MACROGENICS INC
Form 10-Q
November 07, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from ______ to ______

Commission File Number: 001-36112

MACROGENICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-1591613**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9704 Medical Center Drive Rockville, Maryland	**20850**
	(Zip code)

(Address of principal executive offices)
301-251-5172
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	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 November 2, 2018, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 42,259,080 shares.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements can often be identified by the use of terminology such as "subject to", "believe", "anticipate", "plan", "expect", "intend", "estimate", "project", "may", "will", "should", "would", "could", "can", the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under "Risk Factors"), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- our plans to develop and commercialize our product candidates;
- the outcomes of our ongoing and planned clinical trials, including when clinical trials will be initiated and completed and when data will be reported or regulatory filings made;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our ability to enter into new collaborations or to identify additional products or product candidates with significant commercial potential that are consistent with our commercial objectives;
- our ability to recover the investment in our manufacturing capabilities;
- the rate and degree of market acceptance and clinical utility of our products;
- our commercialization, marketing and manufacturing capabilities and strategy;
- significant competition in our industry;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- economic, political and other risks associated with our international operations;
- our ability to receive research funding and achieve anticipated milestones under our collaborations;
- our ability to protect and enforce patents and other intellectual property;
- costs of compliance and our failure to comply with new and existing governmental regulations including, but not limited to, tax regulations;
- loss or retirement of key members of management;
- failure to successfully execute our growth strategy, including any delays in our planned future growth; and
- our failure to maintain effective internal controls.

Consequently, forward-looking statements speak only as of the date that they are made and should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. Except as required by law, we do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MACROGENICS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2018 (unaudited)		December 31, 2017	
Assets				
Current assets:				
Cash and cash equivalents	$	201,807	$	211,727
Marketable securities	58,336		93,394	
Accounts receivable	20,970		13,643	
Prepaid expenses	4,315		3,151	
Other current assets	214		383	
Total current assets	285,642		322,298	
Property, equipment and software, net	58,649		49,983	
Other assets	11,065		1,602	
Total assets	$	355,356	$	373,883
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	$	986	$	2,451
Accrued expenses	38,477		38,581	
Deferred revenue	7,377		7,202	
Deferred rent	1,010		1,048	
Lease exit liability	—		298	
Other liabilities	175		175	
Total current liabilities	48,025		49,755	

Deferred revenue, net of current portion	14,134		13,637	
Deferred rent, net of current portion	10,553		11,253	
Total liabilities	72,712		74,645	
Stockholders' equity:				
Common stock, $0.01 par value -- 125,000,000 shares authorized, 42,248,075 and 36,859,077 shares outstanding at September 30, 2018 and December 31, 2017, respectively	422		369	
Additional paid-in capital	727,849		611,270	
Accumulated deficit	(445,627)		(312,340)	
Accumulated other comprehensive loss	—		(61)	
Total stockholders' equity	282,644		299,238	
Total liabilities and stockholders' equity	$	355,356	$	373,883

See accompanying notes.
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MACROGENICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,						Nine Months Ended September 30,	
	2018		**2017**		**2018**		**2017**	
Revenues:								
Revenue from collaborative and other agreements	$	20,617	$	1,076	$	43,670	$	3,435
Revenue from government agreements	181		587		657		1,948	
Total revenues	20,798		1,663		44,327		5,383	
Costs and expenses:								
Research and development	46,218		40,984		143,902		108,246	
General and administrative	9,584		8,403		29,953		24,249	
Total costs and expenses	55,802		49,387		173,855		132,495	
Loss from operations	(35,004)		(47,724)		(129,528)		(127,112)	
Other income	975		681		2,719		1,759	
Net loss	(34,029)		(47,043)		(126,809)		(125,353)	
Other comprehensive loss:								
Unrealized gain (loss) on investments	(18)		56		61		55	
Comprehensive loss	$	(34,047)	$	(46,987)	$	(126,748)	$	(125,298)
Basic and diluted net loss per common share	$	(0.81)	$	(1.28)	$	(3.13)	$	(3.50)
Basic and diluted weighted	42,239,327		36,779,305		40,462,658		35,847,449	

average
common shares
outstanding

See accompanying notes.

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MACROGENICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,			
	2018		**2017**	
Cash flows from operating activities				
Net loss	$	(126,809)	$	(125,353)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization expense	5,268		5,886	
Stock-based compensation	12,168		11,064	
Changes in operating assets and liabilities:				
Accounts receivable	(7,328)		570	
Prepaid expenses	(1,164)		222	
Other assets	(9,293)		168	
Accounts payable and other liabilities	(1,465)		(2,138)	
Accrued expenses	9,460		9,501	
Lease exit liability	(298)		(1,176)	
Deferred revenue	(5,807)		(2,666)	
Deferred rent	(738)		6,482	
Net cash used in operating activities	(126,006)		(97,440)	
Cash flows from investing				

activities		
Purchases of marketable securities	(120,039)	(89,124)
Proceeds from sale and maturities of marketable securities	155,848	177,006
Purchases of property and equipment	(24,239)	(18,645)
Net cash provided by investing activities	11,570	69,237
Cash flows from financing activities		
Proceeds from issuance of common stock, net of offering costs	103,259	34,294
Proceeds from stock option exercises and ESPP purchases	1,257	695
Net cash provided by financing activities	104,516	34,989
Net change in cash and cash equivalents	(9,920)	6,786
Cash and cash equivalents at beginning of period	211,727	84,098
Cash and cash equivalents at end of period	$ 201,807	$ 90,884
Non-cash operating and investing activities:		

Fair value of warrants received, including change in value	$	6,130	$	—

See accompanying notes.

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MACROGENICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of MacroGenics, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) that the management of the Company believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The accompanying unaudited interim consolidated financial statements include the accounts of MacroGenics, Inc. and its wholly owned subsidiary, MacroGenics UK Limited. All intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 27, 2018.

Summary of Significant Accounting Policies

With the exception of the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* and all related amendments (collectively ASC 606) during the nine months ended September 30, 2018, discussed below, there have been no material changes to the significant accounting policies previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method. Under this method, results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with accounting standards in effect for the period presented. The Company applied the modified retrospective transition method only to contracts that were not completed as of January 1, 2018, the effective date of adoption for ASC 606. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (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 a performance obligation. The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company enters into licensing agreements that are within the scope of ASC 606, under which it may license rights to research, develop, manufacture and commercialize its product candidates to third parties. The terms of these arrangements typically include payment to the Company of one or more of the following: non-refundable, upfront license fees; reimbursement of certain costs; customer option exercise fees; development, regulatory and commercial milestone payments; and royalties on net sales of licensed products. The Company also enters into manufacturing service agreements.

For each arrangement that results in revenues, the Company identifies all performance obligations, which may include a license to intellectual property and know-how, research and development activities, transition activities and/or manufacturing services. In order to determine the transaction price, in addition to any upfront payment, the Company estimates the amount of variable consideration at the outset of the contract either utilizing the expected value or most likely amount method, depending on the facts and circumstances relative to the contract. The Company constrains (reduces) the estimates of variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur. When determining if variable consideration should be constrained, management considers whether there are factors outside the Company’s control that could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required.

Once the estimated transaction price is established, amounts are allocated to the performance obligations that have been identified. The transaction price is generally allocated to each separate performance obligation on a relative standalone selling price basis. The Company must develop assumptions that require judgment to determine the standalone selling price in

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order to account for these agreements. To determine the standalone selling price, the Company's assumptions may include (i) the probability of obtaining marketing approval for the product candidate, (ii) estimates regarding the timing and the expected costs to develop and commercialize the product candidate, and (iii) estimates of future cash flows from potential product sales with respect to the product candidate. Standalone selling prices used to perform the initial allocation are not updated after contract inception. The Company does not include a financing component to its estimated transaction price at contract inception unless it estimates that certain performance obligations will not be satisfied within one year.

Amounts received prior to revenue recognition are recorded as deferred revenue. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as current portion of deferred revenue in the accompanying consolidated balance sheets. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue, net of current portion.

Licenses. If the license to the Company's intellectual property is determined to be distinct from the other promises or performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and when (or as) the customer is able to use and benefit from the license. In assessing whether a promise or performance obligation is distinct from the other promises, the Company considers factors such as the research, development, manufacturing and commercialization capabilities of the licensee and the availability of the associated expertise in the general marketplace. In addition, the Company considers whether the licensee can benefit from a promise for its intended purpose without the receipt of the remaining promise, whether the value of the promise is dependent on the unsatisfied promise, whether there are other vendors that could provide the remaining promise, and whether it is separately identifiable from the remaining promise. For licenses that are combined with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition. The measure of progress, and thereby periods over which revenue should be recognized, are subject to estimates by management and may change over the course of the research and development and licensing agreement. Such a change could have a material impact on the amount of revenue the Company records in future periods.

Research, Development and/or Manufacturing Services. The promises under the Company's agreements may include research and development or manufacturing services to be performed by the Company on behalf of the counterparty. If these services are determined to be distinct from the other promises or performance obligations identified in the arrangement, the Company recognizes the transaction price allocated to these services as revenue over time based on an appropriate measure of progress when the performance by the Company does not create an asset with an alternative use and the Company has an enforceable right to payment for the performance completed to date. If these services are determined not to be distinct from the other promises or performance obligations identified in the arrangement, the Company recognizes the transaction price allocated to the combined performance obligation as the related performance obligations are satisfied.

Customer Options. If an arrangement contains customer options, the Company evaluates whether the options are material rights because they allow the customer to acquire additional goods or services for free or at a discount. If the customer options are determined to represent a material right, the material right is recognized as a separate performance obligation at the outset of the arrangement. The Company allocates the transaction price to material rights based on the relative standalone selling price, which is determined based on the identified discount and the probability that the customer will exercise the option. Amounts allocated to a material right are not recognized as revenue until, at the earliest, the option is exercised. If the options are deemed not to be a material right, they are excluded as performance obligations at the outset of the arrangement, and the potential payments that the Company is eligible to receive upon exercise of the options are excluded from the transaction price.

Milestone Payments. At the inception of each arrangement that includes development milestone payments, the Company evaluates whether the milestones are considered probable of being achieved 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 would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgment involved in determining whether it is probable that a significant revenue reversal would not occur. At the end of each subsequent reporting period, the Company reevaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalties. For arrangements that include sales-based royalties which are the result of a customer-vendor relationship and for which the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied or partially satisfied. To date, the Company has not recognized any royalty revenue resulting from any of its licensing arrangements.

The Company analyzes its collaboration arrangements to assess whether such arrangements involve joint operating activities performed by parties who are both active participants in the activities and are both exposed to significant risks and rewards dependent on the commercial success of such activities. Such arrangements generally are within the scope of ASC 808, *Collaborative Arrangements* (ASC 808). While ASC 808 defines collaborative arrangements and provides guidance on income statement presentation, classification, and disclosures related to such arrangements, it does not address recognition and measurement matters, such as (1) determining the appropriate unit of accounting or (2) when the recognition criteria are met. Therefore, the accounting for these arrangements is either based on an analogy to other accounting literature or an accounting policy election by the Company. The Company accounts for certain components of the collaboration agreement that are reflective of a vendor-customer relationship (e.g., licensing arrangement) based on an analogy to ASC 606. The Company accounts for other components based on a reasonable, rational and consistently applied accounting policy election. Reimbursements from the counter-party that are the result of a collaborative relationship with the counter-party, instead of a customer relationship, such as co-development activities, are recorded as a reduction to research and development expense as the services are performed.

For a complete discussion of accounting for revenue from collaborative and other agreements, see Note 5, Collaboration and Other Agreements.

Recent Accounting Pronouncements

<u>Recently Adopted Accounting Standards</u>

In May 2014, the Financial Accounting Standards Board (FASB) issued ASC 606. The Company adopted ASC 606 on January 1, 2018 using the modified retrospective method for all contracts that were not completed as of January 1, 2018. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with available practical expedients. Comparative prior period information continues to be reported under the accounting standards in effect for the period presented.

As a result of applying the modified retrospective method to adopt the new guidance, the following adjustments were made to accounts on the consolidated balance sheet as of January 1, 2018 (in thousands):

	Pre-Adoption		**ASC 606 Adjustment**		**Post-Adoption**	
Deferred revenue, current	$	7,202	$	540	$	7,742
Deferred revenue, net of current portion	13,637		5,939		19,576	
Accumulated deficit	(312,340)		(6,479)		(318,819)	

The transition adjustment resulted primarily from changes in the pattern of revenue recognition for upfront fees and the accounting for milestones.

The following table shows the impact of adoption to our consolidated statement of income and balance sheet (in thousands):

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	Three Months Ended September 30, 2018					
	As Reported		**Balances without adoption of ASC 606**		**Effect of Change Higher/(Lower)**	
Revenue from collaborative agreements	$	20,617	$	20,482	$	135
Net loss	(34,029)		(34,164)		(135)	
Basic and diluted net loss per common share	$	(0.81)	$	(0.81)	$	—

	Nine Months Ended September 30, 2018					
	As Reported		**Balances without adoption of ASC 606**		**Effect of Change Higher/(Lower)**	
Revenue from collaborative agreements	$	43,670	$	43,265	$	405
Net loss	(126,809)		(127,214)		(405)	
Basic and diluted net loss per common share	$	(3.13)	$	(3.14)	$	0.01

	As of September 30, 2018					
	As Reported		**Balances without adoption of ASC 606**		**Effect of Change Higher/(Lower)**	
Deferred revenue, current	$	7,377	$	6,348	$	1,029
Deferred revenue, net of current portion	14,134		9,090		5,044	
Accumulated deficit	$	(445,627)	$	(439,554)	$	(6,073)

The following table presents changes in the Company’s contract liabilities during the nine months ended September 30, 2018 (in thousands):

Balance at Beginning of Period		**Additions**		**Deductions**		**Balance at End of Period**	
$	27,318	$	500	$	(6,307)	$	21,511

Deferred revenue (current and non-current)

During the nine months ended September 30, 2018, the Company recognized $6.3 million in revenue as a result of changes in the contract liability balance.
In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope Modification Accounting*. The new standard is intended to reduce the diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. The new standard was effective beginning January 1, 2018. The adoption of this standard did not have a material impact on the Company’s financial position or results of operations upon adoption.

Recently Issued Accounting Standards
In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02) that provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for operating leases and changes many key definitions, including the definition of a lease. ASU 2016-02 includes a short-term lease exception for leases with an original term of 12 months or less, in which a lessee can make an accounting policy election not to recognize lease assets and lease liabilities. Lessees will continue to differentiate between finance leases (previously referred to as capital leases) and operating leases, using classification criteria that are substantially similar to the previous guidance. Originally, entities were required to adopt ASU 2016-02 using a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application. However, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* which now allows entities the option of recognizing the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. In July 2018, the FASB also issued ASU 2018-10, *Codification Improvements to Topic 842, Leases,* which clarifies how to apply certain aspects of ASU 2016-02. ASU 2016-02, ASU 2018-10 and ASU 2018-11 (now commonly referred to as ASC Topic 842 (ASC 842)) is effective for the Company’s fiscal year beginning January 1, 2019. Although early

adoption is permitted, the Company has not elected to do so. The Company plans to elect the transition option provided under ASU 2018-11, which will not require adjustments to comparative periods nor require modified disclosures in those comparative periods. Upon adoption, the Company expects to elect the transition package of practical expedients permitted within the new standard, which among other things, allows the carryforward of the historical lease classification. Based on its anticipated election of practical expedients, the Company anticipates the recognition of right of use assets and related lease liabilities on its consolidated balance sheets related to its leases. The Company has engaged a professional services firm to assist in the implementation of ASC 842, and is completing its analysis of the impact of adopting ASC 842 on its consolidated statements of income and comprehensive income and consolidated balance sheets.

2. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses and common stock warrants. The carrying amount of accounts receivable, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of their short-term nature. The Company accounts for recurring and non-recurring fair value measurements in accordance with FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosures about fair value measurements. The ASC 820 hierarchy ranks the quality of reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

• Level 1 - Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

• Level 2 - Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models, such as interest rates and yield curves that can be corroborated by observable market data.

• Level 3 - Fair value is determined by inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments to be made by a reporting entity - e.g., determining an appropriate adjustment to a discount factor for illiquidity associated with a given security.

The Company evaluates financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the ASC 820 hierarchy.

Financial assets measured at fair value on a recurring basis were as follows (in thousands):

	Fair Value Measurements at September 30, 2018			
		Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	$ 99,808	$ 99,808	$ —	$ —
U.S. Treasury securities	3,996	—	3,996	—
Government-sponsored enterprises	5,477	—	5,477	—
Corporate debt securities	48,863	—	48,863	—

Common stock warrants	6,130	—		—		6,130	
Total assets measured at fair value[(a)]	$ 164,274	$	99,808	$	58,336	$	6,130

	Fair Value Measurements at December 31, 2017			
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 61,512	$ 61,512	$ —	$ —
U.S. Treasury securities	3,990	—	3,990	—
Government-sponsored enterprises	11,990	—	11,990	—
Corporate debt securities	78,418	—	78,418	—
Total assets measured at fair value[b]	$ 155,910	$ 61,512	$ 94,398	$ —

(a) Total assets measured at fair value at September 30, 2018 includes approximately $99.8 million reported in cash and