T2 Biosystems, Inc.
Form 10-Q
August 08, 2016
Table of Contents

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, 2016

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: 001-36571

T2 Biosystems, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-4827488 (I.R.S. Employer Identification No.)
101 Hartwell Avenue Lexington, Massachusetts (Address of principal executive offices)	02421 (Zip Code)

Registrant's telephone number, including area code: (781) 761-4646

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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 4, 2016, the registrant had 24,364,743 shares of common stock outstanding.

Table of Contents

T2 BIOSYSTEMS, INC.

TABLE OF CONTENTS

i

Table of Contents

PART I.

FINANCIAL INFORMATION

Item 1.Financial Statements

T2 Biosystems, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 50,218	$ 73,662
Accounts receivable	288	369
Prepaid expenses and other current assets	562	838
Inventories	1,435	683
Total current assets	52,503	75,552
Property and equipment, net	12,815	10,655
Restricted cash	260	260
Other assets	331	358
Total assets	$ 65,909	$ 86,825
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 795	$ 1,228
Accrued expenses and other current liabilities	4,506	4,162
Current portion of notes payable	10,631	4,449
Deferred revenue	1,266	2,146
Current portion of lease incentives	284	268
Total current liabilities	17,482	12,253
Notes payable, net of current portion	24,168	26,121
Lease incentives, net of current portion	935	1,076
Other liabilities	665	436
Commitments and contingencies		

Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized at June 30, 2016 and December 31, 2015; 24,364,743 and 24,175,381 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	24	24
Additional paid-in capital	198,992	195,800
Accumulated deficit	(176,357)	(148,885)
Total stockholders' equity	22,659	46,939
Total liabilities and stockholders' equity	$ 65,909	$ 86,825

See accompanying notes to condensed consolidated financial statements.

Table of Contents

T2 Biosystems, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Product revenue	$ 151	$ —	$ 588	$ 10
Research revenue	839	564	1,498	743
Total revenue	990	564	2,086	753
Costs and expenses:				
Cost of product revenue	1,781	—	2,807	3
Research and development	6,369	6,651	12,958	12,520
Selling, general and administrative	6,143	4,437	12,347	8,905
Total costs and expenses	14,293	11,088	28,112	21,428
Loss from operations	(13,303)	(10,524)	(26,026)	(20,675)
Interest expense, net	(805)	(477)	(1,540)	(954)
Other income, net	62	6	94	15
Net loss and comprehensive loss	$ (14,046)	$ (10,995)	$ (27,472)	$ (21,614)
Net loss per share — basic and diluted	$ (0.58)	$ (0.54)	$ (1.13)	$ (1.07)
Weighted-average number of common shares used in computing net loss per share — basic and diluted	24,321,310	20,260,591	24,270,041	20,171,051

See accompanying notes to condensed consolidated financial statements.

Table of Contents

T2 Biosystems, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2016	2015
Operating activities		
Net loss	$ (27,472)	$ (21,614)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,068	600
Stock-based compensation expense	2,527	1,577
Noncash interest expense	308	180
Deferred rent	(123)	(67)
Changes in operating assets and liabilities:		
Accounts receivable	81	(188)
Prepaid expenses and other assets	276	447
Inventory	(752)	(453)
Accounts payable	(49)	827
Accrued expenses and other liabilities	228	(396)
Deferred revenue	(879)	1,695
Net cash used in operating activities	(24,787)	(17,392)
Investing activities		
Purchases and manufacture of property and equipment	(3,173)	(4,184)
Decrease in restricted cash	—	80
Net cash used in investing activities	(3,173)	(4,104)
Financing activities		
Payment of offering costs for issuance of common stock in public offering	(385)	—
Proceeds from issuance of common stock and stock options exercises, net	700	1,088
Proceeds from notes payable, net of issuance costs	4,593	—
Repayments of note payable	(392)	(152)
Net cash provided by financing activities	4,516	936
Net decrease in cash and cash equivalents	(23,444)	(20,560)
Cash and cash equivalents at beginning of period	73,662	73,849
Cash and cash equivalents at end of period	$ 50,218	$ 53,289

Supplemental disclosures of cash flow information		
Cash paid for interest	$ 1,146	$ 716
Supplemental disclosures of noncash investing and financing activities		
Accrued property and equipment	$ 184	$ 1,595

See accompanying notes to condensed consolidated financial statements.

Table of Contents

T2 Biosystems, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Business

T2 Biosystems, Inc. (the "Company") was incorporated on April 27, 2006 as a Delaware corporation with operations based in Lexington, Massachusetts. The Company is an in vitro diagnostic company that has developed an innovative and proprietary platform that enables rapid, sensitive and simple direct detection of pathogens, biomarkers and other abnormalities across a variety of unpurified patient sample types. The Company is using its T2 Magnetic Resonance platform ("T2MR") to develop a broad set of applications aimed at reducing mortality rates, improving patient outcomes and reducing the cost of healthcare by helping medical professionals make targeted treatment decisions earlier. The Company's initial development efforts target sepsis, hemostasis and Lyme disease, areas of significant unmet medical need in which existing therapies could be more effective with improved diagnostics. On September 22, 2014, the Company received market authorization from the U.S. Food and Drug Administration ("FDA") for its first two products, the T2Dx Instrument ("T2Dx") and T2Candida Panel ("T2Candida").

The Company has devoted substantially all of its efforts to research and development, business planning, recruiting management and technical staff, acquiring operating assets, raising capital, and, most recently, the commercialization of its products.

Liquidity

At June 30, 2016, the Company has cash and cash equivalents of $50.2 million and an accumulated deficit of $176.4 million. The future success of the Company is dependent on its ability to successfully commercialize its FDA approved products, obtain regulatory clearance for and successfully launch its future product candidates, obtain additional capital and ultimately attain profitable operations. Historically, the Company has funded its operations primarily through its August 2014 initial public offering, its December 2015 secondary public offering, private placements of redeemable convertible preferred stock and through debt financing arrangements.

The Company is subject to a number of risks similar to other newly commercial life science companies, including, but not limited to commercially launching the Company's products, development and market acceptance of the Company's product candidates, development by its competitors of new technological innovations, protection of proprietary technology, and raising additional capital.

Having obtained authorization from the FDA to market T2Dx and T2Candida, the Company has incurred significant commercialization expenses related to product sales, marketing, manufacturing and distribution. In addition, the Company expects that costs and expenses will increase substantially as it continues the research and development of other product candidates and maintains, expands and protects its intellectual property portfolio. The Company may seek to fund its operations through public equity or private equity or debt financings, as well as other sources. However, the Company may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. The Company's failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on the Company's business, results of operations and financial condition and the Company's ability to develop and commercialize T2Dx, T2Candida and other product candidates.

Management believes that its existing cash and cash equivalents at June 30, 2016, together with the additional remaining liquidity of up to $5.4 million available under an Equipment Lease Credit Facility (the "Credit Facility") entered into in October 2015 to help the Company meet its capital equipment needs (Note 5), will be sufficient to allow the Company to fund its current operating plan for at least the next 12 months. Should the Company's current operating plans not materialize as expected, and it is unable to obtain additional capital on a timely basis, the Company may be required to change its current operating plans to reduce its future expenses, which is within its control, in order to fund operations at reduced levels for at least the next 12 months.

Table of Contents

For more information, refer to the section titled “Liquidity and Capital Resources” in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations and the section entitled “Risk Factors” in the Annual Report on Form 10-K for the year ended December 31, 2015, for additional risks associated with our capital needs.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States GAAP as defined in the Accounting Standards Codification (“ASC”) and Accounting Standards Updates (“ASU”) of the Financial Accounting Standards Board (“FASB”). The Company’s condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, T2 Biosystems Securities Corporation. All intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

Certain information and footnote disclosures normally included in the Company’s annual financial statements have been condensed or omitted. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The accompanying interim condensed consolidated balance sheet as of June 30, 2016, the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2016 and 2015, the condensed consolidated statements of cash flows for the six months ended June 30, 2016 and 2015 and the related financial data and other information disclosed in these notes are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited annual financial statements, and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the Company’s financial position as of June 30, 2016, and the results of its operations and its cash flows for the three and six months ended June 30, 2016 and 2015. The results for the three- and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016, any other interim periods, or any future year or period.

Segment Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company views its operations and manages its business in one operating segment, which is the business of developing and launching commercially its diagnostic products aimed at reducing mortality rates, improving patient outcomes and reducing the cost of healthcare by helping medical professionals make targeted treatment decisions earlier.

Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is calculated by adjusting the weighted-average number of shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method for outstanding stock options. For purposes of the diluted net loss per share calculation, stock options are considered to be common stock equivalents, but have been excluded from the calculation of diluted net loss per share, as their effect would be anti-dilutive for all periods presented. Therefore, basic and diluted net loss per share applicable to common stockholders was the same for all periods presented.

Table of Contents

Guarantees

As permitted under Delaware law, the Company indemnifies its officers and directors for certain events or occurrences while each such officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification is the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make is unlimited; however, the Company has directors' and officers' liability insurance coverage that limits its exposure and enables the Company to recover a portion of any future amounts paid.

The Company leases office, laboratory and manufacturing space under noncancelable operating leases. The Company has standard indemnification arrangements under the leases that require it to indemnify the landlords against all costs, expenses, fines, suits, claims, demands, liabilities, and actions directly resulting from any breach, violation or nonperformance of any covenant or condition of the Company's leases.

In the ordinary course of business, the Company enters into indemnification agreements with certain suppliers and business partners where the Company has certain indemnification obligations limited to the costs, expenses, fines, suits, claims, demands, liabilities and actions directly resulting from the Company's gross negligence or willful misconduct, and in certain instances, breaches, violations or nonperformance of convenants or conditions under the agreements.

As of June 30, 2016 and December 31, 2015, the Company had not experienced any material losses related to these indemnification obligations, and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations and, consequently, concluded that the fair value of these obligations is negligible, and no related reserves were established.

Revenue Recognition

The Company generates revenue from product sales, which includes the sale of T2Dx, consumable diagnostic tests and related services, and research and development agreements with third parties. The Company recognizes revenue in accordance with FASB ASC Topic 605, Revenue Recognition ("ASC 605"). Accordingly, the Company recognizes revenue when all of the following criteria have been met:

i.Persuasive evidence of an arrangement exists

ii.Delivery has occurred or services have been rendered

iii.The seller's price to the buyer is fixed or determinable

iv.Collectability is reasonably assured

If any of the above criteria have not been met, the Company defers revenue until such time each of the criteria have been satisfied.

Product revenue is generated by the sale of T2Dx and consumable diagnostic tests. The Company either sells T2Dx to customers, or retains title and places a T2Dx at the customer site pursuant to a reagent rental agreement. When a T2Dx is directly purchased by a customer, the Company recognizes revenue when all applicable revenue recognition criteria are met. When a T2Dx is placed under a reagent rental agreement, the Company's customers generally agree to long-term agreements, certain of which may include minimum purchase commitments and/or incremental charges on each consumable diagnostic test purchased, which varies based on the monthly volume of test cartridges purchased. Revenue from the sale of consumable diagnostic tests, which includes the incremental charge, is generally recognized upon delivery as a component of product revenue in the Company's consolidated statements of operations and comprehensive loss.

Direct sales of T2Dx include warranty, maintenance and technical support services for one year following the installation of a purchased T2Dx ("Maintenance Services"). After the completion of the initial Maintenance Services period, customers have the option to renew the Maintenance Services for additional one year periods in exchange for additional consideration. In addition, the Company may provide training to customers. The Company defers revenue from the initial sale of a T2Dx equal to the relative fair value of the one year of Maintenance Services and training and recognizes the amounts ratably over the service delivery period.

Table of Contents

The Company warrants that consumable diagnostic tests will be free from defects, when handled according to product specifications, for the stated life of the product. To fulfill valid warranty claims, the Company provides a credit to its customers on future orders. Accordingly, the Company defers revenue associated with the estimated defect rates of the consumable diagnostic tests.

The Company does not offer rights of return for T2Dx or consumable diagnostic tests.

Shipping and handling costs incurred associated with products sold to customers are recorded as a cost of product revenue in the consolidated statement of operations and comprehensive loss. Shipping and handling costs billed to customers in connection with a product sale are recorded as a component of product revenue in the consolidated statements of operations and comprehensive loss.

For multiple-element arrangements, the Company identifies the deliverables included within each agreement and evaluates which deliverables represent separate units of accounting. The determination that multiple elements in an arrangement meet the criteria for separate units of accounting requires the Company's management to exercise judgment. The Company accounts for those components as separate elements when the following criteria are met: (1) the delivered items have value to the customer on a stand-alone basis; and, (2) if there is a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and within its control.

The consideration received is allocated among the separate units of accounting based on a selling price hierarchy. The selling price hierarchy is based on: (1) vendor specific objective evidence ("VSOE"), if available; (2) third party evidence of selling price if VSOE is not available; or (3) best estimated selling price ("BESP") if neither VSOE nor third party evidence is available. The Company generally expects that it will not be able to establish selling price using third-party evidence due to the nature of our products and the markets in which the Company competes, and, as such, the Company typically will determine selling price using VSOE or BESP.

When the Company establishes selling price using BESP, consideration is given to both market and Company-specific factors, including the cost to produce the deliverable and the anticipated margin on that deliverable, as well as the characteristics of markets in which the deliverable is sold.

Revenue earned from activities performed pursuant to research and development agreements is reported as research revenue in the consolidated statements of operations and comprehensive loss, using the proportional performance method as the work is completed, limited to payments earned, and the related costs are expensed as incurred as research and development expense. The timing of receipt of cash from the Company's research and development agreements generally differs from when revenue is recognized.

Product Recall

In July 2016, the Company announced its plans to initiate a voluntary recall and replacement of its T2Candida cartridges at certain customer sites because T2Candida was experiencing higher than normal invalid test rates as the T2Candida cartridges aged. As a result of this voluntary recall, the Company deferred revenue totaling $149,000 and recorded additional costs of product revenue of $41,000 related to returned products, which are no longer usable, during the three and six months ended June 30, 2016. The impact of the voluntary recall on T2Candida cartridges in inventory was not material to the condensed consolidated financial statements.

Cost of Product Revenue

Cost of product revenue includes the cost of materials, direct labor and manufacturing overhead costs used in the manufacture of consumable diagnostic tests sold to customers and related license and royalty fees. Cost of product revenue also includes depreciation on revenue generating T2Dx that have been placed with customers under reagent rental agreements; costs of materials, direct labor and manufacturing overhead costs on T2Dx sold to customers; and other costs such as customer support costs, royalties and license fees, warranty and repair and maintenance expense on T2Dx that have been placed with customers under reagent rental agreements.

Table of Contents

Research and Development Costs

Costs incurred in the research and development of the Company's product candidates are expensed as incurred. Research and development expenses consist of costs incurred in performing research and development activities, including activities associated with performing services under research revenue arrangements, and include salaries and benefits, stock compensation, research related facility and overhead costs, laboratory supplies, equipment and contract services.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

Standards Adopted

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. Adoption of ASU 2015-03 is applied retrospectively. The Company adopted ASU 2015-03 during the six months ended June 30, 2016, which resulted in a balance sheet reclassification of issuance costs of $22,000 recorded in prepaid expenses and other current assets and $102,000 in other assets to a reduction in the current portion of notes payable and notes payable, net of current portion as of December 31, 2015, respectively. The Company's adoption of this standard did not have an impact on its condensed consolidated results of operations or cash flows for the three and six months ended June 30, 2016 and 2015.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05"). The standard clarifies that customers in cloud computing arrangements should determine whether the arrangement includes a license of software by applying the same guidance as cloud service providers and eliminates the existing requirement for customers to account for software licenses acquired by analogizing to the guidance on leases. It is effective for annual periods beginning on or after December 15, 2015, including interim periods within those annual periods, and early adoption is permitted. Adoption of ASU 2015-05 can either be applied (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company adopted the guidance prescribed by ASU 2015-05 prospectively, and the new guidance did not have a material effect on its condensed consolidated financial statements.

Standards Issued, Not Adopted

In March 2016, the FASB released ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") which is intended to simplify income tax accounting for excess tax benefits, accounting for forfeitures, and employer statutory withholding. Under the current guidance, excess tax benefits that result from an award vesting or settling are recognized in additional paid-in capital in the period that they reduce cash taxes payable. This requires the provision to be computed on a with and without option basis and may result in net operating loss and credit carryforwards on the balance sheet being less than what is available on the tax return. Under the new guidance, the income tax effects of awards will be recognized as a component of income tax expense when the awards vest or are settled (regardless if cash taxes are reduced). For interim reporting purposes, companies will account for excess tax benefits and tax deficiencies as discrete items in the period during which they occurred. The guidance is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted, however all of the guidance included in the update must be applied when adopted. The Company must use a modified retrospective transition method for adopting and record the cumulative effect of all unrecognized benefits and any change in valuation allowances at the end of the prior tax period as an adjustment to retained earnings. The Company has not elected to early adopt ASU 2016-09 and is evaluating the new guidance and the expected effect on the Company's condensed consolidated financial statements.

Table of Contents

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"), which applies to all issuers of or investors in debt instruments with embedded call or put options. ASU 2016-06 clarifies the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities performing the assessment under the guidance of ASU 2016-06 are required to assess the embedded call or put options solely in accordance with the four-step decision process. In addition, ASU 2016-06 clarifies what steps are required when assessing whether the economic characteristics and risks of call or put options are clearly and closely related to the economic characteristics and risks of their debt hosts. ASU 2016-06 is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years using the modified retrospective method for existing debt instruments. The Company is evaluating the new guidance and the expected effect on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"), which applies to all leases. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing leases, while the statement of operations will reflect lease expense for operating leases and amortization and interest expense for financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those years, which is the year ended December 31, 2019 for the Company. Entities are required to use a modified retrospective approach of adoption for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. The Company is evaluating the new guidance and the expected effect on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). The standard simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value for entities using the first-in-first out method of valuing inventory. ASU 2015-11 eliminates other measures required by current guidance to determine net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years and early adoption is permitted. The Company has not adopted ASU 2015-11 and does not expect the new guidance to have a material effect on its condensed consolidated financial statements.

In June 2014, the FASB issued amended guidance, ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which is applicable to revenue recognition that will now be effective for the Company for the year ending December 31, 2018, as a result of the deferral of the effective date adopted by the FASB in July 2015. The new guidance must be adopted using either a full retrospective approach for all periods presented or a modified retrospective approach. Early adoption prior to the original adoption date of ASU 2014-09 is not permitted. The new guidance applies a more principles-based approach to revenue recognition. The Company is evaluating the new guidance and the expected effect on the Company's condensed consolidated financial statements.

In 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern ("ASU 2014-15"), which is effective for annual periods ending after December 15, 2016. Early adoption is permitted. ASU 2014-15 provides new guidance on (1) management's responsibility in evaluating whether or not there is substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued each

reporting period and (2) related financial statement disclosures. The Company has not adopted the guidance prescribed by ASU 2014-15. If this standard had been adopted as of June 30, 2016, the Company believes that it would have concluded there was not substantial doubt about its ability to continue as a going concern. However, the Company faces certain risks and uncertainties, as further described in Note 1, “Nature of Business”, that could affect this analysis and result in additional disclosures.

Table of Contents

3. Fair Value Measurements

The Company measures the following financial assets at fair value on a recurring basis. The following tables set forth the Company's financial assets carried at fair value categorized using the lowest level of input applicable to each financial instrument as of June 30, 2016 and December 31, 2015 (in thousands):

	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	$ 2,755	$ 2,755	$ —	$ —
Money market funds	47,463	47,463	—	—
Restricted cash	260	260	—	—
	$ 50,478	$ 50,478	$ —	$ —

	Balance at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash	$			