Seres Therapeutics, Inc.
Form 10-Q
November 08, 2018

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 September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-37465

Seres Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	27-4326290
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Sidney Street - 4th Floor

Cambridge, MA 02139
(Address of principal executive offices) (Zip Code)

(617) 945-9626

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Small 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 November 2, 2018, the registrant had 40,855,909 shares of common stock, $0.001 par value per share, outstanding.

Seres Therapeutics, Inc.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” or “continue” o of these terms or other similar expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including the risks, uncertainties and assumptions described under the sections in this Quarterly Report titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These forward looking statements are subject to numerous risks, including, without limitation, the following:

- our status as a clinical-stage company and our expectation to incur losses in the future;
- our future capital needs and our need to raise additional funds, including our ability to continue as a going concern;
- our ability to build a pipeline of product candidates and develop and commercialize drugs;
- our unproven approach to therapeutic intervention;
- our ability to enroll patients in clinical trials, timely and successfully complete those trials and receive necessary regulatory approvals;
- our ability to establish our own manufacturing facilities and to receive or manufacture sufficient quantities of our product candidates;
- our ability to protect and enforce our intellectual property rights;
- federal, state, and foreign regulatory requirements, including U.S. Food and Drug Administration regulation of our product candidates;
- our ability to obtain and retain key executives and attract and retain qualified personnel; and
- our ability to successfully manage our growth.

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

SERES THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$55,713	$36,088
Investments	17,177	113,895
Prepaid expenses and other current assets	6,556	5,095
Total current assets	79,446	155,078
Property and equipment, net	28,083	32,931
Restricted cash	1,513	1,513
Total assets	$109,042	$189,522
Liabilities and Stockholders' Equity/(Deficit)		
Current liabilities:		
Accounts payable	$6,475	$7,033
Accrued expenses and other current liabilities	14,634	12,513
Deferred revenue - related party	17,901	12,079
Total current liabilities	39,010	31,625
Lease incentive obligation, net of current portion	7,685	8,989
Deferred rent	2,229	2,233
Deferred revenue, net of current portion - related party	89,554	84,847
Other long-term liabilities	1,129	1,129
Total liabilities	139,607	128,823
Commitments and contingencies (Note 10)		
Stockholders' equity/(deficit):		
Preferred stock, $0.001 par value; 10,000,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized at September 30, 2018 and December 31, 2017; 40,844,455 and 40,571,015 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	41	40
Additional paid-in capital	337,486	324,376
Accumulated other comprehensive loss	(9)	(146)
Accumulated deficit	(368,083)	(263,571)
Total stockholders' equity/(deficit)	(30,565)	60,699

Total liabilities and stockholders' equity	$109,042	$189,522

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

SERES THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue:				
Collaboration revenue - related party	$8,684	$23,015	$16,721	$29,044
Grant revenue	371	—	917	—
Total revenue	9,055	23,015	17,638	29,044
Operating expenses:				
Research and development expenses	23,675	22,210	71,188	65,413
General and administrative expenses	7,591	8,119	25,063	25,251
Total operating expenses	31,266	30,329	96,251	90,664
Loss from operations	(22,211)	(7,314)	(78,613)	(61,620)
Other income (expense):				
Interest income (expense), net	262	379	958	1,193
Total other income (expense), net	262	379	958	1,193
Net loss	$(21,949)	$(6,935)	$(77,655)	$(60,427)
Net loss per share attributable to common stockholders, basic and diluted	$(0.54)	$(0.17)	$(1.91)	$(1.49)
Weighted average common shares outstanding, basic and diluted	40,806,413	40,494,049	40,699,422	40,419,522
Other comprehensive income:				
Unrealized gain on investments, net of tax of $0	$20	$77	$137	$50
Total other comprehensive income	20	77	137	50
Comprehensive loss	$(21,929)	$(6,858)	$(77,518)	$(60,377)

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

SERES THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$ (77,655)	$ (60,427)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	12,887	13,150
Depreciation and amortization expense	5,869	5,356
Non-cash interest expense	—	3
Accretion of discount on investments	(199)	(166)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,461)	(220)
Deferred revenue	(16,328)	(9,044)
Accounts payable	106	(2,502)
Accrued expenses and other current liabilities	1,261	(1,065)
Net cash (used in) operating activities	(75,520)	(54,915)
Cash flows from investing activities:		
Purchases of property and equipment	(2,133)	(3,991)
Purchases of investments	(21,832)	(75,728)
Sales and maturities of investments	118,887	126,125
Net cash provided by investing activities	94,922	46,406
Cash flows from financing activities:		
Proceeds from exercise of stock	136	108

options		
Proceeds from issuance of common stock and restricted common stock	26	—
Payments of employee tax obligations related to vesting of restricted stock units	(196)	—
Issuance of common stock under ESPP plan	257	—
Net cash provided by financing activities	223	108
Net increase (decrease) in cash and cash equivalents	19,625	(8,401)
Cash, cash equivalents and restricted cash at beginning of period	37,601	55,939
Cash, cash equivalents and restricted cash at end of period	$ 57,226	$ 47,538
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment purchases included in accounts payable and accrued expenses	$ 242	$ 453

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

SERES THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Nature of the Business and Basis of Presentation

Seres Therapeutics, Inc. (the "Company") was incorporated under the laws of the State of Delaware in October 2010 under the name Newco LS21, Inc. In October 2011, the Company changed its name to Seres Health, Inc., and in May 2015, the Company changed its name to Seres Therapeutics, Inc. The Company is a microbiome therapeutics platform company developing a novel class of biological drugs, which are designed to restore health by repairing the function of a dysbiotic microbiome. The Company's lead product candidate, SER-109, is designed to reduce recurrences of Clostridium difficile infection ("CDI"), a debilitating infection of the colon, and, if approved by the U.S. Food and Drug Administration ("FDA"), could be a first-in-field oral microbiome drug. The Company's second product candidate, SER-287, is being developed to treat inflammatory bowel disease ("IBD") including ulcerative colitis ("UC"). The Company is also developing SER-401, a microbiome therapeutic candidate for use with checkpoint inhibitors ("CPI's") in patients with solid tumors. In addition, using its microbiome therapeutics platform, the Company is developing product candidates to treat diseases where the microbiome is implicated, including SER-262, a rationally designed product candidate, to prevent an initial recurrence of primary CDI, SER-301, a rationally designed IBD product candidate, and SER-155, a rationally designed product candidate to prevent infections and improve gastrointestinal barrier function (including the consequences of graft versus host disease) in patients following allogeneic hematopoietic stem cell transplants or solid organ transplants. The Company is also using its microbiome therapeutics platform to conduct research on various indications, including: infectious diseases, metabolic diseases, and inflammatory and immune diseases, including immuno-oncology.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, new technological innovations, protection of proprietary technology, dependence on key personnel, compliance with government regulations and the need to obtain additional financing. Product candidates currently under development will require significant additional research and development efforts, including extensive pre-clinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure and extensive compliance-reporting capabilities.

The Company's product candidates are in development. There can be no assurance that the Company's research and development will be successfully completed, that adequate protection for the Company's intellectual property will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. Even if the Company's product development efforts are successful, it is uncertain when, if ever, the Company will generate significant revenue from product sales. The Company operates in an environment of rapid change in technology and substantial competition from pharmaceutical and biotechnology companies. In addition, the Company is dependent upon the services of its employees and consultants.

Under Accounting Standards Update, or ASU, 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40), or ASC 205-40, the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the

financial statements are issued.

As of September 30, 2018, the Company had an accumulated deficit of $368.1 million and cash, cash equivalents and short-term investments of $72.9 million. Management has assessed the Company's ability to continue as a going concern in accordance with the requirements of ASC 205-40 and determined that the Company's accumulated deficit, history of losses, and future expected losses meet the ASC 205-40 standard for raising substantial doubt about the Company's ability to continue as a going concern within one year of the issuance date of these condensed consolidated financial statements.

The Company's current financial resources and currently forecasted operating plan would allow the Company to operate into the second quarter of 2019 which is within one year from the issuance of these condensed consolidated financial statements. The Company has developed plans to mitigate this risk, which primarily consist of raising additional capital through some combination of equity or debt financings, and/or potentially new collaborations and reducing cash expenditures.

If the Company is not able to secure adequate additional funding, the Company plans to make reductions in spending. In that event, the Company may have to delay, scale back, or eliminate some or all of the Company's planned clinical trials and research stage programs. The actions necessary to reduce spending under this plan at a level that mitigates the factors described above is not considered probable, as defined in the accounting standards; as such, under the requirements of ASC 205-40, the full extent to which management may extend the Company's funds through these actions may not be considered in management's assessment of the Company's ability to continue as a going concern for the next 12 months as defined by ASC-205-40.

As a result, in accordance with the requirements of ASC 205-40, management has concluded that it is required to disclose that substantial doubt exists about the Company's ability to continue as a going concern for one year from the date these financial statements are issued.

The Company is eligible to receive contingent milestone payments under its license and collaboration agreement with Nestec Ltd. ("NHS"), an affiliate of Nestlé Health Science US Holdings, Inc. ("Nestlé Health Science"), a significant stockholder of the Company, if certain development milestones are achieved. However, these milestones are uncertain and there is no assurance that the Company will receive any of them. Until such time, if ever, as the Company can generate substantial product revenue, the Company will finance its cash needs through a combination of public or private equity offerings, debt financings, governmental funding, collaborations, strategic partnerships or marketing, distribution or licensing arrangements with third parties. The Company may not be able to obtain funding on acceptable terms, or at all. If the Company is unable to raise additional funds as and when needed, it would have a negative impact on the Company's financial condition, which may require the Company to delay, reduce or eliminate certain research and development activities and reduce or eliminate discretionary operating expenses, which could constrain the Company's ability to pursue its business strategies.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2017 included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2017, which was filed with the SEC on March 8, 2018.

The unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements. The condensed consolidated balance sheet at December 31, 2017 was derived from audited annual financial statements, but does not contain all of the footnote disclosures from the annual financial statements. In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments which are necessary for a fair presentation of the Company's financial position as of September 30, 2018 and consolidated results of operations for the three and nine months ended September 30, 2018 and 2017 and its cash flows for the nine months ended September 30, 2018 and 2017. Such adjustments are of a normal and recurring nature. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018.

2. Summary of Significant Accounting Policies

The significant accounting policies and estimates used in preparation of the condensed consolidated financial statements are described in the Company's audited financial statements as of and for the year ended December 31, 2017, and the notes thereto, which are included in the Company's Annual Report on Form 10-K. There have been no material changes to the Company's significant accounting policies during the nine months ended September 30, 2018 except for the adoption of the new revenue standard discussed in Note 8, Collaboration Revenue.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Significant estimates and assumptions reflected in these consolidated financial statements include, but are not limited to, revenue recognition, the accrual of research and development expenses and the valuation of stock-based awards. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from the Company's estimates.

Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the sum of the weighted average number of common shares outstanding during the period and, if dilutive, the weighted average number of potential shares of common stock, including the assumed exercise of stock options and warrants and unvested restricted stock.

The restricted stock units granted by the Company entitle the holder of such awards to dividends declared or paid by the board of directors, regardless of whether such awards are unvested, as if such shares were outstanding common shares at the time of the dividend. However, the unvested restricted stock units are not entitled to share in the residual net assets (deficit) of the Company. Accordingly, in periods in which the Company reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The following potential common shares, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	Three and Nine Months Ended	
	September 30,	
	2018	2017
Stock options to purchase common stock	7,444,040	6,133,596
Unvested restricted stock units	289,908	401,900
	7,733,948	6,535,496

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies how a company identifies promised goods or services and clarifies whether an entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. In December 2016 the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which amends certain narrow aspects of the guidance issued in ASU 2014-09 including guidance related to the disclosure of remaining performance obligations and prior-period performance obligations, as well as other amendments to the guidance on loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples. ASU 2016-08, ASU 2016-10 and ASU 2016-12 have the same effective dates and transition requirements as ASU 2014-09, all of which collectively are herein referred to as “ASC 606.” The Company has adopted this standard as of the required effective date of January 1, 2018, using the modified retrospective transition method. See Note 8, “Collaboration Revenue,” for discussion of the impact of adoption of this standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), ("ASU 2016-02"), which establishes principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. The most notable change will be lessees recognizing an asset and liability on their balance sheet for operating leases. In 2018, the FASB issued ASU 2018-01, and ASU 2018-11, which collectively add two practical expedients, provide a second modified retrospective transition method which does not require retrospective adjustment of prior periods, and provide certain narrow scope improvements to the new lease guidance. ASU 2016-02 and the amending ASUs are effective for the Company for annual periods beginning after December 15, 2018 and interim periods therein, with early adoption permitted. The Company will adopt the new guidance for its fiscal year beginning January 1, 2019 and expects to use the modified retrospective transition method that does not require restatement of prior periods. The Company is currently in the process of evaluating the impact of the guidance on its consolidated financial statements and is undertaking an assessment of its lease population that it expects to complete during the fourth quarter of 2018. The Company anticipates material adjustments to its balance sheet for the recognition of a lease liability and a right of use asset for its operating leases, which primarily include, but are not limited to, the lease of its corporate headquarters at 200 Sidney Street and additional research space at 215 First Street, both in Cambridge, Massachusetts. The Company does not expect a material impact in its income statement or statement of cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. This standard addresses specific cash flow issues with the objective of reducing existing diversity in practice in how certain cash receipts and cash payments are presented in the statement of cash flows. The standard was effective for the Company on January 1, 2018. The Company adopted this standard as of the required effective date of January 1, 2018. The adoption of this standard did not have any impact on the Company's financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. The new standard requires restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The new standard was effective for the Company on January 1, 2018. The Company adopted the new standard as of the required effective date of January 1, 2018 and will reflect the adoption retrospectively to all periods presented. The Company's statements of cash flows includes restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on such statements. A reconciliation of the cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same amounts shown in the statement of cash flows is as follows:

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	$ 55,713	$ 36,088	$ 46,025	$ 54,539
Restricted cash	1,513	1,513	1,513	1,400
Total cash, cash equivalents and restricted cash as shown in the statement of cash flows	$ 57,226	$ 37,601	$ 47,538	$ 55,939

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718)." ASU 2018-07 simplifies the accounting for nonemployee share-based payment transactions. This ASU is effective for public entities for interim and annual reporting periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of the guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). This standard eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods and early adoption is permitted. We are currently evaluating the impact of our adoption of ASU 2018-13 on our condensed consolidated financial statements.

3.Fair Value Measurements

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

unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company’s cash equivalents and investments are carried at fair value, determined according to the fair value hierarchy described above. The Company’s investments in certificates of deposit are carried at amortized cost, which approximates fair value. Certain cash equivalents or investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The carrying values of the Company’s accounts payable and accrued expenses approximate their fair value due to the short-term nature of these liabilities.

The following table presents information about the Company's assets as of September 30, 2018 and December 31, 2017 that are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values (note there were no liabilities measured at fair value on a recurring basis in either of the periods presented):

	Fair Value Measurements as of September 30, 2018 Using:				
	Level 1	Level 2	Level 3	Not Subject to Leveling [1]	Total
Assets:					
Cash Equivalents	$—	$500	$ —	$39,029	$39,529
Investments:					
Commercial Paper	$—	$1,397	$ —	$—	$1,397
Corporate Bonds	—	4,296	—	—	4,296
Treasury Bonds	—	11,484	—	—	11,484
	$—	$17,677	$ —	$39,029	$56,706

[1] Certain cash equivalents and investments that are valued using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

	Fair Value Measurements as of December 31, 2017 Using:				
	Level 1	Level 2	Level 3	Not Subject to Leveling [1]	Total
Assets:					
Cash Equivalents	$—	$—	$ —	$25,964	$25,964
Investments:					
Commercial Paper	$—	$6,198	$ —	$—	$6,198
Certificates of Deposit	—	8,916			8,916
Corporate Bonds	—	58,865	—	—	58,865
Government Securities	—	22,954	—	—	22,954
Treasury Bonds	—	16,962	—	—	16,962
	$—	$113,895	$ —	$25,964	$139,859

[1] Certain cash equivalents and investments that are valued using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

As of September 30, 2018, the Company's cash equivalents, which were invested in money market funds and corporate bonds with original maturities of less than 90 days from the date of purchase, were valued based on Level 2 inputs.

As of December 31, 2017, the Company's cash equivalents consisted of money market funds and corporate bonds with original maturities of less than 90 days from the date of purchase and were valued based on Level 2 inputs.

The fair value of the Company's investments, which consisted of commercial paper, certificates of deposit, corporate bonds, government securities and treasury bonds as of September 30, 2018 and December 31, 2017 were determined using Level 2 inputs. During the nine months ended September 30, 2018, there were no transfers between Level 1, Level 2 and Level 3.

4. Investments

As of September 30, 2018 and December 31, 2017, the fair value of available-for-sale investments by type of security was as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Investments:				
Commercial Paper	$1,397	$ —	$ —	$1,397
Corporate Bonds	4,298	—	(2)	4,296
Treasury Bonds	11,490	—	(6)	11,484
	$17,185	$ —	(8)	$17,177

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Investments:				
Commercial Paper	$6,198	$ —	$ —	$6,198
Certificates of Deposit	8,916	—	—	8,916
Corporate Bonds	58,937	—	(72)	58,865
Government Securities	22,997	—	(43)	22,954
Treasury Bonds	16,992	—	(30)	16,962
	$114,040	$ —	$ (145)	$113,895

Investments with original maturities of less than 90 days are included in cash and cash equivalents on the consolidated balance sheets and are not included in the table above. Investments with maturities of less than 12 months are considered current and those investments with maturities greater than 12 months are considered non-current.

All investments with unrealized losses at September 30, 2018 have been in a loss position for less than 12 months or the loss is not material and temporary in nature. The Company does not intend to sell the investments that are in an unrealized loss position before recovery of their amortized cost basis.

5. Property and Equipment, Net

Property and equipment, net consisted of the following:

	September 30, 2018	December 31, 2017
Laboratory equipment	$ 14,367	13,181
Computer equipment	2,864	