SANGAMO THERAPEUTICS, INC
Form 10-Q
November 08, 2018
Ion

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, 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 000-30171

SANGAMO THERAPEUTICS, INC.

(exact name of registrant as specified in its charter)

Delaware	68-0359556
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

501 Canal Blvd

Richmond, California 94804

(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 every Interactive Data File required to be submitted 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 such files).   Yes   No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	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 1, 2018, 102,092,863 shares of the issuer’s common stock, par value $0.01 per share, were outstanding.

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SANGAMO THERAPEUTICS, INC.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Unless otherwise indicated or the context suggests otherwise, references in this Quarterly Report on Form 10-Q, or Quarterly Report, to "Sangamo," the "Company," "we," "us," and "our" refer to Sangamo Therapeutics, Inc. and our subsidiari including, TX Cell SA.

ZFP Therapeutic®, Engineering Genetic Cures®, and Pioneering Genetic Cures® are registered trademarks of Sangamo Therapeutics, Inc. Any third-party trade names, trademarks and service marks appearing in this Quarterly Report are the property of their respective holders.

Convenience translations between Euros (€) and U.S. dollars provided herein are based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on October 29, 2018, or €1.00 = $1.1622. We do not represent that Euros were, could have been, or could be, converted into U.S. dollars at such rate or at any other rate.

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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;
- the acquisition of TxCell S.A., including the anticipated benefits thereof;
- partnering, other acquisition and other strategic transactions;
- 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 wit to future events and are based on assumptions and subject to risks and uncertainties. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” in this Quarterly Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances arising after the date of such statements. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$39,298	$49,826
Marketable securities	419,272	193,482
Interest receivable	683	240
Accounts receivable	5,567	3,343
Prepaids and other current assets	3,382	1,506
Total current assets	468,202	248,397
Marketable securities, non-current	—	1,012
Property and equipment, net	50,497	31,066
Goodwill	1,585	1,585
Other non-current assets	6,379	1,181
Non-current restricted cash	79,941	3,500
Total assets	$606,604	$286,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$16,424	$11,035
Accrued compensation and employee benefits	6,605	5,479
Deferred revenues	51,094	28,345
Total current liabilities	74,123	44,859
Deferred revenues, non-current	123,917	29,244
Build-to-suit lease obligation	26,928	24,738
Non-current liabilities	1,730	—
Total liabilities	226,698	98,841
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 160,000,000 shares authorized, 101,839,668 and 85,598,534 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,018	856
Additional paid-in capital	923,164	682,809

Accumulated deficit	(544,032)	(495,479)
Accumulated other comprehensive loss	(244)	(286)
Total stockholders' equity	379,906	187,900
Total liabilities and stockholders' equity	$606,604	$286,741

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Collaboration agreements	$23,538	$11,759	$57,378	$23,042
Research grants	24	53	237	448
Total revenues	23,562	11,812	57,615	23,490
Operating expenses:				
Research and development	28,810	18,425	81,612	46,351
General and administrative	10,993	6,422	32,381	19,734
Total operating expenses	39,803	24,847	113,993	66,085
Loss from operations	(16,241)	(13,035)	(56,378)	(42,595)
Interest and other income, net	3,398	681	6,708	1,118
Net loss	$(12,843)	$(12,354)	$(49,670)	$(41,477)
Basic and diluted net loss per share	$(0.13)	$(0.15)	$(0.52)	$(0.55)
Shares used in computing basic and diluted net loss per share	101,725	83,750	95,165	75,814

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited; in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(12,843)	$(12,354)	$(49,670)	$(41,477)
Change in unrealized gain (loss) on available-for-sale securities	(88)	12	43	(131)
Comprehensive loss	$(12,931)	$(12,342)	$(49,627)	$(41,608)

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities:		
Net loss	$(49,670)	$(41,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,668	1,030
Amortization of (discount) premium on marketable securities	(4,043)	(310)
Stock-based compensation	10,374	6,969
Taxes paid related to net share settlement of equity awards	—	(71)
Other	715	—
Net changes in operating assets and liabilities:		
Interest receivable	(443)	(259)
Accounts receivable	(2,225)	1,539
Prepaid expenses and other assets	(1,851)	(743)
Accounts payable and accrued liabilities	789	3,676
Accrued compensation and employee benefits	1,127	1,589
Non-current liabilities	1,730	—
Deferred revenues	118,540	56,078
Net cash provided by operating activities	76,711	28,021
Investing Activities:		
Purchases of marketable securities	(451,239)	(229,595)
Maturities of marketable securities	230,547	127,093
Purchases of property and equipment	(15,028)	(2,873)
Other investment	(5,221)	—
Net cash used in investing activities	(240,941)	(105,375)
Financing Activities:		
Proceeds from public offering of common stock, net of issuance costs	215,757	81,573
Taxes paid related to net share settlement of equity awards	(83)	—
Proceeds from issuance of common stock	14,469	3,614
Net cash provided by financing activities	230,143	85,187
Net increase in cash, cash equivalents, and restricted cash	65,913	7,833
Cash, cash equivalents, and restricted cash, beginning of period	53,326	22,061
Cash, cash equivalents, and restricted cash, end of period	$119,239	$29,894
Supplemental disclosure of noncash investing activities:		
Property and equipment included in accrued liabilities	$5,813	$50

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Unaudited)

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

Overview

Sangamo Therapeutics, Inc. was incorporated in the state of Delaware in 1995 and changed its name from Sangamo Biosciences, Inc. in January 2017 (“Sangamo” or the “Company”). Sangamo is focused on the research, development and commercialization of novel genomic therapies for unmet medical needs. Sangamo’s genome editing and gene regulation technology platform is enabled by the engineering of a class of transcription factors known as zinc finger DNA-binding proteins (“ZFPs”).

Sangamo is currently working on a number of long-term development projects that involve experimental technology. The projects may require several years and substantial expenditures to complete and ultimately may be unsuccessful. The Company plans to finance operations with available cash resources, collaborations and strategic partnerships, research grants and from the issuance of equity or debt securities. Sangamo believes that its available cash, cash equivalents, marketable securities and interest receivable as of September 30, 2018, along with expected revenues from collaborations, strategic partnerships and research grants, will be adequate to fund its operations at least through the next twelve months. Sangamo will need to raise substantial additional capital to fund the development, manufacturing and potential commercialization of its product candidates. Additional capital may not be available on terms acceptable to the Company, if at all. If adequate funds are not available, or if the terms of potential funding sources are unfavorable, the Company’s business and ability to develop its technology and product candidates could be harmed. Furthermore, any sales of additional equity securities may result in dilution to the Company’s stockholders, and any debt financing may include covenants that restrict the Company’s business.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The condensed consolidated balance sheet data at December 31, 2017 were derived from the audited consolidated financial statements included in Sangamo’s Annual Report on Form 10-K for the year ended December 31, 2017, (the “2017 Annual Report”), 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, 2017, included in the 2017 Annual Report.

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, 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.

Cash and Cash Equivalents

Sangamo considers all highly-liquid investments purchased with original maturities of three months or less at the purchase date to be cash equivalents. Cash and cash equivalents consist of cash and deposits in money market investment accounts.

Marketable Securities

Sangamo classifies its marketable securities as available-for-sale which are recorded at estimated fair value based on quoted market prices or observable market inputs of almost identical assets. Unrealized holding gains and losses are included in accumulated other comprehensive income.

The Company’s investments are subject to a periodic impairment review. 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. Realized gains and losses on available-for-sale securities are included in other income, which is determined using the specific identification method.

Fair Value Measurements

The carrying amounts for financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Marketable securities and liabilities are stated at their estimated fair values. The counterparties to the agreements relating to the Company's investment securities consist of the US Treasury, governmental agencies and various major corporations and financial institutions with investment-grade high credit ratings.

Revenue Recognition

Effective January 1, 2018, the Company adopted the provisions of Accounting Standards Codification ("ASC"), Topic 606, Revenue from Contracts with Customers ("Topic 606") resulting in a change to its accounting policy for revenue recognition. Topic 606 establishes a unified model to determine how revenue is recognized.

The Company's contract revenues consist of strategic partnering collaboration agreements and research activity grants and licensing. Research and licensing agreements typically include upfront signing or license fees, cost reimbursements, research services, minimum sublicense fees, milestone payments and royalties on future licensee's product sales. The Company has both fixed and variable consideration. Non-refundable upfront fees and funding of research and development activities are considered fixed, while milestone payments are identified as variable consideration. 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. Revenues under grant agreements are recognized when the related qualified research expenses are incurred. Deferred revenue represents the portion of research or license payments received but not earned.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. The Company's performance obligations include license rights, development services, and services associated with regulatory submission and approval processes. Significant management judgment is required to determine the level of effort required under an arrangement and the period over which the Company expects to complete its performance obligations under the arrangement. If the Company cannot reasonably estimate when its performance obligations either are completed or become inconsequential, then revenue recognition is deferred until the Company can reasonably make such estimates. The Company includes the unconstrained amount of estimated variable consideration in the transaction price. The amount included in the transaction price is constrained to the amount for which it is probable that a significant reversal of cumulative revenue recognized will not occur. At the end of each subsequent reporting period, the Company re-evaluates the estimated variable consideration included in the transaction price and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method. The estimated period of performance and project costs are reviewed quarterly and adjusted, as needed, to reflect the Company’s current assumptions regarding the timing of its deliverables.

As part of the accounting for these arrangements, the Company must develop assumptions that require judgment to determine the stand-alone selling price of each performance obligation identified in the contract. The Company uses key assumptions to determine the stand-alone selling price, which may include forecasted revenues, development timelines, reimbursement rates for personnel costs, discount rates and probabilities of technical and regulatory success.

During the nine months ended September 30, 2018, revenues related to the hemophilia A collaboration agreement with Pfizer Inc. (“Pfizer”) and Kite Pharma, Inc. (“Kite”), a wholly-owned subsidiary of Gilead Sciences, Inc., represented 46% and 29%, respectively, of the Company’s total revenue. During the nine months ended September 30, 2017, revenues related to the Company’s hemophilia A collaboration agreement with Pfizer and the hemoglobinopathies agreement with Bioverativ, a Sanofi company (“Bioverativ”) represented 44% and 39%, respectively, of total revenue. Receivables from collaborations are typically unsecured and are concentrated in the biopharmaceutical industry. Accordingly, the Company may be exposed to credit risk generally associated with biopharmaceutical companies or specific to its collaboration agreements. To date, the Company has not experienced any losses related to these receivables.

Funds received from third parties under contract or grant arrangements are recorded as revenue if the Company is deemed to be the principal participant in the arrangements because the activities under the contracts or grants are part of the Company’s development programs. Contract funds received are not refundable and are recognized when the related qualified research and development costs are incurred and there is reasonable assurance that the funds will be received. Funds received in advance are recorded as deferred revenue.

Recent Accounting Pronouncements

Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606"). 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 Topic 606 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. Topic 606 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). The Company implemented this standard under the modified retrospective method. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Under Topic 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 Topic 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. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The Company adopted Topic 606 effective January 1, 2018, using the modified retrospective method with a cumulative effect adjustment of $1.1 million reflected as a decrease to the opening balance of accumulated deficit and a decrease to deferred revenues, respectively.

Refer below for a summary of the amount by which each financial statement line item was affected by the impact of the cumulative adjustment and as compared with the guidance that was in effect prior to the adoption:

	Impact of Topic 606 Adoption on Condensed Consolidated Balance Sheet as of January 1, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Deferred revenue, current portion	$29,626	$ 1,281	$28,345
Deferred revenue, noncurrent portion	$26,846	$ (2,398)	$29,244
Accumulated deficit	$(494,362)	$ 1,117	$(495,479)

	Impact of Topic 606 Adoption on Condensed Consolidated Balance Sheet as of September 30, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Deferred revenue, current portion	$51,094	$ 12,741	$63,835
Deferred revenue, noncurrent portion	$123,917	$ (3,130)	$120,787
Accumulated deficit	$(544,032)	$ (9,611)	$(553,643)

	Impact of Topic 606 Adoption on Condensed Consolidated Statement of Operations and Comprehensive Loss for the Three Months Ended September 30, 2018			Impact of Topic 606 Adoption on Condensed Consolidated Statement of Operations and Comprehensive Loss for the Nine Months Ended September 30, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Collaboration revenue	$23,538	$ (4,461)	$19,077	$57,378	$ (8,495)	$48,883
Net loss	$(12,843)	$ (4,461)	$(17,304)	$(49,670)	$ (8,495)	$(58,165)
Net loss per share - basic and diluted:	$(0.13)	$ (0.04)	$(0.17)	$(0.52)	$ (0.09)	$(0.61)

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	Impact of Topic 606 Adoption on Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Net loss	$(49,670)	$ (8,495)	$(58,165)
Changes in deferred revenue	$118,540	$ 8,495	$127,035

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows ("Topic 230"). The Company adopted Topic 230 in the beginning of fiscal 2018, which requires the statement of cash flows to explain the change during the period relating to total cash, cash equivalents, and restricted cash. The Company adopted this standard using the retrospective transition method by restating its condensed consolidated statements of cash flows to include restricted cash of $3.5 million as of January 1, 2018 and $79.9 million in the ending cash, cash equivalents, and restricted cash balances for the nine months ended September 30, 2018. The restricted cash balance as of September 30, 2018 includes the letter of credit for $3.5 million established as a deposit for the Brisbane build-to-suit lease and $76.4 million to acquire the equity of TxCell S.A., a French société anonyme ("TxCell"). Net cash flows for the nine months ended September 30, 2017, changed as a result of including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts presented on the statements of cash flows. Restricted cash was included in other current and other non-current assets on the Company's condensed consolidated balance sheets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the statement of financial position that sum to the total of the same amounts in the statement of cash flows:

	As of September 30,	
(in thousands)	2018	2017
Cash and cash equivalents	$39,298	$29,894
Restricted cash included in other non-current assets	79,941	—
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$119,239	$29,894

In August 2018, the SEC adopted amendments to certain disclosure requirements in Securities Act Release No. 33-10532, Disclosure Update and Simplification. These amendments eliminate, modify, or integrate into other SEC requirements certain disclosure rules. Among the amendments is the requirement to present an analysis of changes in stockholders' equity in the interim financial statements included in quarterly reports on Form 10-Q. The analysis, which can be presented as a footnote or separate statement, is required for the current and comparative quarter and year-to-date interim periods. The amendments are effective for all filings made on or after November 5, 2018. In light of the anticipated timing of effectiveness of the amendments and expected proximity of effectiveness to the filing date for most filers' quarterly reports, the SEC's Division of Corporate Finance issued a Compliance and Disclosure Interpretation related to Exchange Act Forms, or CDI – Question 105.09, that provides transition guidance related to this disclosure requirement. CDI – Question 105.09 states that the SEC would not object if the filer's first presentation of the changes in shareholders' equity is included in its Form 10-Q for the quarter that begins after the effective date of the amendments. As such, the Company adopted these SEC amendments on November 5, 2018 and will present the analysis of changes in stockholders' equity in its interim financial statements in its March 31, 2019 Form 10-Q. The Company does not anticipate that the adoption of these SEC amendments will have a material effect on the Company's financial position, results of operations, cash flows or shareholders' equity.

Not yet adopted

In February 2016 the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize almost all leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. The guidance will become effective for the Company beginning in the first quarter of 2019 with early adoption permitted and will be adopted using a modified retrospective approach. The Company expects to adopt the new standard on January 1, 2019 and use the effective date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The Company expects that this standard will have a material effect on the financial statements. While the Company continues to assess the various impacts of adoption, the most significant effects will primarily relate to (1) the recognition of a right-of-use assets and lease liabilities on the balance sheet for the Company's existing operating leases; (2) the derecognition of existing assets and liabilities for sale-leaseback transactions arising from build-to-suit lease arrangements for which construction is complete and we are leasing the constructed asset that currently do not qualify for sale accounting; (3) the derecognition of existing assets and liabilities for certain assets under construction in build-to-suit lease arrangements that the Company will lease when construction is complete; and (4) providing significant new disclosures about leasing activities.

NOTE 2—FAIR VALUE MEASUREMENT

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, and available-for-sale marketable securities. The fair values of these assets were 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; and

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).

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

	September 30, 2018 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$18	$ 18	$—	$ —
Total	18	18	—	—
Marketable securities:				
Commercial paper securities	317,119	—	317,119	—
Corporate debt securities	83,579	—	83,579	—
U.S. government-sponsored entity debt securities	18,574	—		