

SANGAMO BIOSCIENCES INC
Form 10-Q
October 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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 000-30171

SANGAMO BIOSCIENCES, INC.

(exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

68-0359556
(IRS Employer
Identification No.)

501 Canal Blvd

Richmond, California 94804

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(Address of principal executive offices)

(510) 970-6000

(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 Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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 October 26, 2015, 70,046,841 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

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CERTIFICATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements contained in this report are forward-looking with respect to our operations, research, development and commercialization activities, clinical trials, operating results and financial condition. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our strategy;
- product development and commercialization of our products;
- clinical trials;
- partnering;
- revenues from existing and new collaborations;
- our research and development and other expenses;
- sufficiency of our cash resources;
- our operational and legal risks; and
- our plans, objectives, expectations and intentions and any other statements that are not historical facts.

In some cases, you can identify forward-looking statements by terms such as: “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “seeks,” “should” and “will.” These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Many of these risks are discussed

in greater detail under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” in this Form 10-Q. Sangamo undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances arising after the date of this report. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q.

ZFP Therapeutic® is a registered trademark of Sangamo BioSciences, Inc.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except share and per share amounts)

| | September 30, 2015 | December 31, 2014 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$34,287 | \$6,030 |
| Marketable securities | 185,042 | 172,932 |
| Interest receivable | 399 | 423 |
| Accounts receivable | 7,004 | 10,368 |
| Prepaid expenses | 951 | 623 |
| Restricted cash | — | 320 |
| Other current assets | — | 183 |
| Total current assets | 227,683 | 190,879 |
| Marketable securities, non-current | — | 47,260 |
| Property and equipment, net | 3,063 | 1,479 |
| Intangible assets, in-process research and development | — | 1,870 |
| Goodwill | 1,585 | 1,585 |
| Other assets | 185 | 139 |
| Total assets | \$232,516 | \$243,212 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$8,888 | \$8,704 |
| Accrued compensation and employee benefits | 2,779 | 2,853 |
| Escrow liability | — | 275 |
| Deferred revenues | 10,461 | 9,050 |
| Total current liabilities | 22,128 | 20,882 |
| Deferred revenues, non-current | 6,830 | 13,149 |
| Contingent consideration liability | — | 1,800 |
| Deferred tax liability | — | 748 |
| Total liabilities | 28,958 | 36,579 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; 160,000,000 shares authorized, 70,042,758 and | 700 | 690 |

69,062,394 shares issued and outstanding at September 30, 2015, and

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December 31, 2014, respectively

| | | |
|---|-----------|-----------|
| Additional paid-in capital | 558,044 | 534,518 |
| Accumulated deficit | (355,240) | (328,550) |
| Accumulated other comprehensive income (loss) | 54 | (25) |
| Total stockholders' equity | 203,558 | 206,633 |
| Total liabilities and stockholders' equity | \$232,516 | \$243,212 |

See accompanying notes.

SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share amounts)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|-----------|------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Collaboration agreements | \$8,406 | \$12,045 | \$28,878 | \$29,334 |
| Research grants | 163 | 372 | 1,540 | 1,584 |
| Total revenues | 8,569 | 12,417 | 30,418 | 30,918 |
| Operating expenses: | | | | |
| Research and development | 16,694 | 16,340 | 47,292 | 41,883 |
| General and administrative | 4,560 | 3,731 | 14,309 | 11,347 |
| Total operating expenses | 21,254 | 20,071 | 61,601 | 53,230 |
| Loss from operations | (12,685) | (7,654) | (31,183) | (22,312) |
| Interest and other income, net | 101 | 109 | 406 | 214 |
| Loss before income taxes | (12,584) | (7,545) | (30,777) | (22,098) |
| Benefit from income taxes | 3,339 | — | 4,087 | — |
| Net loss | \$(9,245) | \$(7,545) | \$(26,690) | \$(22,098) |
| Basic and diluted net loss per share | \$(0.13) | \$(0.11) | \$(0.38) | \$(0.33) |
| Shares used in computing basic and diluted net loss per share | 69,892 | 68,230 | 69,622 | 66,488 |

See accompanying notes.

SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited; in thousands)

| | Three months ended | | Nine months ended | |
|--|-----------------------|-----------|-----------------------|------------|
| | September 30, 2015 | 2014 | September 30, 2015 | 2014 |
| Net loss | \$(9,245) | \$(7,545) | \$(26,690) | \$(22,098) |
| Change in unrealized gain on available-for-sale securities | 57 | 20 | 79 | 41 |
| Comprehensive loss | \$(9,188) | \$(7,525) | \$(26,611) | \$(22,057) |

See accompanying notes.

SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited: in thousands)

| | Nine months ended September 30, | |
|--|------------------------------------|-------------|
| | 2015 | 2014 |
| Operating Activities: | | |
| Net loss | \$(26,690) | \$(22,098) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 745 | 400 |
| Amortization of premium on marketable securities | 681 | 843 |
| Stock-based compensation | 8,664 | 6,165 |
| Change in fair value of contingent consideration liability | (1,800) | 130 |
| Intangible impairment | 1,870 | — |
| Benefit from income taxes | (4,087) | — |
| Net changes in operating assets and liabilities: | | |
| Interest receivable | 24 | 25 |
| Accounts receivable | 3,364 | (5,319) |
| Prepaid expenses and other assets | 129 | (1,059) |
| Accounts payable and accrued liabilities | (2,534) | 3,619 |
| Accrued compensation and employee benefits | (74) | (530) |
| Deferred revenues | (4,908) | 14,861 |
| Net cash used in operating activities | (24,616) | (2,963) |
| Investing Activities: | | |
| Purchases of marketable securities | (168,627) | (176,385) |
| Maturities of marketable securities | 203,175 | 76,605 |
| Purchases of property and equipment | (2,327) | (559) |
| Net cash provided by / (used in) investing activities | 32,221 | (100,339) |
| Financing Activities: | | |
| Proceeds from public offering of common stock, net of issuance costs | — | 93,796 |
| Taxes paid related to net share settlement of equity awards | (48) | — |
| Proceeds from issuance of common stock | 6,248 | 10,525 |
| Claims settlement under Section 16(b) | 14,452 | — |
| Net cash provided by financing activities | 20,652 | 104,321 |
| Net increase in cash and cash equivalents | 28,257 | 1,019 |
| Cash and cash equivalents, beginning of period | 6,030 | 10,186 |
| Cash and cash equivalents, end of period | \$34,287 | \$11,205 |

See accompanying notes.

SANGAMO BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

NOTE 1—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Sangamo BioSciences, Inc. (“Sangamo” or the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The condensed consolidated balance sheet data at December 31, 2014 were derived from the audited consolidated financial statements included in Sangamo’s Form 10-K for the year ended December 31, 2014, as filed with the SEC. The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2014, included in Sangamo’s Form 10-K, as filed with the SEC.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. On an ongoing basis, management evaluates its estimates, including critical accounting policies or estimates related to revenue recognition, clinical trial accruals, fair value measurements, business combinations including the fair value of the contingent consideration liability for payments to former Ceregene, Inc. (Ceregene) stockholders and intangible assets related to the acquisition of Ceregene, and stock-based compensation. Estimates are based on historical experience and on various other market specific and other relevant assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Revenue Recognition

Revenues from research activities made under strategic partnering agreements and collaborations are recognized as the services are provided when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. Revenue generated from research and licensing agreements typically includes upfront signing or license fees, cost reimbursements, research services, minimum sublicense fees, milestone payments and royalties on future licensee’s product sales.

Multiple Element Arrangements prior to the adoption of ASU No. 2009-13, Revenue Recognition—Multiple Deliverable Revenue Arrangements (ASU 2009-13). For revenue arrangements entered into before January 1, 2011, that include multiple deliverables, the elements of such agreements were divided into separate units of accounting if the

deliverables met certain criteria, including whether the fair value of the delivered items could be determined and whether there was evidence of fair value of the undelivered items. In addition, the consideration was allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units of accounting. Prior to the adoption of ASU 2009-13, the Company recognized nonrefundable signing, license or non-exclusive option fees as revenue when rights to use the intellectual property related to the license were delivered and over the period of performance obligations if the Company had continuing performance obligations. The Company estimated the performance period at the inception of the arrangement and reevaluated it each reporting period. Changes to these estimates were recorded on a prospective basis.

Multiple Element Arrangements after the adoption of ASU 2009-13. ASU 2009-13 amended the accounting standards for certain multiple element revenue arrangements to:

- provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;
- require an entity to allocate arrangement consideration to each element based on a selling price hierarchy where the selling price for an element is based on vendor-specific objective evidence (VSOE), if available; third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (ESP), if neither VSOE nor TPE is available; and
- eliminate the use of the residual method and require an entity to allocate arrangement consideration using the relative selling price method.

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For revenue agreements with multiple element arrangements, such as license and development agreements, entered into on or after January 1, 2011, the Company allocates revenue to each non-contingent element based on the relative selling price of each element. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE of selling price or TPE of selling price. If neither exists, the Company uses ESP for that deliverable. Revenue allocated is then recognized when the basic four revenue recognition criteria are met for each element. The collaboration and license agreements entered into with Shire International GmbH, formerly Shire AG (Shire), in January 2012 and Biogen Inc., formerly Biogen Idec Inc. (Biogen) in January 2014 were evaluated under these amended accounting standards.

Additionally, the Company may be entitled to receive certain milestone payments which are contingent upon reaching specified objectives. These milestone payments are recognized as revenue in full upon achievement of the milestone if there is substantive uncertainty at the date the arrangement is entered into that the objectives will be achieved and if the achievement is based on the Company's performance.

Minimum annual sublicense fees are also recognized as revenue in the period in which such fees are due. Royalty revenues are generally recognized when earned and collectability of the related royalty payment is reasonably assured. The Company recognizes cost reimbursement revenue under collaborative agreements as the related research and development costs for services are rendered. Deferred revenue represents the portion of research or license payments received which have not been earned.

Sangamo's research grants are typically multi-year agreements and provide for the reimbursement of qualified expenses for research and development as defined under the terms of the grant agreement. Revenue under grant agreements is recognized when the related qualified research expenses are incurred to the extent such amounts have been agreed to with the respective collaboration partner.

Recent Accounting Standards

In May 2014 the Financial Accounting Standards Board issued ASU 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The main principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 provides companies with two implementation methods: (i) apply the standard retrospectively to each prior reporting period presented (full retrospective application); or (ii) apply the standard retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently in the process of evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements.

NOTE 2—FAIR VALUE MEASUREMENT

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, available-for-sale-securities and the contingent consideration liability. The fair value of these assets and contingent liability was determined based on a three-tier hierarchy under the authoritative guidance for fair value measurements and disclosures that prioritizes the inputs used in measuring fair value as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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The fair value measurements of the Company's cash equivalents, available-for-sale marketable securities and contingent consideration liability are identified at the following levels within the fair value hierarchy (in thousands):

| | September 30, 2015 | | | |
|--|-------------------------|----------|-----------|---------|
| | Fair Value Measurements | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$12,747 | \$12,747 | \$— | \$— |
| Total | 12,747 | 12,747 | — | — |
| Marketable securities: | | | | |
| Commercial paper securities | 15,399 | — | 15,399 | — |
| Corporate debt securities | 29,217 | — | 29,217 | — |
| U.S. government sponsored entity debt securities | 140,426 | — | 140,426 | — |
| Total | 185,042 | — | 185,042 | — |
| Total cash equivalents and marketable securities | \$197,789 | \$12,747 | \$185,042 | \$— |
| | | | | |
| | December 31, 2014 | | | |
| | Fair Value Measurements | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$3,182 | \$3,182 | \$— | \$— |
| Total | 3,182 | 3,182 | — | — |
| Marketable securities: | | | | |
| Commercial paper securities | 33,748 | — | 33,748 | — |
| Corporate debt securities | 22,813 | — | 22,813 | — |
| U.S. government sponsored entity debt securities | 163,631 | — | 163,631 | — |
| Total | 220,192 | — | 220,192 | — |
| Total cash equivalents and marketable securities | \$223,374 | \$3,182 | \$220,192 | \$— |
| Liabilities: | | | | |
| Contingent consideration liability | \$1,800 | \$— | \$— | \$1,800 |
| Total | \$1,800 | \$— | \$— | \$1,800 |

Investments

The Company generally classifies its marketable securities as Level 2. Instruments can be classified as Level 2 when observable market prices for identical securities that are traded in less active markets are used. When observable market prices for identical securities are not available, such instruments are priced using benchmark curves, benchmarking of like securities, sector groupings, matrix pricing and valuation models. These valuation models are proprietary to the pricing providers or brokers and incorporate a number of inputs, including, listed in approximate order of priority: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. For certain security types, additional inputs may be used, or some of the standard inputs may not be applicable. Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available

for use in the evaluation process for each security evaluation on any given day.

Contingent Consideration Liability

In October 2013, the Company acquired Ceregene and recorded a liability for the estimated fair value of contingent consideration payments to former Ceregene stockholders, as outlined under the terms of the merger agreement with Ceregene. These contingent payments are owed if the Company grants a third-party license to develop and commercialize certain product candidates acquired from Ceregene, or if the Company commercializes any of such product candidates itself. The fair value of this liability is estimated using a probability-weighted discounted cash flow analysis. Such valuations require significant estimates and assumptions including but not limited to: determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows and developing appropriate discount rates. The Company has classified this liability as Level 3.

Subsequent changes in the fair value of this contingent consideration liability are recorded to the research and development (R&D) expense line item in the Condensed Consolidated Statements of Operations as operating expenses. During the nine months ended September 30, 2015, the recognized amount of the liability for contingent consideration decreased by \$1.8 million due to the decrease in the probability of incurring potential future royalty payments associated with the impairment of the in-process research and development (IPR&D) assets acquired from Ceregene (see Note 6).

| | |
|-------------------------------------|----------|
| Fair value as of December 31, 2014 | \$ 1,800 |
| Change in fair value | (1,800) |
| Fair value as of September 30, 2015 | \$— |

NOTE 3—MARKETABLE SECURITIES

Sangamo generally classifies its marketable securities as available-for-sale and records its investments at fair value. Available-for-sale securities are carried at estimated fair value, with the unrealized holding gains and losses included in accumulated other comprehensive income (loss). Investments that have maturities beyond one year as of the end of the reporting period are classified as non-current. The Company's investments are subject to a periodic impairment review, and the Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value.

The table below summarizes the Company's investments (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|--|-------------------|------------------------------|---------------------------------|----------------------------|
| September 30, 2015 | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$ 12,747 | \$ — | \$ — | \$ 12,747 |
| Total | 12,747 | — | — | 12,747 |
| Available-for-sale securities: | | | | |
| Commercial paper securities | \$ 15,371 | \$ 28 | \$ — | \$ 15,399 |
| Corporate debt securities | 29,215 | 2 | — | 29,217 |
| U.S. government sponsored entity debt securities | 140,402 | 24 | — | 140,426 |
| Total | 184,988 | 54 | — | 185,042 |
| Total cash equivalents and available-for-sale securities | \$ 197,735 | \$ 54 | \$ — | \$ 197,789 |
| December 31, 2014 | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$ 3,182 | \$ — | \$ — | \$ 3,182 |
| Total | 3,182 | — | — | 3,182 |
| Available-for-sale securities: | | | | |

Commercial paper securities

\$33,715 \$ 33