REGENXBIO Inc.
Form 10-Q
August 08, 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 PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___

Commission File Number 001-37553

REGENXBIO Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-1851754 (I.R.S. Employer Identification No.)
9600 Blackwell Road, Suite 210	20850

Rockville, MD
(Address of principal executive offices) (Zip Code)

(240) 552-8181

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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, a 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, there were 32,308,644 outstanding shares of the registrant's common stock, par value $0.0001 per share.

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REGENXBIO INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements express a belief, expectation or intention and are generally accompanied by words that convey projected future events or outcomes such as "believe," "may," "will," "estimate," "continue "anticipate," "design," "intend," "expect," "could," "plan," "potential," "predict," "seek," "should," "would" or by variations o by similar expressions. We have based these forward-looking statements on our current expectations and assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks, uncertainties, assumptions and other important factors, including, but not limited to:

- the timing of enrollment, commencement and completion and the success of clinical trials conducted by us, our licensees and our partners;
- the timing of commencement and completion and the success of preclinical studies conducted by us and our development partners;
- the timely development and launch of new products;
- the ability to obtain and maintain regulatory approval of our product candidates, and the labeling for any approved products;
- the scope, progress, expansion and costs of developing and commercializing our product candidates;
- our ability to obtain and maintain intellectual property protection for our product candidates and technology;
- our anticipated growth strategies;
- our expectations regarding competition;
- the anticipated trends and challenges in our business and the market in which we operate;
- our ability to attract or retain key personnel;
- the size and growth of the potential markets for our product candidates and the ability to serve those markets;
- the rate and degree of market acceptance of any of our product candidates;
- our ability to establish and maintain development partnerships;
- our expectations regarding our expenses and revenue;
- our expectations regarding regulatory developments in the United States and foreign countries; and
- the use or sufficiency of our cash and cash equivalents and needs for additional financing.

You should carefully read the factors discussed in the sections titled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2017 and in our other filings with the U.S. Securities and Exchange Commission (the SEC) for additional discussion of the risks, uncertainties, assumptions and other important factors that could cause our actual results or developments to differ materially and adversely from those projected in the forward-looking statements. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on us or our businesses or operations. Such statements are not guarantees of future performance and actual results or developments may differ materially and adversely from those projected in the forward-looking statements. These forward-looking statements speak only as of the date of this report. Except as required by law and the rules of the SEC, we do not undertake any obligation, and specifically decline any obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1 800 SEC 0330. Also, you may obtain any reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

The public also may view and download copies of our SEC filings free of charge at our website, www.regenxbio.com. The information contained on, or that can be accessed through, our website will not be deemed to be incorporated by reference in, and are not considered part of, this Quarterly Report on Form 10-Q. Investors should also note that we use our website, as well as SEC filings, press releases, public conference calls and webcasts, to announce financial information and other material developments regarding our business. We use these channels, as well as any social media channels listed on our website, to communicate with investors and members of the public about our company. It is possible that the information that we post on our social media channels could be deemed material information. Therefore, we encourage investors, the media and others interested in our company to review the information that we post on our social media channels.

As used in this Quarterly Report on Form 10-Q, the terms "REGENXBIO," "we," "us," "our" or the "Company" mean REGENXBIO Inc. and its subsidiaries, on a consolidated basis, unless the context indicates otherwise.

NAV, REGENXBIO and the REGENXBIO logos are our registered trademarks. Any other trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

REGENXBIO INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share data)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$106,889	$46,656
Marketable securities	179,605	114,122
Accounts receivable	739	473
Prepaid expenses	3,690	5,334
Other current assets	2,347	1,412
Total current assets	293,270	167,997
Marketable securities	19,795	15,616
Accounts receivable	4,485	—
Property and equipment, net	16,698	13,977
Restricted cash	225	225
Other assets	1,514	862
Total assets	$335,987	$198,677
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$4,230	$4,832
Accrued expenses and other current liabilities	12,023	9,605
Deferred revenue	600	—
Total current liabilities	16,853	14,437
Deferred rent, net of current portion	1,192	1,211
Other liabilities	720	—
Total liabilities	18,765	15,648
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock; $0.0001 par value; 10,000 shares authorized, and no shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock; $0.0001 par value; 100,000 shares authorized at June 30, 2018 and December 31, 2017; 32,275 and 31,295 shares issued and outstanding at	3	3

June 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	386,110	371,497
Accumulated other comprehensive loss	(771)	(715)
Accumulated deficit	(68,120)	(187,756)
Total stockholders' equity	317,222	183,029
Total liabilities and stockholders' equity	$335,987	$198,677

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

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REGENXBIO INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
License revenue	$40,031	$6,555	$172,422	$7,010
Other revenues	—	7	—	7
Total revenues	40,031	6,562	172,422	7,017
Expenses				
Costs of revenues				
Licensing costs	3,872	1,311	6,280	1,402
Other	—	6	—	6
Research and development	21,486	13,917	41,036	30,536
General and administrative	8,318	6,355	16,698	12,977
Other operating expenses	5	29	33	74
Total operating expenses	33,681	21,618	64,047	44,995
Income (loss) from operations	6,350	(15,056)	108,375	(37,978)
Other Income				
Interest income from licensing	6,898	—	8,253	—
Investment income	1,196	583	2,055	1,512
Total other income	8,094	583	10,308	1,512
Income (loss) before income taxes	14,444	(14,473)	118,683	(36,466)
Income Tax Expense	(3,850)	—	(3,850)	—
Net income (loss)	$10,594	$(14,473)	$114,833	$(36,466)
Other Comprehensive Income (Loss)				
Unrealized gain (loss) on available-for-sale securities, net of reclassifications and income tax expense	132	(74)	(56)	(613)
Total other comprehensive income (loss)	132	(74)	(56)	(613)
Comprehensive income (loss)	$10,726	$(14,547)	$114,777	$(37,079)
Net income (loss) applicable to common stockholders	$10,594	$(14,473)	$114,833	$(36,466)
Net income (loss) per share:				
Basic	$0.33	$(0.47)	$3.60	$(1.27)
Diluted	$0.30	$(0.47)	$3.29	$(1.27)
Weighted-average common shares outstanding:				
Basic	32,082	30,662	31,858	28,678
Diluted	35,272	30,662	34,884	28,678

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

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REGENXBIO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income (loss)	$114,833	$(36,466)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Stock-based compensation expense	7,272	5,074
Net amortization of premiums and accretion of discounts on marketable debt securities	718	945
Depreciation and amortization	1,730	1,257
Net realized gains on sales of marketable securities	—	(480)
Imputed interest income from licensing	(8,253)	—
Other non-cash adjustments	13	40
Changes in operating assets and liabilities		
Accounts receivable	8,879	982
Prepaid expenses	1,644	(657)
Other current assets	(585)	(242)
Other assets	(652)	(86)
Accounts payable	(340)	2,723
Accrued expenses and other current liabilities	2,566	(31)
Deferred revenue	600	—
Deferred rent	19	(89)
Other liabilities	(99)	—
Net cash provided by (used in) operating activities	128,345	(27,030)
Cash flows from investing activities		
Purchases of marketable securities	(139,081)	(46,593)
Maturities of marketable securities	68,645	28,010
Sales of marketable securities	—	780
Purchases of property and equipment	(5,017)	(4,609)
Net cash used in investing activities	(75,453)	(22,412)
Cash flows from financing activities		
Proceeds from exercise of stock options	6,999	329
Proceeds from issuance of common stock under employee stock purchase plan	342	147
Proceeds from public offering of common stock, net of underwriting discounts and commissions	—	81,994

Issuance costs for public offering of common stock	—	(219)
Net cash provided by financing activities	7,341	82,251
Net increase in cash and cash equivalents and restricted cash	60,233	32,809
Cash and cash equivalents and restricted cash		
Beginning of period	46,881	25,065
End of period	$107,114	$57,874
Supplemental disclosures of non-cash investing and financing activities		
Issuance costs for public offering of common stock in accounts payable and accrued expenses	$—	$193

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

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REGENXBIO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Business

REGENXBIO Inc. (the Company) is a leading clinical-stage biotechnology company seeking to improve lives through the curative potential of gene therapy. The Company's proprietary adeno-associated virus (AAV) gene delivery platform (NAV Technology Platform) consists of exclusive rights to over 100 novel AAV vectors, including AAV7, AAV8, AAV9 and AAVrh10. The Company's NAV® Technology Platform is being applied by the Company, as well as by third-party licensees (NAV Technology Licensees), in the development of product candidates for a variety of diseases with unmet needs. The Company was formed in 2008 in the State of Delaware and is headquartered in Rockville, Maryland.

Liquidity and Risks

As of June 30, 2018, the Company had generated an accumulated deficit of $68.1 million since inception. As the Company has incurred cumulative losses since inception, transition to recurring profitability is dependent upon the successful development, approval and commercialization of its product candidates and achieving a level of revenues adequate to support the Company's cost structure. The Company may never achieve recurring profitability, and unless and until it does, the Company will continue to need to raise additional capital. As of June 30, 2018, the Company had cash, cash equivalents and marketable securities of $306.3 million, which management believes is sufficient to fund operations for at least the next 12 months from the date these consolidated financial statements were issued.

The Company is subject to risks common to companies in the biotechnology industry, including, but not limited to, development by the Company or its competitors of technological innovations, risks of failure of clinical trials, dependence on key personnel, protection of proprietary technology, compliance with government regulations and ability to transition from clinical manufacturing to the commercial production of products.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB). The interim unaudited consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements as of and for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 6, 2018. Certain information and footnote disclosures required by GAAP which are normally included in the Company's annual consolidated financial statements have been omitted pursuant to SEC rules and regulations for interim reporting. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, which include all normal and recurring adjustments necessary for the fair statement of the Company's financial position as of June 30, 2018, and the results of its operations and its cash flows for the interim periods ended June 30, 2018 and 2017.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year, any other interim periods, or any future year or period. These interim consolidated financial statements should be read in conjunction with the audited consolidated 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.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ materially from those estimates. Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including: expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the consolidated financial statements. Estimates are used in the following areas, among others: revenue, stock-based compensation expense, accrued research and development expenses and other accrued expenses, income taxes and the fair value of financial instruments.

Accounts Receivable

Accounts receivable primarily consist of consideration due to the Company resulting from its license agreements with NAV Technology Licensees. Accounts receivable include amounts invoiced to licensees as well as rights to consideration which have not yet been invoiced to licensees and for which payment is conditional solely upon the passage of time. If a licensee elects to terminate a license prior to the end of the license term, the licensed intellectual property is returned to the Company and any accounts receivable from the licensee which are not contractually payable to the Company are charged off as a reduction of license revenue in the period of the termination. Accounts receivable from licensees which are not expected to be received by the Company within 12 months from the reporting date are stated net of a discount to present value and recorded as non-current assets on the consolidated balance sheets.

Receivables are stated net of an allowance for doubtful accounts, if deemed necessary based on the Company’s evaluation of collectability using specific identification of account balances, the credit profile of its customers and historical information regarding write-offs. Account balances are charged off against the allowance when the potential for recovery is considered remote. The Company did not record an allowance for doubtful accounts as of June 30, 2018 or December 31, 2017.

Non-marketable Equity Securities

The Company’s non-marketable equity securities do not have readily determinable fair values and consist of equity investments in other entities in which the Company’s ownership interest is below 20% and the Company does not have significant influence over the operations of the entity. Prior to January 1, 2018, non-marketable equity securities were accounted for using the cost method and measured at cost less impairment. Beginning January 1, 2018, upon the Company’s adoption of ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, non-marketable equity securities are measured at cost less impairment, adjusted for observable price changes for identical or similar investments of the same issuer. Please refer to Note 4 for further information on non-marketable equity securities.

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. FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820), establishes a hierarchy of inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be 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 the investments 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. The fair values of the Company’s Level 2 instruments are based on quoted market prices or broker or dealer quotations for similar assets. These investments are initially valued at the transaction price and subsequently valued utilizing third party pricing providers or other market observable data. Please refer to Note 4 for further information on the fair value measurement of the Company’s financial instruments.

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Revenue Recognition

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (Topic 605). Please refer to Recent Accounting Pronouncements below for additional information on the adoption of Topic 606 and the impact upon adoption to the Company’s financial position and results of operations.

Topic 606 requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The following five steps are performed to determine the appropriate revenue recognition for arrangements within the scope of Topic 606: (i) identify the contract(s) 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 in the contract and (v) recognize revenue when (or as) the entity satisfies the performance obligations.

The Company applies the five-step model to contracts that are within the scope of Topic 606 only when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, for contracts within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determined those that are performance obligations and whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to respective performance obligations when (or as) the respective performance obligations are satisfied.

The Company evaluates its contracts for the presence of significant financing components. If a significant financing component is identified in a contract and provides a financing benefit to the customer, the transaction price for the contract is adjusted to account for the financing portion of the arrangement, which is recognized as interest income over the financing term using the effective interest method. In determining the appropriate interest rates for significant financing components, the Company evaluates the credit profile of the customer and prevailing market interest rates and selects an interest rate in which it believes would be charged to the customer in a separate financing arrangement over a similar financing term.

License revenue

The Company licenses its NAV Technology Platform to other biotechnology and pharmaceutical companies. The terms of the licenses vary, however licenses may be exclusive or non-exclusive and may be sublicensable by the licensee. Licenses may grant intellectual property rights for purposes of internal and preclinical research and development only, or may include the rights, or options to obtain future rights, to commercialize drug therapies for specific diseases using the Company’s NAV Technology Platform. License agreements generally have a term at least equal to the life of the underlying patents, but are terminable at the option of the licensee. Consideration to the Company under its license agreements may include: (i) up-front fees, (ii) option fees to obtain additional licenses, (iii) annual maintenance fees, (iv) milestone payments based on the achievement of certain development and sales-based milestones by licensees, (v) sublicense fees and (vi) royalties on sales of licensed products.

The Company has determined that all of its license agreements are contracts with customers within the scope of Topic 606. Although licenses are terminable at the option of licensee, the Company has determined that there is a substantive termination penalty associated with the termination of each license. Due to the substantive termination penalty, the contract term for purposes of applying Topic 606 is equal to the stated term of the license agreement, which is the life of the underlying licensed patents. The Company’s performance obligations under its license agreements include the delivery of intellectual property licenses to licensees as well as options granted to licensees to acquire future licenses to the extent the options represent material rights to the licensee. The transaction price for each license agreement is allocated to these performance obligations and recognized as revenue when the performance obligations are satisfied. Consideration allocated to performance obligations for the delivery of intellectual property licenses is recognized as revenue upon the delivery of the license(s) to the licensee, which generally occurs upon the execution of the license agreement. Consideration allocated to performance obligations for license options is recognized as revenue upon the earlier of the option exercise or expiration.

For license agreements which contain options for the licensee to purchase additional licenses in the future, the Company evaluates the options at the inception of the agreement to determine if they provide a material right to the licensee. In making this determination, the Company considers whether the optional licenses are priced at a discount to the standalone selling price for the licenses. For options granted which are deemed to be material rights to the licensee, the Company allocates a portion of the transaction price to the performance obligation for the option and recognizes that consideration as revenue at the earlier of option exercise or expiration. Options which are not material rights to licensees are not considered performance obligations and are not accounted for as part of the license agreement until exercised by the licensee. Consideration contingent upon the exercise of options by licensees is excluded from the transaction price and not accounted for as part of the license agreement until the option is exercised. Upon the exercise of an option by a licensee, the additional consideration related to the option exercise is added to the transaction price and recognized as revenue upon the delivery of the newly purchased license.

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The Company evaluates the transaction price for its license agreements at each reporting date. The transaction price for each license includes all fixed consideration, as well as variable consideration to the extent that it is probable that a significant reversal of revenue will not occur in the future. Fixed consideration under the Company's license agreements includes up-front fees and annual maintenance fees. Variable consideration under the Company's license agreements includes development and sales-based milestone payments, sublicense fees and royalties on sales of licensed products.

Up-front license fees are included in the transaction price and recognized as revenue upon the delivery of the license. If up-front license fees are payable to Company in periods beyond 12 months from the delivery of the license, a significant financing component is deemed to exist and the Company adjusts the transaction price to include only the present value of the license fees. The discounted portion of the license fees is recognized as interest income in the consolidated statements of operations over the term of the financing period.

Annual maintenance fees are generally payable to the Company on each anniversary date over the term of the license agreement. The Company has determined that the payment of annual maintenance fees by licensees in future periods represents a significant financing component to the license since the delivery of the license occurs at the inception of the agreement. The present value of aggregate annual maintenance fees payable to the Company over the term of the license is included in the transaction price and recognized as revenue upon the delivery of the license. The discounted portion of the annual maintenance fees is recognized as interest income in the consolidated statements of operations over the term of the license.

Development milestone payments are payable to the Company upon the achievement of specified development milestones by licensees. At the inception of each license agreement that contains development milestone payments, the Company evaluates whether the milestones are considered probable of achievement and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal will not occur in the future, milestone payments are included in the transaction price and recognized as revenue upon the delivery of the license. Milestone payments contingent on the achievement of development milestones that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved and are excluded from the transaction price until the milestone is achieved. At each reporting date, the Company re-evaluates the probability of achievement of outstanding development milestones and, if necessary, adjusts the transaction price for any milestones for which the probability of achievement has changed due to current facts and circumstances. Any such adjustments are recorded on a cumulative catch-up basis and recorded as license revenue in the period of the adjustment.

Royalties on sales of licensed products, sales-based milestone payments and sublicense fees based on the receipt of certain fees by licensees from any sublicensees are excluded from the transaction price for each license and recognized as revenue in the period that the related sales or sublicenses occur, provided that the associated license has been delivered to the licensee. To date the Company has not recognized any revenue from royalties on sales of licensed products, the achievement of sales-based milestones or sublicense fees.

The Company receives payments from licensees based on the billing schedules established in each license agreement. Amounts recognized as revenue which have not yet been received from licensees are recorded as accounts receivable when the Company's rights to the consideration are conditional solely upon the passage of time. Amounts recognized as revenue which have not yet been received from licensees are recorded as contract assets when the Company's rights to the consideration are not unconditional. Contract assets are recorded as other current assets on the consolidated balance sheets. If a licensee elects to terminate a license prior to the end of the license term, the licensed intellectual property is returned to the Company and any consideration recorded as accounts receivable or contract assets which is not contractually payable by the licensee is charged off as a reduction of license revenue in the period of the termination. Amounts received by the Company prior to the delivery of underlying performance obligations are deferred and recognized as revenue upon the satisfaction of the performance obligations by the Company.

Costs of Revenues

Licensing costs consist of sublicense fees incurred by the Company to its licensors as a result of license revenues generated by the Company. Sublicense fees are based on a percentage of license fees received by the Company from licensees as specified in the Company's agreements with its licensors. The Company recognizes sublicense fees in the period that the underlying license revenue is recognized. Sublicense fees payable by the Company to licensors in periods beyond 12 months from the reporting are recorded as non-current liabilities on the consolidated balance sheets.

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Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) applicable to common stockholders by the weighted-average common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income (loss) per share is calculated by adjusting the weighted-average common shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method. Contingently convertible shares in which conversion is based on non-market-priced contingencies are excluded from the calculations of both basic and diluted net income (loss) per share until the contingency has been fully met. For purposes of the diluted net income (loss) per share calculation, common stock equivalents are excluded from the calculation of diluted net income (loss) per share if their effect would be anti-dilutive.

Recent Accounting Pronouncements

Adoption of ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (Topic 605). Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective transition method. Under this method, the Company applied Topic 606 to all contracts with customers which were not completed as of January 1, 2018 and recorded the cumulative impact of the adoption as an adjustment to its accumulated deficit on January 1, 2018. The Company's financial results for periods ending after January 1, 2018 are presented in accordance with the requirements of Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605. Please refer to Revenue Recognition above for additional information on Topic 606, including a description of the Company's revenue recognition policies upon adoption.

The Company recorded a net reduction in opening accumulated deficit of $4.8 million as of January 1, 2018 for the cumulative impact of adoption of Topic 606, which was primarily the result of accelerated recognition of license revenue due to annual maintenance fees under Topic 606. Under Topic 605, annual maintenance fees payable to the Company by licensees were recognized as license revenue annually when the amounts became fixed or determinable. Under Topic 606, the present value of aggregate annual maintenance fees over the term of the license agreement are recognized as revenue upon the delivery of the license to the licensee. The impact of the accelerated recognition of license revenue upon adoption was partially offset by the accelerated recognition of licensing costs to the Company's licensors. The Company recognizes sublicense fees to its licensors in the period the underlying license revenue is recognized.

The cumulative adjustment for the adoption of Topic 606 had the following effects on the Company's consolidated balance sheet as of January 1, 2018 (in thousands):

	Balance at December 31, 2017	Cumulative Adjustment for Adoption of Topic 606	Balance at January 1, 2018

Consolidated Balance Sheet			
Assets:			
Accounts receivable, current	$ 473	$ 527	$ 1,000
Accounts receivable, non-current	$ —	$ 4,850	$ 4,850
Other current assets	$ 1,412	$ 350	$ 1,762
Liabilities:			
Accrued expenses and other current liabilities	$ 9,605	$ 105	$ 9,710
Other liabilities	$ —	$ 819	$ 819
Stockholders Equity:			
Accumulated deficit	$ (187,756)	$ 4,803	$ (182,953)

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The following tables present the effects of the adoption of Topic 606 on each financial statement line item of the Company's financial statements for the interim periods ended June 30, 2018 (in thousands, except per share data):

	As of June 30, 2018		
	As Reported	Impact of Adoption of Topic 606	Results Without Adoption of Topic 606
Consolidated Balance Sheet			
Assets:			
Accounts receivable, current	$739	$ 567	$172
Accounts receivable, non-current	$4,485	$ 4,485	$—
Prepaid expenses	$3,690	$ 60	$3,630
Liabilities:			
Accrued expenses and other current liabilities	$12,023	$ 100	$11,923
Deferred revenue	$600	$ 600	$—
Other liabilities	$720	$ 720	$—
Stockholders Equity:			
Accumulated deficit	$(68,120)	$ 3,692	$(71,812)

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Impact of Adoption of Topic 606	Results Without Adoption of Topic 606	As Reported	Impact of Adoption of Topic 606	Results Without Adoption of Topic 606
Consolidated Statement of Operations						
Revenues:						
License revenue	$40,031	$(61,244)	$101,275	$172,422	$(9,529)	$181,951
Expenses:						
Licensing costs	$3,872	$(1,220)	$5,092	$6,280	$(165)	$6,445
Other Income:						
Interest income from licensing	$6,898	$6,898	$—	$8,253	$8,253	$—
Net Income	$10,594	$(53,126)	$63,720	$114,833	$(1,111)	$115,944

Net Income Per Share:						
Basic	$0.33	$(1.66)	$1.99	$3.60	$(0.04)	$3.64
Diluted	$0.30	$(1.51)	$1.81	$3.29	$(0.03)	$3.32

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	Six Months Ended June 30, 2018		
	As Reported	Impact of Adoption of Topic 606	Results Without Adoption of Topic 606
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities:			
Net income	$114,833	$(1,111)	$115,944
Imputed interest income from licensing	$(8,253)	$(8,253)	$—
Changes in accounts receivable	$8,879	$8,578	$301
Changes in prepaid expenses	$1,644	$(60)	$1,704
Changes in other current assets	$(585)	$350	$(935)
Changes in accrued expenses and other current liabilities	$2,566	$(5)	$2,571
Changes in deferred revenue	$600	$600	$—
Changes in other liabilities	$(99)	$(99)	$—

The most significant effect that the adoption of Topic 606 had on the results of operations for the three and six months ended June 30, 2018, as compared to what results would have been if Topic 605 had continued to be applied, is related to the amount of revenue and interest income from licensing recognized under the Company's January 2018 amendment to its license agreement with AveXis, Inc. (AveXis) for the development and commercialization of treatments for spinal muscular atrophy (SMA). Under Topic 606, the Company recognized the present value of all fixed consideration under the amendment as revenue upon the delivery of the license to AveXis in January 2018, including the present value of the two $30.0 million payments originally due to the Company in January 2019 and January 2020. The present value discount, which represents the financing portion of the consideration under Topic 606, was recognized as interest income from licensing over the financing term of the agreement. Under Topic 605, the Company would not have recognized such revenue until it became fixed and determinable and collectability was reasonably assured, and the Company would not have recognized any interest income from significant financing components under the license agreement. Under the requirements of Topic 606, the Company recognized license revenue of $40.0 million and $172.1 million, and interest income from licensing of $6.8 million and $8.0 million, during the three and six months ended June 30, 2018, respectively, related to its amended license agreement with AveXis. If the requirements of Topic 605 had been applied during the three and six months ended June 30, 2018, the Company would have recognized license revenue of $100.0 million and $180.0 million, respectively, and interest income from licensing of $0, related to its amended license agreement with AveXis. Please refer to Note 7 for further information on license revenue and the Company's accounting analysis for the amended license with AveXis.

Other recently adopted accounting pronouncements

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when modification accounting should be applied for changes to terms or conditions of a share-based award. The standard is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted, and is to be applied prospectively upon adoption. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. As a result, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted, and is to be applied retrospectively to each period presented. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated statements of cash flows.

The Company's restricted cash includes money market mutual funds used to collateralize an irrevocable letter of credit as required by the Company's lease agreement for its office space in New York, New York. The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported on the consolidated balance sheets to the total of these amounts as reported at the end of the period in the consolidated statements of cash flows (in thousands):

	June 30, 2018	June 30, 2017
Cash and cash equivalents	$106,889	$57,649
Restricted cash	225	225
Total cash and cash equivalents and restricted cash	$107,114	$57,874

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which modifies the current guidance on the recognition, measurement, presentation and disclosure of financial instruments. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies the guidance in ASU 2016-01. The Company adopted these standards effective January 1, 2018. Upon the adoption of these standards, the Company elected to measure its non-marketable equity securities without readily available fair values at cost less impairment, adjusted for observable price changes for identical or similar investments of the same issuer. Prior to the adoption of these standards, the Company measured these investments at cost less impairment. The adoption of these standards did not have a material impact on the Company's financial position or results of operations.

Recent accounting pronouncements not yet adopted

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-based Payment Accounting which supersedes the current guidance for accounting for share-based payments to nonemployees under ASC 505-50, Equity—Equity-based Payments to Nonemployees. The new guidance expands the scope of Topic 718 to include share-based payments to nonemployees for goods or services. Consequently, the accounting for share-based payments to employees and nonemployees will be substantially aligned. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is evaluating the application of this standard but has not yet determined the potential effects it may have on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income which amends the current guidance on comprehensive income to provide an option for an entity to reclassify the stranded tax effects of the Tax Cuts and Jobs Act of 2017 (the TCJA) that was signed into law in December 2017 from accumulated other comprehensive income directly to retained earnings. The stranded tax effects result from the remeasurement of deferred tax assets and liabilities which were originally recorded in comprehensive income but whose remeasurement is reflected in the income statement. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is evaluating the application of this standard but has not yet determined the potential effects it may have on the Company's consolidated financial statements.

In April 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), which amends the required amortization period for certain purchased callable debt securities held at a premium by shortening the amortization period for the premium to the earliest call date. The standard is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted upon issuance, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not believe the application of this standard will have a material impact on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the accounting for credit losses for most financial assets and certain other instruments. The standard requires that entities holding financial assets and net investment in leases that are not accounted for at fair value through net income be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The standard is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods beginning after December 15, 2018. The Company does not believe the application of this standard will have a material impact on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes FASB ASC Topic 840, Leases (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases which clarifies multiple aspects of the guidance under Topic 842. The standards are effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company believes the new standards will significantly impact the accounting for its operating leases for office and laboratory facilities. The Company expects the adoption of these standards will have a material impact on the Company's consolidated balance sheet; however, the evaluation of these standards is not yet complete, and the Company has not yet determined the potential impact on the Company's consolidated statement of operations.

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3. Marketable Securities

The following tables present a summary of the Company’s marketable securities, which consist solely of available-for-sale debt securities (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2018				
U.S. government and federal agency securities	$ 19,280	$ —	$ (14)	$ 19,266
Certificates of deposit	735	—	—	735
Corporate bonds	179,721	3	(325)	179,399
	$ 199,736	$ 3	$ (339)	$ 199,400

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2017				
Corporate bonds	$ 130,018	$ 2	$ (282)	$ 129,738
	$ 130,018	$ 2	$ (282)	$ 129,738

As of June 30, 2018 and December 31, 2017, no available-for-sale securities had remaining maturities greater than three years.

The amortized cost of available-for-sale securities is adjusted for amortization of premiums and accretion of discounts to maturity. As of June 30, 2018 and December 31, 2017, the balance in the Company’s accumulated other comprehensive loss consisted solely of net unrealized gains and losses on available-for-sale securities, net of income tax effects and reclassification adjustments for realized gains and losses. During the three months and six months ended June 30, 2018, the Company recognized net unrealized gains (losses) on available-for-sale securities of $0.1 million and $(0.1) million, respectively, and income tax expense of $0 in other comprehensive income (loss) for the period. The Company did not recognize any realized gains or losses on the sale or maturity of available-for-sale securities during the three and six months ended June 30, 2018. During the three and six months ended June 30, 2017, the Company recognized net unrealized losses on available-for-sale securities of $0.1 million and $0.1 million, respectively, and income tax expense of $0 in other comprehensive income (loss) for the period. The Company recognized net realized gains of $0 and $0.5 million on the sale or maturity of marketable securities during the three and six months ended June 30, 2017, respectively, which were reclassified out of accumulated other comprehensive loss during the period and are included in investment income in the consolidated statements of operations and comprehensive income (loss).

The following tables present the fair values and unrealized losses of marketable securities held by the Company in an unrealized loss position for less than 12 months and 12 months or greater (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018						
U.S. government and federal agency securities	$19,266	$ (14)	$—	$ —	$19,266	$ (14)
Corporate bonds	143,503	(239)	21,066	(86)	164,569	(325)
	$162,769	$ (253)	$21,066	$ (86)	$183,835	$ (339)

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017						