of engineered T-cell immunotherapies incorporating the Company's modulators. The Company granted Juno an exclusive worldwide license to certain of its intellectual property, including its intellectual property arising under the collaboration, to make, use, sell and otherwise exploit genetically-engineered T-cell immunotherapies using or incorporating small molecule modulators directed against certain designated tumor-associated antigen targets, subject to the selection by Juno of designated tumor-associated antigen targets which selection may be made by Juno on a target-by-target basis. The Company retained exclusive rights to such intellectual property, including its intellectual property arising under the collaboration, for all other purposes, including its use outside of those tumor-associated antigen targets selected by Juno. The Agreement will end on the date that no further payments are due under the Agreement, unless terminated earlier pursuant to the terms of the Agreement.

Pursuant to the terms of the Agreement, Juno paid the Company a non-refundable upfront payment of \$5.0 million and purchased 1,000,000 shares of the Company's common stock at a price of \$8.00 per share. The Company determined that this common stock purchase represented a premium of \$3.40 per share, or \$3.4 million in aggregate (Equity Premium), and the remaining \$4.6 million was recorded as issuance of common stock in shareholders' equity.

Additionally, Juno agreed to fund all of the Company's collaboration research activities for an initial four-year research term beginning on the effective date of the Agreement, with minimum annual research payments of \$2.0 million to the Company. Juno has the option to extend the exclusive research term for an additional two years beyond the initial four-year term, subject to the payment of an extension fee of \$3.0 million and the continued funding of the Company's activities under the collaboration during the extended term, with minimum annual research payments of \$4.0 million to the Company during the two-year extension period. Upon exercise of the research term extension, the Company has the option to require Juno to purchase up to \$10.0 million of the Company's common stock at a premium equal to 120% of the then thirty-day trailing volume weighted average trading price of the Company's common stock.

The Company applied Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (ASC 606), to evaluate the appropriate accounting for the Agreement. In accordance with this guidance, the Company identified its performance obligations, including its grant of an exclusive worldwide license to certain of its intellectual property subject to certain conditions, its conduct of research services and its participation in a joint research committee. The Company determined that its grant of an exclusive worldwide license to certain of its intellectual property subject to certain conditions under the Agreement was not distinct from other performance obligations because such grant is dependent on the conduct and results of the research services. As a result, the exclusive

worldwide license is classified as symbolic intellectual property under ASC 606. Additionally, the Company determined that its conduct of research services under the Agreement was not distinct from other performance obligations because such conduct is dependent on the direction of the joint research committee. Accordingly, the Company determined that all performance obligations should be accounted for as one combined performance obligation since no individual performance obligation is distinct, and that the combined performance obligation is transferred ratably over the expected term of conduct of the research services, which is four years.

The Company also determined that the transaction price under the Agreement equals \$16.4 million, consisting of the non-refundable upfront payment of \$5.0 million, the \$3.4 million Equity Premium and \$8.0 million of estimated payments for the conduct of research services during the initial four-year term.

The Company assessed whether, in connection with the non-refundable upfront payment of \$5.0 million and the \$3.4 million Equity Premium, a significant financing component exists under the Agreement. Such assessment evaluated whether: (i) a substantial amount of the consideration is variable, (ii) the amount, or timing of payment, of the consideration would have varied based on the occurrence or non-occurrence of future events that are not substantially within the control of the Company or Juno, and (iii) the timing of the transfer of the performance obligations is at the discretion of Juno. Based on its assessment, the Company concluded that there was not a significant financing component.

The Company assessed the effects of any variable elements under the Agreement. Such assessment evaluated, among other things, the likelihood of receiving (i) various clinical, regulatory and commercial milestone payments and (ii) royalties on net sales of any Juno therapies that use or incorporate the Company's small molecule modulators. Based on its assessment, the Company concluded that based on the likelihood of these variable components occurring that there was not a significant variable element included in the transaction price.

As such, the non-refundable upfront payment of \$5.0 million and the \$3.4 million Equity Premium were recorded as deferred revenue, and are being recognized as revenue ratably over four years.

Under the Agreement, Juno has agreed to pay the Company a selection fee for each tumor-associated antigen target selected by Juno and certain bonus selection fees based on the aggregate number of tumor-associated antigen targets selected by Juno. In accordance with ASC 606, the Company has not assigned a transaction price to any potential selection fees. Additionally, since the selection fees are closely aligned with the previously discussed combined performance obligation, any such future consideration in connection with selection fees will be recognized in conjunction with the combined performance obligation.

Under the Agreement, in connection with each Juno therapy that uses or incorporates the Company's small molecule modulators, Juno has agreed to pay the Company non-refundable, non-creditable milestone payments totaling up to approximately \$51.0 million in the aggregate per therapy upon the achievement of various clinical, regulatory and commercial milestones. Additionally, in connection with the third Juno therapy and the fifth Juno therapy that uses or incorporates the Company's small molecule modulators, Juno has agreed to pay the Company additional non-refundable, non-creditable bonus milestone payments totaling up to approximately \$116.0 million and \$137.5 million, respectively, in the aggregate, per therapy upon the achievement of various clinical, regulatory, and commercial milestones. In accordance with ASC 606, the Company has not assigned a transaction price to any of these potential milestone payments given the substantial uncertainty related to their achievement. Additionally, since any performance obligation would be complete at the time of milestone achievement, any future consideration in connection with milestone payments will be recognized on the date of achievement.

Under the Agreement, beginning on the date of the first commercial sale (in each country) for each Juno therapy that uses or incorporates the Company's small molecule modulators, and continuing until the later of: (i) the expiration of the last valid patent claim, (ii) ten years after such first commercial sale, or (iii) the expiration of all data and other regulatory exclusivity periods afforded each therapy, Juno has agreed to pay the Company royalties in the low

single-digits on net sales of each Juno therapy that uses or incorporates the Company's small molecule modulators. In accordance with ASC 606, the Company has not assigned a transaction price to any of these potential royalty payments. Additionally, since any performance obligation would be complete at the time of potential sale of each Juno therapy that uses or incorporates the Company's small molecule modulators, any future consideration in connection with royalty payments will be recognized on the date of sale.

Total revenue recognized under the Agreement for the three and six months ended June 30, 2018 was \$1.0 million and \$2.1 million, respectively. Total revenue recognized under the Agreement for the three and six months ended June 30, 2017 was \$1.0 million and \$2.1 million, respectively. As of June 30, 2018, aggregate deferred revenue related to the Agreement was \$1.8 million.

In January 2018, Juno announced its entry into a merger agreement with Celgene Corporation (Celgene), pursuant to which Celgene agreed to acquire all of the outstanding shares of common stock of Juno through a tender offer. On March 6, 2018, Celgene announced that it had completed the acquisition of Juno. This acquisition event did not affect the terms of the Agreement. The Agreement is assignable by Juno to its affiliates or in connection with its acquisition by Celgene.

### Memorial Sloan Kettering Cancer Center License Agreement

On May 15, 2018, the Company entered into an Amended and Restated Exclusive License Agreement (the Amended MSK License) with Memorial Sloan Kettering Cancer Center (MSK). The Amended MSK License amends and restates the Exclusive License Agreement entered into between the Company and MSK on August 19, 2016 (the Original MSK License).

Pursuant to the Amended MSK License, MSK granted to the Company additional licenses to certain patents and patent applications relating to new chimeric antigen receptor (CAR) constructs and off-the-shelf CAR T cells, in each case to research, develop, and commercialize licensed products in the field of all human therapeutic uses worldwide. MSK also returned to the Company its entire interest in Tfinity Therapeutics, Inc. (Tfinity), a majority-owned subsidiary of the Company in which MSK owned a minority interest pursuant to the Original MSK License. As a result, Tfinity became a wholly-owned subsidiary of the Company. The Company continues to maintain exclusive licenses to certain patents and patent applications relating to off-the-shelf T-cell immunotherapies, including CAR T cells manufactured from induced pluripotent stem cells, that were granted to the Company by MSK under the Original MSK License.

The Company issued 500,000 shares of the Company's common stock to MSK (the MSK Shares) pursuant to the Amended MSK License. The MSK Shares are being issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the Securities Act), in reliance on Section 4(a)(2) of the Securities Act regarding transactions by an issuer not involving a public offering. Pursuant to the Amended MSK License, the Company is obligated to register the MSK Shares for resale within 18 months of the effective date of the agreement.

Additionally, the Company paid an upfront fee of \$0.5 million and is obligated to pay a royalty to MSK on net sales of licensed products and milestone payments upon the achievement of specified clinical and regulatory milestones. The Company is also obligated to pay MSK a percentage of certain sublicense income received by the Company.

Under the terms of the Amended MSK License, in the event a licensed product achieves a specified clinical milestone, MSK is then eligible to receive additional milestone payments, where such payments are owed to MSK contingent upon certain increases in the price of the Company's common stock relative to the price of the common stock as of May 15, 2018, following the date of achievement of such clinical milestone. Given the high degree of uncertainty surrounding the achievement of clinical milestones and the requisite increase in the price of the Company's common stock, the Company has not recorded a liability for such payments.

During the three and six months ended June 30, 2018, the Company recognized an aggregate of \$5.3 million of research and development expenses, consisting of the \$0.5 million upfront cash payment to MSK and the issuance of the MSK Shares, valued at \$4.8 million, associated with the Amended MSK License.

### 3. California Institute for Regenerative Medicine Award

On February 22, 2018, the California Institute for Regenerative Medicine (CIRM) announced an award to the Company for \$4.0 million to advance the Company's FT516 product candidate into a first-in-human clinical trial (the Award). The Award agreement was fully executed in April 2018. Pursuant to the terms of the Award, the Company will receive five disbursements in varying amounts totaling \$4.0 million, with one disbursement receivable upon the execution of the Award, and four disbursements receivable upon the completion of certain milestones throughout the project period of the Award, which is estimated to be from April 1, 2018 to June 30, 2019 (the Project Period). In

April 2018, the Company received the first disbursement under the Award totaling \$1.0 million. The Award is subject to certain co-funding requirements by the Company, and the Company is required to provide CIRM progress and financial update reports throughout the Project Period.

Following the conclusion of the Project Period, the Company, in its sole discretion, has the option to treat the Award either as a loan or as a grant. In the event the Company elects to treat the Award as a loan, the Company will be obligated to repay i) 60%, ii) 80%, iii) 100% or iv) 100% plus interest at 7% plus LIBOR, of the total Award to CIRM, where such repayment rate is dependent upon the phase of clinical development of FT516 at the time of the Company's election. If the Company does not elect to treat the Award as a loan within 10 years of the date of the Award, the Award will be considered a grant and the Company will be obligated to pay to CIRM a royalty on commercial sales of FT516 until such royalty payments equal nine times the total amount awarded to the Company under the Award.

Since the Company may, at its election, repay some or all of the Award, the Company accounts for the Award as a liability until the time of election. In April 2018, the Company received the first disbursement under the Award in the amount of \$1.0 million, which amount is recorded as a CIRM Liability on the accompanying consolidated balance sheets and classified as current or non-current based on the potential amount payable within twelve months of the current balance sheet.

#### 4. Short-term Investments

The Company invests portions of excess cash in United States treasuries with maturities ranging from three to twelve months from the purchase date. These debt securities are classified as short-term investments in the accompanying consolidated balance sheets and are accounted for as available-for-sale securities.

The following table summarizes the Company's short-term investments accounted for as available-for-sale securities as of June 30, 2018, and December 31, 2017 (in thousands):

	Maturity (in years)	Amortized Cost	Unrealized Losses	Unrealized Gains	Estimated Fair Value
<b>June 30, 2018</b>					
U.S. Treasury debt securities	1 or less	41,872	(15 )	—	41,857
<b>Total</b>		<b>\$ 41,872</b>	<b>\$ (15 )</b>	<b>\$ —</b>	<b>\$ 41,857</b>
<b>December 31, 2017</b>					
U.S. Treasury debt securities	1 or less	12,000	(3 )	—	11,997
<b>Total</b>		<b>\$ 12,000</b>	<b>\$ (3 )</b>	<b>\$ —</b>	<b>\$ 11,997</b>

The Company reviewed its investment holdings as of June 30, 2018 and determined that the unrealized losses were not other-than-temporary unrealized losses because the Company does not intend to sell the underlying securities prior to maturity and it is not more likely than not that the Company will be required to sell these securities before the recovery of their amortized cost basis. During each of the three and six months ended June 30, 2018 and 2017, the Company did not recognize any impairment or gains or losses on sales of available-for-sale securities.

#### 5. Fair Value Measurements

The carrying amounts of accounts payable and accrued liabilities are considered to be representative of their respective fair values because of the short-term nature of those instruments. Based on the borrowing rates available to the Company for loans with similar terms, which is considered a Level 2 input as described below, the Company believes that the fair value of long-term debt approximates its carrying value.

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

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Financial assets measured at fair value on a recurring basis consist of the Company's cash equivalents and short-term investments. Cash equivalents consisted of money market funds and short-term investments consisted of U.S. treasuries. The following table presents the Company's assets which were measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurements at			
	Total	Reporting Date Using Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)	
<b>As of June 30, 2018:</b>				
Cash equivalents	\$36,162	\$36,162	\$ —	\$ —
U.S. Treasury debt securities	41,857	41,857	—	—
<b>Total assets</b>	<b>\$78,019</b>	<b>\$78,019</b>	<b>\$ —</b>	<b>\$ —</b>
<b>As of December 31, 2017:</b>				
Cash equivalents	\$88,952	\$88,952	\$ —	\$ —
U.S. Treasury debt securities	11,997	11,997	—	—
<b>Total assets</b>	<b>\$100,949</b>	<b>\$100,949</b>	<b>\$ —</b>	<b>\$ —</b>

The Company obtains pricing information from quoted market prices from our investment manager and generally determines the fair value of investment securities using standard observable inputs, including reported trades, broker/dealer quotes, and bids and/or offers.

None of the Company's non-financial assets or liabilities is recorded at fair value on a non-recurring basis. No transfers between levels have occurred during the periods presented.

As of June 30, 2018 and December 31, 2017, the Company had no material financial liabilities measured at fair value on a recurring basis.

6. Accrued Expenses, Long-Term Debt, Commitments and Contingencies  
Accrued Expenses

Current accrued expenses consist of the following (in thousands):

	June 30,	December 31,
	2018	2017
Accrued payroll and other employee benefits	\$ 1,324	\$ 1,761
Accrued clinical trial related costs	4,068	3,323
Accrued other	2,984	2,170
Current accrued expenses	\$8,376	\$ 7,254

Long-term accrued expenses consist primarily of accruals for the final payment fees associated with our long-term debt.

## Long-Term Debt

Long-term debt and unamortized discount balances are as follows (in thousands):

	June 30,	December 31,
	2018	2017
Long-term debt	\$15,000	\$15,000
Less debt issuance costs and discount, net of current portion	(81 )	(192 )
Long-term debt, net of long-term portion of debt issuance costs and discount	14,919	14,808
Less current portion of long-term debt	(2,084 )	—
Long-term debt, net	\$12,835	\$14,808
Current portion of long-term debt	\$2,084	\$—
Less current portion of debt issuance costs and discount	(73 )	—
Current portion of long-term debt, net	\$2,011	\$—

## SVB Loan Amendment

On July 14, 2017 (the First Amendment Effective Date), the Company entered into the First Amendment (the SVB Loan Amendment) to the Amended and Restated Loan and Security Agreement (the Restated LSA) between the Company and Silicon Valley Bank (the Bank) dated July 30, 2014. The SVB Loan Amendment amends the Restated LSA.

Pursuant to the SVB Loan Amendment, the Bank extended an additional term loan to the Company on July 14, 2017 in the principal amount of \$15.0 million (the 2017 Term Loan), a portion of which was applied to repay in full the Company's existing outstanding debt with the Bank under the Restated LSA, which included outstanding principal, accrued interest, and final payment fees. Following such repayment in full of the Company's existing outstanding debt with the Bank under the Restated LSA, cash proceeds to the Company from the remaining portion of the 2017 Term Loan were \$7.5 million.

The 2017 Term Loan matures on January 1, 2022 (the Term Loan Maturity Date) and bears interest at a floating per annum rate equal to the greater of (i) 3.50% above the Prime Rate (as defined in the SVB Loan Amendment) or (ii) 7.25%; provided, however, that in no event shall such interest rate exceed 8.25%. Interest is payable on a monthly basis on the first day of each month. The interest rate as of June 30, 2018 was 8.25%.

From August 1, 2017 through January 1, 2019 (the Interest-only Period), the Company is required to make monthly payments of interest only. Thereafter, the Company is required to repay the principal, plus monthly payments of accrued interest, in 36 equal monthly installments based on a 36-month amortization schedule. Notwithstanding the foregoing, subject to the achievement of a product development milestone by the Company before the expiration of the above-described Interest-only Period, at the Company's election (i) the Interest-only Period shall be extended from January 1, 2019 through and including to July 1, 2019 and (ii) the Company shall thereafter repay the principal, plus monthly payments of accrued interest, in 30 equal monthly installments based on a 30-month amortization schedule.

The Company's final payment, due on the Term Loan Maturity Date, shall include all outstanding principal and accrued and unpaid interest under the 2017 Term Loan, plus a 7.5%, or \$1.1 million, final payment fee. This final payment fee is accrued as interest expense over the term of the 2017 Term Loan and recorded in accrued expenses.

In connection with the SVB Loan Amendment, the Company issued to the Bank on the First Amendment Effective Date a fully exercisable warrant (the 2017 Warrant) to purchase up to an aggregate of 91,463 shares of the Company's common stock, subject to adjustment, at an exercise price equal to \$3.28 per share. The 2017 Warrant expires in July 2024. The aggregate fair value of the 2017 Warrant was determined to be \$0.2 million using the Black-Scholes option pricing model and was recorded as a debt discount on the 2017 Term Loan. This debt discount is amortized to interest expense over the term of the 2017 Term Loan using the effective interest method. The Company determined the effective interest rate of the 2017 Term Loan to be 10.2% as of the First Amendment Effective Date.

The Company determined the repayment of the Restated LSA and issuance of the 2017 Term Loan was a debt extinguishment, and accounted for the 2017 Term Loan at fair value as of the First Amendment Effective Date, accordingly. During the third quarter of 2017, the Company recorded a loss on debt extinguishment of \$0.1 million, which was primarily related to the unaccrued amount of the final payment fee under the Restated LSA that was paid in connection with the 2017 Term Loan.

The Company is required under its loan agreement with the Bank to maintain its deposit and securities accounts with the Bank and to comply with various operating covenants and default clauses. A breach of any of these covenants or clauses could result in a default under the agreement, which would cause all of the outstanding indebtedness under the facility to become immediately due and payable. The Company is in compliance with all such covenants and clauses.

For the three and six months ended June 30, 2018, the Company recorded \$0.4 million and \$0.8 million, respectively, in aggregate interest expense related to the 2017 Term Loan.

#### Restated LSA

On July 30, 2014, the Company entered into the Restated LSA with the Bank, collateralized by substantially all of the Company's assets, excluding certain intellectual property. Pursuant to the Restated LSA, the Bank agreed to make loans to the Company in an aggregate principal amount of up to \$20.0 million, comprised of (i) a \$10.0 million term loan, funded at the closing date (the Term A Loan) and (ii) subject to the achievement of a specified clinical milestone, additional term loans totaling up to \$10.0 million in the aggregate, which were available until December 31, 2014 (each, a Term B Loan). On December 24, 2014, the Company elected to draw on the full \$10.0 million under a Term B Loan.

The Term A Loan and the Term B Loan were scheduled to mature on January 1, 2018 and June 1, 2018, respectively.

The Company was required to make a final payment fee of 7.5%, equaling \$0.8 million, of the funded amount for each of the Term A Loan and Term B Loan on the respective maturity dates. These final payment fees were accrued as interest expense over the terms of the loans and recorded in accrued expenses.

In connection with the funding of the Term B Loan, the Company issued the Bank and one of its affiliates fully-exercisable warrants to purchase an aggregate of 98,039 shares of the Company's common stock (the 2014 Warrants) at an exercise price of \$4.08 per share. During March 2018, a portion of the 2014 Warrants were exercised in exchange for 34,149 shares of the Company's common stock in a cashless transaction. As of June 30, 2018, warrants to purchase 49,020 shares of the Company's common stock remain outstanding subject to the 2014 Warrants. The 2014 Warrants expire in December 2021.

For the three and six months ended June 30, 2017, the Company recorded \$0.2 million and \$0.5 million, respectively, in aggregate interest expense related to the Term A and Term B Loans. During the three and six months ended June 30, 2017, the Company made aggregate principal payments totaling \$2.0 million and \$4.1 million, respectively, on the Term A and Term B Loans.

Warrants to purchase 36,074 shares of the Company's common stock at a weighted average exercise price of \$7.21 per share issued in connection with a prior debt agreement between the Company and the Bank in 2009 remain outstanding as of June 30, 2018, with such warrants to purchase 5,305 and 30,769 shares of the Company's common stock having expiration dates in January 2019 and August 2021, respectively.

#### Facility Leases

The Company leases certain office and laboratory space under a non-cancelable operating lease. In May 2018, the Company amended the operating lease, extending the term of the lease through approximately 2028 and agreeing to lease additional space comprising approximately 24,000 square feet in the same building as its existing space for a total occupancy of approximately 72,000 square feet under the lease. With respect to the construction of the additional space, the Company received a \$1.9 million tenant improvement allowance from its landlord and accounts for such costs as property and equipment with an offset to deferred rent as incurred. Costs under the tenant improvement allowance will be paid directly by the landlord. As of June 30, 2018, the balance of the tenant improvement allowance remains \$1.9 million.

The lease is subject to additional charges for common area maintenance and other costs. In connection with the lease, the Company has a cash-collateralized irrevocable standby letter of credit in the amount of \$0.2 million. As of June 30, 2018, future minimum payments, assuming no early termination, under the operating lease are \$41.1 million. The Company maintains the right to terminate the lease on the eighty-second (82<sup>nd</sup>) month following occupancy of the additional space, subject to the Company's delivery to the landlord of twelve months' prior written notice and an early termination payment of \$2.5 million.

In January 2015, the Company entered into a sublease for additional laboratory space. The sublease was accounted for as an operating lease and expired in September 2017. No future payments remain under the sublease.

7. Convertible Preferred Stock and Stockholders' Equity  
Convertible Preferred Stock

In November 2016, the Company completed a private placement of stock in which investors, certain of which are affiliated with the directors and officers of the Company, purchased convertible preferred stock and common stock of the Company (the November 2016 Placement). The Company issued 2,819,549 shares of non-voting Class A Convertible Preferred Stock (the Class A Preferred) at \$13.30 per share, each of which is convertible into five shares of common stock upon certain conditions defined in the Certificate of Designation of Preferences, Rights and Limitations of the Class A Preferred filed with the Delaware Secretary of State on November 22, 2016 (the CoD). The Class A Preferred were purchased exclusively by entities affiliated with Redmile Group, LLC (collectively, Redmile). The terms of the CoD prohibited Redmile from converting the Class A Preferred into shares of the Company's common stock if, as a result of conversion, Redmile, together with its affiliates, would own more than 9.99% of the Company's common stock then issued and outstanding (the Redmile Percentage Limitation), which percentage could change at Redmile's election upon 61 days' notice to the Company to i) any other number less than or equal to 19.99% or ii) subject to approval of the Company's stockholders to the extent required in accordance with the NASDAQ Global Market rules, any number in excess of 19.99%. On May 2, 2017, the Company's stockholders approved the issuance of up to an aggregate of 14,097,745 shares of common stock upon the conversion of the outstanding shares of Class A Preferred. As a result, Redmile has the right to increase the Redmile Percentage Limitation to any percentage in excess of 19.99% at its election. The Company also issued 7,236,837 shares of common stock at \$2.66 per share as part of the November 2016 Placement. Gross proceeds from the November 2016 Placement were \$56.7 million, and after giving effect to costs related to placement, net proceeds were \$54.9 million.

The rights of the Class A Preferred issued in November 2016 are set forth in the CoD. The Class A Preferred are non-voting shares and have a stated par value of \$0.001 per share and are convertible into five shares of the Company's common stock at a conversion price of \$2.66 per share, which was the fair value of the Company's common stock on the date of issuance. Holders of the Class A Preferred have the same dividend rights as holders of the Company's common stock. Additionally, the liquidation preferences of the Class A Preferred are pari passu among holders of the Company's common stock and holders of the Class A Preferred, pro rata based on the number of shares held by each such holder (treated for this purpose as if the Class A Preferred had been converted to common stock).

The Company evaluated the Class A Preferred for liability or equity classification under ASC 480, Distinguishing Liabilities from Equity, and determined that equity treatment was appropriate because the Class A Preferred did not meet the definition of the liability instruments defined thereunder for convertible instruments. Specifically, the Class A Preferred are not mandatorily redeemable and do not embody an obligation to buy back the shares outside of the Company's control in a manner that could require the transfer of assets. Additionally, the Company determined that the Class A Preferred would be recorded as permanent equity, not temporary equity, based on the guidance of ASC 480 given that they are not redeemable for cash or other assets (i) on a fixed or determinable date, (ii) at the option of the holder, and (iii) upon the occurrence of an event that is not solely within control of the Company.

The Company also evaluated the Class A Preferred in accordance with the provisions of ASC 815, Derivatives and Hedging, including the consideration of embedded derivatives requiring bifurcation from the equity host. Based on this assessment, the Company determined that the conversion option is clearly and closely related to the equity host, and thus, bifurcation is not required.

The issuance of convertible preferred stock could generate a beneficial conversion feature (BCF), which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor (or in-the-money) at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock on the commitment date. The Class A Preferred have an effective conversion price of \$2.66 per common share, which was equal to the market price of the Company's stock on the commitment date. Therefore, no BCF was present.

The Company also entered into a registration rights agreement (the Registration Rights Agreement) with certain of the purchasers in the November 2016 Placement, excluding those purchasers affiliated with the Company's directors and officers, requiring the Company to register for the resale of the relevant shares. The Company registered all of the relevant shares issued in the November 2016 Placement for resale on a Form S-3 filed with the SEC, as required under the Registration Rights Agreement, and the registration statement was declared effective in January 2017.

#### Stock Options and Restricted Stock Units

Stock option activity under all equity and stock option plans is summarized as follows:

	Number of	Weighted-
	Options	Average Price
Balance at December 31, 2017	5,458,043	\$ 3.52
Granted	2,485,420	6.83
Canceled	(564,284 )	4.69
Exercised	(205,670 )	3.82
Balance at June 30, 2018	7,173,509	\$ 4.56



Restricted stock unit activity under all equity and stock option plans is summarized as follows:

	Number of Restricted Stock Units	Weighted- Average Grant Date Fair Value per Share
Balance at December 31, 2017	212,625	\$ 4.89
Granted	—	—
Canceled	(24,000 )	\$ 4.89
Vested	—	—
Balance at June 30, 2018	188,625	\$ 4.89

In October 2017, 225,125 shares of common stock underlying restricted stock units vested and were issued to certain employees.

The allocation of stock-based compensation for all stock awards is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Research and development	\$853	\$580	\$1,659	\$1,149
General and administrative	632	393	1,208	691
	\$1,485	\$973	\$	\$