APPLIED GENETIC TECHNOLOGIES CORP
Form 10-Q
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36370

APPLIED GENETIC TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	59-3553710
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

14193 NW 119th Terrace

Suite 10

Alachua, Florida 32615

(Address of Principal Executive Offices, Including Zip Code)

(386) 462-2204

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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, or a smaller reporting company. See 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 Smaller reporting company
Non-accelerated filer (Do not check if a 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 fo
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

The number of shares of the registrant's common stock outstanding as of May 2, 2018 was 18,110,536.

APPLIED GENETIC TECHNOLOGIES CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2018

TABLE OF CONTENTS

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APPLIED GENETIC TECHNOLOGIES CORPORATION

CONDENSED BALANCE SHEETS

(Unaudited)

In thousands, except per share data	March 31, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$47,633	$30,706
Investments	64,167	95,994
Grants receivable	133	174
Prepaid and other current assets	3,968	3,361
Total current assets	115,901	130,235
Investments, net of current portion	—	11,749
Property and equipment, net	5,526	2,661
Investment in Bionic Sight	1,995	2,000
Other assets	2,025	1,278
Total assets	$125,447	$147,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,322	$998
Accrued and other liabilities	8,035	6,162
Deferred revenue	8,188	20,996
Total current liabilities	17,545	28,156
Deferred revenue, net of current portion	912	4,438
Other liabilities	2,294	—
Total liabilities	20,751	32,594
Stockholders' equity:		
Common stock—par value $.001 per share; shares authorized: 150,000; shares issued and outstanding: 18,121 and 18,088 at March 31, 2018 and June 30, 2017, respectively	18	18
Additional paid-in capital	209,015	204,937
Shares held in treasury of: 6 and 0 at March 31, 2018 and June 30, 2017 respectively	(23)	—
Accumulated deficit	(104,314)	(89,626)
Total stockholders' equity	104,696	115,329
Total liabilities and stockholders' equity	$125,447	$147,923

The accompanying notes are an integral part of the financial statements.

3

APPLIED GENETIC TECHNOLOGIES CORPORATION

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

In thousands, except per share amounts	For the Three Months Ended March 31, 2018	2017 (as adjusted)	For the Nine Months Ended March 31, 2018	2017 (as adjusted)
Revenue:				
Collaboration revenue	$3,588	$ 8,297	$18,727	$ 30,959
Grant and other revenue	15	91	43	169
Total revenue	3,603	8,388	18,770	31,128
Operating expenses:				
Research and development	7,353	6,303	23,355	17,916
General and administrative and other	3,946	2,921	11,020	8,507
Total operating expenses	11,299	9,224	34,375	26,423
Income (loss) from operations	(7,696)	(836)	(15,605)	4,705
Other income:				
Investment income, net	325	236	866	700
Other expense	—	—	(10)	—
Total other income, net	325	236	856	700
Income (loss) before provision for income taxes and equity in net earnings (losses) of affiliate	(7,371)	(600)	(14,749)	5,405
Provision (benefit) for income taxes	725	600	(66)	1,800
Income (loss) before equity in net losses of affiliate	(8,096)	(1,200)	(14,683)	3,605
Equity in net losses of affiliate	(5)	—	(5)	—
Net income (loss)	$(8,101)	$ (1,200)	$(14,688)	$ 3,605
Weighted Average Shares Outstanding				
Weighted average shares outstanding – basic	18,112	18,081	18,098	18,068
Weighted average shares outstanding – diluted	18,112	18,081	18,098	18,408
Net income (loss) per common share				
Net income (loss) per share, basic	$(0.45)	$ (0.07)	$(0.81)	$ 0.20
Net income (loss) per share, diluted	$(0.45)	$ (0.07)	$(0.81)	$ 0.20

The accompanying notes are an integral part of the financial statements.

APPLIED GENETIC TECHNOLOGIES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands	For the Nine Months Ended March 31, 2018	2017 (as adjusted)
Cash flows from operating activities		
Net income (loss)	$(14,688)	$3,605
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Share-based compensation expense	4,072	4,161
Depreciation and amortization	821	657
Provision for uncollectible accounts	369	—
Investment premium accretion	174	320
Loss on disposal of property and equipment	20	—
Equity in net losses of affiliate	5	—
Changes in operating assets and liabilities:		
Grants receivable	41	785
Prepaid and other assets	(1,946)	(725)
Deferred revenues	(16,334)	(30,435)
Accounts payable	324	(514)
Accrued and other liabilities	1,365	1,139
Net cash (used in) operating activities	(25,777)	(21,007)
Cash flows from investing activities		
Purchase of property and equipment	(654)	(560)
Purchase of and capitalized costs related to intangible assets	—	(132)
Investment in Bionic Sight	—	(2,000)
Maturities of investments	88,183	80,821
Purchases of investments	(44,779)	(50,517)
Net cash provided by investing activities	42,750	27,612
Cash flows from financing activities		
Proceeds from exercise of common stock options	(17)	27
Payments made toward capital lease obligations	(29)	—
Net cash (used in) provided by financing activities	(46)	27
Net change in cash and cash equivalents	16,927	6,632
Cash and cash equivalents, beginning of period	30,706	28,868
Cash and cash equivalents, end of period	$47,633	$35,500
Supplemental disclosure of non-cash financing activities		
Capital lease obligation related to the purchase of equipment	240	—
Lease incentive obligation related to the purchase of leasehold improvements	2,588	—
Issuance of restricted stock for no consideration	25	—

The accompanying notes are an integral part of the financial statements.

APPLIED GENETIC TECHNOLOGIES CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and Operations:

Applied Genetic Technologies Corporation (the "Company" or "AGTC") was incorporated as a Florida corporation on January 19, 1999 and reincorporated as a Delaware corporation on October 24, 2003. The Company is a clinical-stage biotechnology company that uses a proprietary gene therapy platform to develop transformational genetic therapies for patients suffering from rare and debilitating diseases.

In July 2015, the Company entered into a collaboration agreement (the "Collaboration Agreement") with Biogen MA, Inc., a wholly owned subsidiary of Biogen Inc. ("Biogen"), pursuant to which the Company and Biogen will collaborate to develop, seek regulatory approval for and commercialize gene therapy products to treat X-linked retinoschisis ("XLRS"), X-linked retinitis pigmentosa ("XLRP"), and discovery programs targeting three indications based on the Company's adeno-associated virus vector technologies. The Collaboration Agreement became effective in August 2015. The Collaboration Agreement and other transactions with Biogen are discussed further in Note 6 to these financial statements.

The Company has devoted substantially all of its efforts to research and development, including clinical trials. The Company has not completed the development of any products. The Company has generated revenue from collaboration agreements, sponsored research payments and grants, but has not generated product revenue to date and is subject to a number of risks similar to those of other early stage companies in the biotechnology industry, including dependence on key individuals, the difficulties inherent in the development of commercially viable products, the need to obtain additional capital necessary to fund the development of its products, development by the Company or its competitors of technological innovations, risks of failure of clinical studies, protection of proprietary technology, compliance with government regulations and ability to transition to large-scale production of products. As of March 31, 2018, the Company had an accumulated deficit of $104.3 million. While the Company expects to continue to generate some revenue from partnering, including under the collaboration with Biogen, the Company expects to incur losses for the foreseeable future. The Company has funded its operations to date primarily through public offerings of its common stock, private placements of its preferred stock, and collaborations. At March 31, 2018, the Company had cash and cash equivalents and liquid investments of $111.8 million.

2. Summary of Significant Accounting Policies:

Basis of presentation

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and, in the opinion of management, include all adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for each period presented.

The adjustments referred to above are of a normal and recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to U.S. Securities and Exchange Commission ("SEC") rules and regulations for interim reporting.

See Note 7 for a discussion of a revision of prior financial results presented related to the recording of our income tax provision for fiscal year 2017.

The Condensed Balance Sheet as of June 30, 2017 was derived from audited financial statements, but does not include all disclosures required by GAAP. These Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements included in the Company's 2017 Annual Report on Form 10-K, as amended, ("June 30, 2017 Form 10-K"). Results of operations for the three and nine months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year or any other interim period.

Segment reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. To date, we have viewed our operations and managed our business as one segment.

6

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 financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents

Cash consists of funds held in bank accounts. Cash equivalents consist of short-term, highly liquid investments with original maturities of 90 days or less at the time of purchase and generally include money market accounts.

Investments

The Company's investments consist of certificates of deposit and debt securities classified as held-to maturity. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Interest on securities classified as held-to-maturity is included in investment income.

The Company uses the specific identification method to determine the cost basis of securities sold.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer and the Company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment income (expense) and a new cost basis in the investment is established.

Fair value of financial instruments

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, establishes a hierarchy of inputs used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of financial instruments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described below:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Valuations based on quoted prices for similar assets or liabilities in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations that require inputs that reflect the Company’s own assumptions that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Revenue recognition

The Company has primarily generated revenue through collaboration agreements, sponsored research arrangements with nonprofit organizations for the development and commercialization of product candidates and revenues from federal research and development grant programs. The Company recognizes revenue when amounts are realized or realizable and earned. Revenue is considered realizable and earned when the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price is fixed or determinable; and (iv) collection of the amounts due are reasonably assured.

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in the Company’s balance sheets. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as current liabilities. The Company recognizes revenue for reimbursements of research and development costs under collaboration agreements as the services are performed. The Company records these reimbursements as revenue and not as a reduction of research and development expenses, as the Company has the risks and rewards as the principal in the research and development activities.

The Company evaluates the terms of sponsored research agreement grants and federal grants to assess the Company’s obligations and if the Company’s obligations are satisfied by the passage of time, revenue is recognized on a straight-line basis. In situations where the performance of the Company’s obligations has been satisfied when the grant is received, revenue is recognized upon receipt of the grant. Certain grants contain refund provisions. The Company reviews those refund provisions to determine the likelihood of repayment. If the likelihood of repayment of the grant is determined to be remote, the grant is recognized as revenue. If the probability of repayment is determined to be more than remote, the Company records the grant as a deferred revenue liability, until such time that the grant requirements have been satisfied.

Collaboration revenue

On July 1, 2015, the Company entered into a Collaboration Agreement with Biogen. This collaboration is discussed further in Note 6 to the financial statements. The terms of the Collaboration Agreement and other potential collaboration or commercialization agreements the Company may enter into generally contain multiple elements, or deliverables, which may include, among others, (i) licenses, or options to obtain licenses, to its technology, and (ii) research and development activities to be performed on behalf of the collaborative partner. Payments made under such arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; milestone payments; and royalties on future product sales.

Multiple element arrangements are analyzed to determine whether the deliverables within the agreement can be separated or whether they must be accounted for as a single unit of accounting. Deliverables under an agreement are required to be accounted for as separate units of accounting provided that (i) a delivered item has value to the customer on a stand-alone basis; and (ii) if the agreement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. The allocation of consideration amongst the deliverables under the agreement is derived using a “best estimate of selling price” if vendor specific objective evidence and third-party evidence of fair value is not available. If the delivered element does not have stand-alone value or if the fair value of any of the undelivered elements cannot be determined, the arrangement is then accounted for as a single unit of accounting, and the Company recognizes the consideration received under the arrangement as revenue on a straight-line basis over the estimated period of performance.

The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence, or VSOE, of selling price, if available, third-party evidence, or TPE, of selling price if VSOE is not available, or best estimate of selling price, or BESP, if neither VSOE nor TPE are available. Determining the best estimate of selling price for a deliverable requires significant judgment. The Company uses BESP to estimate the selling price related to licenses to its proprietary technology, since it often does not have VSOE or TPE of selling price for these deliverables. In those circumstances where it utilizes BESP to determine the estimated selling price of a license to our proprietary technology, the Company considers market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed models that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the license. In validating its best estimate of selling price, the Company evaluates whether changes in the key assumptions used to determine the best estimate of selling price will have a significant effect on the allocation of arrangement consideration among multiple deliverables.

If the delivered element does not have stand-alone value, the arrangement is then accounted for as a single unit of accounting and the Company recognizes the consideration received under the arrangement as revenue on a straight-line basis over its estimated period of performance. The Company's anticipated periods of performance, typically the terms of its research and development obligations, are subject to estimates by management and may change over the course of the collaboration agreement. Such changes could have a material impact on the amount of revenue recorded in future periods.

Milestone revenue

The Company applies the milestone method of accounting to recognize revenue from milestone payments when earned, as evidenced by written acknowledgement from the collaborator or other persuasive evidence that the milestone has been achieved and the payment is non-refundable, provided that the milestone event is substantive. A milestone event is defined as an event (i) that can only be achieved based in whole or in part on either the Company's performance or on the occurrence of a specific outcome resulting from the Company's performance; (ii) for which there is substantive uncertainty at the inception of the arrangement that the event will be achieved; and (iii) that would result in additional payments being due to the Company. Events for which the occurrence is either contingent solely upon the passage of time or the result of a counterparty's performance are not considered to be milestone events. A milestone event is substantive if all of the following conditions are met: (i) the consideration is commensurate with either the Company's performance to achieve the milestone, or the enhancement of the value to the delivered item(s) as a result of a specific outcome resulting from the Company's performance to achieve the milestone; (ii) the consideration relates solely to past performance; and (iii) the consideration is reasonable relative to all the deliverables and payment terms (including other potential milestone consideration) within the arrangement. The Company assesses whether a milestone is substantive at the inception of the arrangement. If a milestone is deemed non-substantive, the Company accounts for that milestone payment in accordance with the multiple element arrangements guidance and recognizes revenue consistent with the related units of accounting for the arrangement over the related performance period.

No milestone revenues were recognized during the three and nine month periods ended March 31, 2018 and March 31, 2017.

Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%. In December 2017, the SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides for a measurement period of up to one year from the enactment date for companies to complete the accounting for the initial income tax effects of the Tax Act. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting is complete and provide a provisional estimate (where determinable) of the income tax effects of the Tax Act where the accounting is incomplete. The provisional estimate is required to be updated throughout the measurement period. During the quarter ending December 31, 2017, the Company recorded an income tax benefit of $791,000 relating to the Company's minimum tax credit carryforward, which becomes refundable under the new law.

For the three and nine months ended March 31, 2017, the Company recorded an income tax provision of $0.6 million and $1.8 million respectively, related to the Company's federal alternative minimum taxable income ("AMTI") and state income tax in multiple states where the Company is doing business. The Company calculates its AMTI using the alternative minimum tax ("AMT") system. The Company's federal income tax liability is the greater of the tax computed using the regular tax system or the tax under the AMT system. Corporations are exempt from the AMT for all years in which their annual gross receipts for the 3-year period ending before the current tax year did not exceed $7.5 million. As of June 30, 2017, the Company no longer qualifies for the small company exclusion. The AMT system limits the use of net operating losses used by the taxpayer to offset taxable income.

As required by U.S. GAAP, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. The Company is subject to examination of its income tax returns in the federal and state income tax jurisdictions in which it operates.

At June 30, 2017, the total amount of unrecognized tax benefits recorded on the Company's balance sheet was approximately $1.0 million. During the three and nine months ended March 31, 2018, the Company recognized an increase in unrecognized tax benefits as a result of tax positions taken during a prior period in the amount of $0.7 million, resulting in an ending accrued balance $1.7 million at March 31,2018. The Company recorded potential interest and penalties on unrecognized tax benefits in the amount of $0.4 million during the three months ended March 31, 2018.

The Company's deferred tax asset, net of liabilities, decreased by $7.5 million, primarily due to a re-measurement of deferred tax assets and liabilities to the revised statutory tax rate under the Tax Act. The deferred tax asset, net of liabilities, is completely offset by valuation allowances established because realization of the deferred tax benefits are not considered more likely than not as of March 31, 2018.

For the three month and nine month periods ended March 31, 2018, the Company recorded an income tax provision (benefit) of $0.7 million and ($66,000), respectively. The income tax expense for the three months ended March 31, 2018 was primarily driven by the apportionment of income to certain state jurisdictions where the Company had not generated net operating losses (NOL's). The income tax benefit for the nine months ended March 31, 2018 was primarily due to certain tax credit carryforwards becoming refundable under The Tax Cuts and Jobs Act of 2017, offset by income tax expense for the three months ended March 31, 2018.

Research and development

Research and development costs include costs incurred in identifying, developing and testing product candidates and generally comprise compensation and related benefits and non-cash share-based compensation to research related employees; laboratory costs; animal and laboratory maintenance and supplies; rent; utilities; clinical and pre-clinical expenses; and payments for sponsored research, scientific and regulatory consulting fees and testing.

As part of the process of preparing its financial statements, the Company is required to estimate its accrued expenses. This process involves reviewing quotations and contracts, identifying services that have been performed on its behalf and estimating the level of service performed and the associated cost incurred for services for which the Company has not yet been invoiced or otherwise notified of the actual cost. The majority of the Company's service providers invoice the Company monthly in arrears for services performed or when contractual milestones are met. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known to it at that time. The significant estimates in the Company's accrued research and development expenses are related to expenses incurred with respect to academic research centers, contract research organizations, and other vendors in connection with research and development activities for which it has not yet been invoiced.

There may be instances in which the Company's service providers require advance payments at the inception of a contract or in which payments made to these vendors will exceed the level of services provided, resulting in a prepayment of the research and development expense. Such prepayments are charged to research and development expense as and when the service is provided or when a specific milestone outlined in the contract is reached.

Prepayments related to research and development activities were $1.2 million and $1.5 million at March 31, 2018 and June 30, 2017, respectively, and are included within the prepaid and other current assets line item on the unaudited condensed balance sheets.

Share-based compensation

The Company accounts for share-based awards issued to employees in accordance with ASC Topic 718, Compensation—Stock Compensation and generally recognizes share-based compensation expense on a straight-line basis over the periods during which the employees are required to provide service in exchange for the award. In addition, the Company issues stock options and restricted shares of common stock to non-employees in exchange for consulting services and accounts for these in accordance with the provisions of ASC Subtopic 505-50, Equity-Based Payments to Non-employees (“ASC 505-50”). Under ASC 505-50, share-based awards to non-employees are subject to periodic fair value re-measurement over their vesting terms.

For purposes of calculating stock-based compensation, the Company estimates the fair value of stock options using a Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected volatility is primarily based on the historical volatility of peer company data while the expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the Company's stock options. The dividend yield assumption is based on the Company's history and expectation of no dividend payouts. If factors change and the Company employs different assumptions, stock-based compensation expense may differ significantly from what has been recorded in the past. If there is a difference between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, specifically with respect to anticipated forfeitures, the Company may change the input factors used in determining stock-based compensation costs for future grants. These changes, if any, may materially impact the Company's results of operations in the period such changes are made.

Net income (loss) per share

Basic net earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average shares outstanding during the period, without consideration for common stock equivalents. Diluted net earnings (loss) per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method. For purposes of the diluted net earnings (loss) per share calculation, stock options and warrants are considered to be common stock equivalents if they are dilutive. For the three and nine months ended March 31, 2018 and the three months ended March 31, 2017, basic and diluted net loss per share are the same due to stock options and warrants being considered anti-dilutive. If stock options and warrants had been dilutive, their impact would have increased common stock equivalents outstanding for the three and nine- month periods ended March 31, 2018 by 0.2 million shares and by 0.3 million shares for the three months ended March 31, 2017. Stock options and warrants were dilutive for the nine months ended March 31, 2017 and increased common stock equivalents outstanding by 0.4 million shares.

Comprehensive income or loss

Comprehensive income or loss consists of net income or loss and changes in equity during a period from transactions and other equity and circumstances generated from non-owner sources. The Company's net income or loss equals comprehensive income or loss for all periods presented.

New accounting pronouncements

In May 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-09, Scope of Modification Accounting, which amends ASC Topic 718, Compensation – Stock Compensation. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation. The amendments simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. The Company has adopted this standard for its 2018 fiscal year and it did not have a material effect on its balance sheets, results of operations or cash flows.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases under GAAP. The standard requires, in most instances, a lessee to recognize on its balance sheet a liability to make lease payments (the lease liability) and also a right-of-use asset representing its right to use the underlying asset for the lease term. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those periods, using a modified retrospective approach and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. Since its issuance, the FASB has amended several aspects of the new guidance, including provisions that address revenue recognition associated with the licensing of intellectual property. In July 2015, the FASB delayed the effective date of this guidance by one year. The guidance is effective for public companies for annual periods beginning after December 15, 2017 as well as interim periods within those annual periods using either the full retrospective approach or modified retrospective approach. The Company is working through an adoption plan which will include a review of collaboration agreements, applying the five-step model of the new standard and comparing the results to the Company's current accounting. As part of this, the Company is evaluating the method of adoption and assessing changes that might be necessary to its processes, internal controls and address changes in financial reporting. Effective July 1, 2018, the Company will be revising its revenue recognition accounting policy and expanding revenue disclosures to reflect the requirements of the amended revenue recognition guidance. Because of the nature of the work that remains, at this time the Company is unable to reasonably estimate the impact of adoption on its financial statements.

3. Share-based Compensation Plans:

The Company uses stock options and awards of restricted stock to provide long-term incentives for its employees, non-employee directors and certain consultants. The Company has two equity compensation plans under which awards are currently authorized for issuance, the 2013 Employee Stock Purchase Plan and the 2013 Equity and Incentive Plan. No awards have been issued to date under the 2013 Employee Stock Purchase Plan and all of the 128,571 shares previously authorized under this plan remain available for issuance.   A summary of the stock option activity for the nine months ended March 31, 2018 and 2017 is as follows:

	For the Nine Months Ended March 31,			
	2018		2017	
(In thousands, except per share amounts)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at June 30,	2,714	$ 12.96	2,037	$ 13.71
Granted	819	4.75	831	11.00
Exercised	(18)	0.35	(31)	0.90
Forfeited	(401)	9.89	(93)	13.98
Expired	(18)	15.81	(29)	17.07
Outstanding at March 31,	3,096	$ 11.24	2,715	$ 12.98
Exercisable at March 31,	1,862		1,392	
Weighted average fair value of options granted during the period	$3.43		$7.53	

For the three and nine months ended March 31, 2018, share-based compensation expense related to stock options awarded to employees, non-employee directors and consultants amounted to approximately $1.2 million and $3.9 million, respectively, compared to $1.2 million and $4.2 million, respectively, for the three and nine months ended March 31, 2017.

As of March 31, 2018, there was $7.5 million of unrecognized compensation expense related to non-vested stock options. During the nine months ended March 31, 2018, 819,468 stock options were granted to the Company's employees and non-employee directors under the 2013 Equity and Incentive Plan. The fair value of each option granted is estimated on the grant date using the Black-Scholes stock option pricing model. The following assumptions were made in estimating fair value:

Assumption	Nine months ended March 31, 2018
Dividend yield	0.00%
Expected term	6.25 years
Risk-free interest rate	1.83-2.21%
Expected Volatility	83.53%

4. Investments:
Cash in excess of immediate requirements is invested in accordance with the Company's investment policy that primarily seeks to maintain adequate liquidity and preserve capital.

The following table summarizes the Company's investments by category as of March 31, 2018 and June 30, 2017:

In thousands	March 31, 2018	June 30, 2017
Investments - Current:		
Certificates of deposit	$2,819	$3,500
Debt securities - held-to-maturity	61,348	92,494
Total investments – current	$64,167	$95,994
Investments - Noncurrent:		
Certificates of deposit	—	2,111
Debt securities - held-to-maturity	—	9,638
Total investments - non-current	$—	$11,749

A summary of the Company's debt securities classified as held-to-maturity is as follows:

	At March 31, 2018			
In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments - Current:				
U.S. government and agency obligations	$62,143	$ —	$ (80)	$62,063
Corporate obligations	2,024	—	(7)	2,017
Total investments - current	$64,167	$ —	$ (87)	$64,080

	At June 30, 2017			
In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments - Current:				
U.S. government and agency obligations	$92,494	$ —	$ (147)	$92,347
Corporate obligations	—	—	—	—
	$92,494	$ —	$ (147)	$92,347
Investments - Noncurrent:				
U.S. government and agency obligations	$7,552	$ —	$ (52)	$7,500

Corporate obligations	2,086	—	(12)	2,074
	$9,638	$ —	$ (64)	$9,574

The amortized cost and fair value of held-to-maturity debt securities as of March 31, 2018, by contractual maturity, were as follows:

In thousands	Amortized Cost	Fair Value
Due in one year or less	$ 64,167	$64,080
	$ 64,167	$64,080

The Company believes that the unrealized losses disclosed above were primarily driven by interest rate changes rather than by unfavorable changes in the credit ratings associated with these securities and as a result, the Company continues to expect to collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment. Therefore, the Company believes these losses to be temporary. As of March 31, 2018, the Company did not have the intent to sell any of the securities that were in an unrealized loss position at that date.

5. Fair Value of Financial Instruments and Investments:

Certain assets and liabilities are measured at fair value in the Company's financial statements or have fair values disclosed in the notes to the financial statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the table below.

Cash and Cash Equivalents. The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months.

Certificates of Deposit. The Company's certificates of deposit are placed through an account registry service. The fair value measurement of the Company's certificates of deposit is considered Level 2 of the fair value hierarchy as the inputs are based on rates currently offered for deposits of similar remaining maturities. The carrying amounts of the Company's certificates of deposit reported in the unaudited condensed balance sheets approximate fair value.

Debt securities – held-to-maturity. The Company's investments in debt securities classified as held-to-maturity generally include U.S. Treasury Securities, government agency obligations, and corporate obligations. U.S. Treasury Securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury Securities are considered Level 1 of the fair value hierarchy. The fair values of U.S. government agency obligations and corporate obligations are generally determined using recently executed transactions, broker quotes, market price quotations where these are available or other observable market inputs for the same or similar securities. As such, the Company classifies its investments in U.S. government agency obligations and corporate obligations within Level 2 of the hierarchy.

The following fair value hierarchy table presents information about each major category of the Company's financial assets and liabilities measured at fair value on a recurring basis:

In thousands	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value	Total Carrying Value
March 31, 2018					
Cash and cash equivalents	$ 47,633	$ —	$ —	$47,633	$47,633
Certificates of deposit	—	2,811	—	$2,811	2,819

Held-to-maturity investments:					
Corporate obligations	—	2,017	—	2,017	2,024
U.S. government and agency obligations	57,256	1,996	—	59,252	59,324
Total assets	$ 104,889	$ 6,824	$ —	$111,713	$111,800
June 30, 2017					
Cash and cash equivalents	$ 30,706	$ —			