Global Blood Therapeutics, Inc.
Form 10-Q
November 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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: 001-37539

Global Blood Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-4825712**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

171 Oyster Point Boulevard, Suite 300

South San Francisco, CA 94080

(Address of principal executive offices)

(650) 741-7700

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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.

As of November 1, 2018, there were 52,232,448 shares of the registrant s Common Stock, par value $0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 194,891	$ 198,332
Short-term marketable securities	188,337	116,493
Prepaid expenses and other current assets	8,951	9,487
Total current assets	392,179	324,312
Property and equipment, net	16,749	16,571
Long-term marketable securities	98,869	14,607
Restricted cash	2,395	1,046
Other assets, noncurrent	219	184
Total assets	$ 510,411	$ 356,720
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 4,960	$ 7,177
Accrued liabilities	13,844	10,135
Accrued compensation	7,179	8,579
Other liabilities, current	944	373
Total current liabilities	26,927	26,264
Other liabilities, noncurrent	11,283	11,652
Total liabilities	38,210	37,916
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized as of September 30, 2018 and December 31, 2017; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized as of September 30, 2018 (unaudited) and December 31, 2017, respectively; 52,120,387 and 46,131,723 shares issued and	52	46

outstanding as of September 30, 2018 (unaudited) and December 31, 2017, respectively				
Additional paid-in capital		895,478		617,051
Accumulated other comprehensive loss		(381)		(336)
Accumulated deficit		(422,948)		(297,957)
Total stockholders equity		472,201		318,804
Total liabilities and stockholders equity	$	510,411	$	356,720

See accompanying notes to unaudited condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	$ 33,026	$ 20,952	$ 94,543	$ 56,513
General and administrative	12,450	8,228	36,115	20,817
Total operating expenses	45,476	29,180	130,658	77,330
Loss from operations	(45,476)	(29,180)	(130,658)	(77,330)
Other income (expense):				
Interest income, net	2,480	727	5,768	1,856
Other expenses, net	(72)	(104)	(101)	(298)
Total other income, net	2,408	623	5,667	1,558
Net loss	(43,068)	(28,557)	(124,991)	(75,772)
Other comprehensive loss:				
Net unrealized gain (loss) on marketable securities, net of tax	(139)	71	(45)	(31)
Comprehensive loss	$ (43,207)	$ (28,486)	$ (125,036)	$ (75,803)
Basic and diluted net loss per common share	$ (0.83)	$ (0.66)	$ (2.47)	$ (1.81)
Weighted-average number of shares used in computing basic and diluted net loss per common share	52,050,232	43,259,145	50,536,860	41,832,273

See accompanying notes to unaudited condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (124,991)	$ (75,772)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,509	1,008
Amortization (accretion) of premium (discount) on marketable securities	(226)	561
Stock-based compensation	22,552	8,941
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(4,496)	(2,873)
Accounts payable	(2,131)	(939)
Accrued liabilities	5,882	900
Accrued compensation	(1,400)	554
Other liabilities	499	(45)
Net cash used in operating activities	(101,802)	(67,665)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,946)	(1,773)
Purchase of marketable securities	(259,631)	(127,721)
Maturities of marketable securities	108,707	52,109
Net cash used in investing activities	(155,870)	(77,385)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock in public offering, net	255,119	135,625
Proceeds from issuance of common stock in settlement of employee stock purchase plan and exercise of stock options	6,722	3,066
Repurchases of unvested restricted stock	(8)	(421)
Tax paid related to net shares settlement of equity awards	(6,253)	(237)
Net cash provided by financing activities	255,580	138,033
Net decrease in cash, cash equivalents and restricted cash	(2,092)	(7,017)
Cash, cash equivalents and restricted cash at beginning of period	199,378	92,212
Cash, cash equivalents and restricted cash at end of period	$ 197,286	$ 85,195

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Accrued purchase of property and equipment	$ (2,173)	$ 98
Leasehold improvements paid for by landlord	$	$ 9,885

See accompanying notes to unaudited condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Global Blood Therapeutics, Inc. (the Company , we , us , and our) was incorporated in Delaware in February 2011 an commenced operations in May 2012. We are a clinical-stage biopharmaceutical company determined to discover, develop and deliver innovative treatments that provide hope to underserved patient communities. Our primary activities have been establishing our facilities, recruiting personnel, conducting development of our product candidates, including clinical trials, and raising capital. Our principal operations are based in South San Francisco, California, and we operate in one segment.

Follow-on Offerings

In December 2017, we completed a follow-on offering and issued 2,631,579 shares of common stock at a price of $38.00 per share with proceeds of $96.4 million net of underwriting costs and commissions, and offering expenses. In addition, in January 2018, we sold an additional 394,736 shares of our common stock directly to the underwriters when they exercised their over-allotment option at the price of $38.00 per share for proceeds of $14.6 million net of underwriting costs and commissions.

In March 2018, we completed a follow-on offering and issued an aggregate of 4,600,000 shares of our common stock at a price of $54.00 per share, including 600,000 shares of our common stock sold directly to the underwriters when they exercised their over-allotment option at the price of $54.00 per share. We received total proceeds of $240.6 million from the offering, net of underwriting discounts and commissions, and offering expenses.

Need for Additional Capital

In the course of our development activities, we have sustained operating losses and we expect such losses to continue over the next several years. Our ultimate success depends on the outcome of our research and development activities. Since inception through September 30, 2018, we have incurred cumulative net losses of $422.9 million. We expect to incur additional losses in the future to conduct product research and development and we recognize the need to raise additional capital to fully implement our business plan. We intend to raise such capital through the issuance of additional equity, and potentially through borrowings, and strategic alliances with partner companies. However, if such financing is not available at adequate levels, we will need to re-evaluate our operating plans. We believe that our existing cash and cash equivalents and marketable securities will be sufficient to fund our cash requirements for at least twelve months subsequent to the issuance of these financial statements.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2017 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for

complete financial statements. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other interim period or for any other future year.

The accompanying unaudited interim condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K, filed with the SEC on February 27, 2018.

Use of Estimates

The preparation of the accompanying unaudited interim condensed consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of costs and expenses during the reporting period. We base our estimates and assumptions on historical experience when available and on various factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results could differ from these estimates under different assumptions or conditions.

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Principles of Consolidation

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

Significant Accounting Policies

There have been no material revisions in our significant accounting policies described in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The new standard provides guidance on eight specific cash flow classification issues. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We adopted ASU No. 2016-15 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*. The new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We adopted ASU No. 2016-18 in the first quarter of 2018 using a retrospective transition method to each period presented. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation Stock Compensation (Topic 718)*, which is intended to clarify and reduce the diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation Stock Compensation, to a change to the terms or conditions of a share-based payment award. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted ASU No. 2017-09 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-04, *Investments Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273.* The amendment of ASU No. 2018-04 adds, amends and supersedes various paragraphs that contain SEC guidance in ASC 320, *Investments-Debt Securities* and ASC 980, *Regulated Operations*. The amendments in this update were effective upon issuance in March 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendment of ASU No. 2018-05 adds various paragraphs that contain SEC guidance in ASC 740, *Income Taxes* and SEC Staff Accounting Bulletin No. 118. The amendments in this update were effective upon issuance in March 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*, which is intended to improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting. Under the new standard, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when conditions necessary to earn the right to benefit from the instruments have been satisfied. These equity-classified non-employee share-based payment awards are measured at the grant date. Consistent with the accounting for employee share-based payment awards, an entity considers the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions. The new standard also eliminates the requirement to reassess classification of such awards upon vesting. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity s adoption date of Topic 606. We early adopted ASU No. 2018-07 effective January 1, 2018. The early adoption of this new standard did not have a material impact on our consolidated financial statements.

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Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (or ASU 2016-02). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. During 2018, the FASB issued ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU No. 2018-11, *Leases (Topic 842) Targeted Improvements*, which provided an entity the modified retrospective transition approach to initially account for the impact of the adoption with a cumulative adjustment to accumulated deficit on the effective date of the ASU 2016-02, January 1, 2019 rather than January 1, 2017, which would eliminate the need to restate amounts presented prior to January 1, 2019. We plan to adopt the standard on January 1, 2019 and to elect the modified retrospective transition method for adoption as described above. The new standard also provides a number of optional practical expedients that allow entities to not (i) reassess whether any expired or existing contracts are considered or contain leases; (ii) reassess the lease classification for any expired or existing leases; and (iii) reassess initial direct costs for any existing leases. We plan to elect the use of practical expedients. We expect that this standard will have a material effect on our consolidated financial statements. While we continue to evaluate the provisions of ASC 842 to determine the impact the adoption will have on our consolidated financial statements, we currently believe the most significant effects relate to the recognition of new right-of-use assets and lease liabilities on our consolidated balance sheet. We do not expect a significant change in our leasing activities between now and adoption.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendment of ASU No. 2018-02 states an entity may elect to reclassify the income tax effects of the Tax Cuts and Jobs Act of 2017 (the Tax Cuts and Jobs Act) on items within accumulated other comprehensive income to retained earnings. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. We believe that the adoption of this new standard will have no material impact on our consolidated financial position or results of operations and have not elected to early adopt the amendment.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. The new standard modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including removals of, modification to, and additional disclosure requirements from Topic 820. The amendment of ASU No. 2018-13 removes disclosure requirements from Topic 820 in the areas of (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Except for certain amendments related to Level 3 fair value measurements, all the other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of the ASU No. 2018-13. We believe that the adoption of this new standard will have no material impact on our consolidated financial position or results of operations and have not elected to early adopt the amendment.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40), Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*

That Is a Service Contract (or ASU 2018-15). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. Accordingly, the amendment of ASU No. 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendment in ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation cost of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendment in ASU 2018-15 further requires the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payment for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in this update are effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period for all entities. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We believe that the adoption of this new standard will have no material impact on our consolidated financial position or results of operations and have not elected to early adopt the amendment.

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3. Fair Value Measurements

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). Our financial instruments consist of cash and cash equivalents, marketable securities, other receivables as included in prepaid expenses and other current assets, restricted cash, accounts payable and accrued liabilities. Cash and cash equivalents, marketable securities and restricted cash are reported at their respective fair values on our condensed consolidated balance sheets. The remaining financial instruments are reported on our condensed consolidated balance sheets at cost that approximate current fair values due to their relatively short maturities.

Assets and liabilities recorded at fair value on a recurring basis in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3 Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The following table summarizes our financial assets measured at fair value on a recurring basis (in thousands):

	September 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Money market funds	$ 187,825	$ 187,825	$	$
Corporate debt securities	81,082		81,082	
U.S. government agency securities	88,368		88,368	
Certificates of deposits	5,215		5,215	
U.S. government securities	114,259		114,259	
Total financial assets	$ 476,749	$ 187,825	$ 288,924	$

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				

Money market funds	$ 134,744	$ 134,744	$	$
Corporate debt securities	46,977		46,977	
U.S. government agency securities	54,989		54,989	
Certificates of deposits	9,129		9,129	
U.S. government securities	20,007		20,007	
Total financial assets	$ 265,846	$ 134,744	$ 131,102	$

We estimate the fair values of our investments in corporate debt securities, government and government related securities and certificates of deposits by taking into consideration valuations obtained from third-party pricing services. The fair value of our marketable securities classified within Level 2 is based upon observable inputs that may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. At September 30, 2018 and December 31, 2017, the weighted average remaining contractual maturities of our Level 2 investments was less than one year and all of these investments are rated A-1/P-1/F1 or A/A2, or higher by Moody s, S&P and Fitch. There were no transfers between Level 1 and Level 2 during the periods presented.

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4. Available-for-Sale Securities

Estimated fair values of available-for-sale securities are generally based on prices obtained from commercial pricing services. The following table is a summary of available-for-sale securities recorded in cash and cash equivalents, restricted cash, or marketable securities in our condensed consolidated balance sheets (in thousands):

	September 30, 2018				December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Financial Assets:								
Money market funds	$ 187,825	$	$	$ 187,825	$ 134,744	$	$	$ 134,744
Corporate debt securities	81,213		(131)	81,082	47,108		(131)	46,977
U.S. government agency securities	88,495		(127)	88,368	55,170		(181)	54,989
Certificates of deposits	5,216	1	(2)	5,215	9,142		(13)	9,129
U.S. government securities	114,381		(122)	114,259	20,018		(11)	20,007
Total	$ 477,130	$ 1	$ (382)	$ 476,749	$ 266,182	$	$ (336)	$ 265,846

The following table summarizes the classification of the available-for-sale securities on our condensed consolidated balance sheets (in thousands):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 189,543	$ 134,746
Short-term marketable securities	188,337	116,493
Long-term marketable securities	98,869	14,607
Total	$ 476,749	$ 265,846

We do not intend to sell the investments that are in an unrealized loss position, and it is unlikely that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity. We have determined that the gross unrealized losses on our marketable securities were temporary in nature during the periods presented.

5. Balance Sheet Components

Property and Equipment

Property and equipment consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Laboratory equipment	$ 6,766	$ 5,715
Computer equipment	1,630	1,594
Leasehold improvements	13,730	12,642
Construction-in-progress	932	419
Total property and equipment	23,058	20,370
Less: accumulated depreciation and amortization	(6,309)	(3,799)
Property and equipment, net	$ 16,749	$ 16,571

Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Accrued clinical and manufacturing expenses	$ 13,024	$ 8,035
Accrued professional and consulting services	652	1,007
Other	168	1,093
Total accrued liabilities	$ 13,844	$ 10,135

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Other liabilities, current and noncurrent

Other liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Restricted shares subject to repurchase, current	$ 237	$ 373
Deferred rent, current	677	
Other payable	30	
Total other liabilities, current	$ 944	$ 373
Restricted shares subject to repurchase, noncurrent	$	$ 161
Deferred rent, noncurrent	11,223	11,491
Other liabilities, noncurrent	60	
Total other liabilities, noncurrent	$ 11,283	$ 11,652

6. Stock Based Compensation

We have three stock-based compensation plans the Amended and Restated 2017 Inducement Equity Plan (the 2017 Inducement Plan), the 2015 Stock Option and Incentive Plan (the 2015 Plan) and the 2012 Stock Option and Grant Plan (the 2012 Plan). As of September 30, 2018, there were 646,600 shares reserved under the 2017 Inducement Plan and 2,543,178 shares reserved under the 2015 Plan for the future issuance of equity awards. Upon adoption of the 2015 Plan in July 2015, no new awards or grants are permitted under the 2012 Plan. See Note 7 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information related to these stock-based compensation plans.

Stock Options

The following summarizes option activity under the 2017 Inducement Plan, 2015 Plan and 2012 Plan:

	Number of Options	Weighted-Average Exercise Price
Outstanding December 31, 2017	2,945,901	$ 17.50
Options granted	928,958	55.74
Options exercised	(527,278)	9.63
Options canceled	(147,052)	33.74
Outstanding September 30, 2018	3,200,529	$ 29.15

The fair values of stock options granted to employees were calculated using the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Expected term (in years)	6.1	6.0-6.1	5.3-6.1	5.3-6.1
Volatility	69.7%-70.3%	72.0%-73.1%	68.7%-70.8%	70.9%-75.6%
Risk-free interest rate	2.8%-2.9%	1.9%-2.1%	2.6%-2.9%	1.8%-2.3%
Dividend yield				

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Restricted Stock Units

The following table summarizes activity of RSUs granted to employees with service-based vesting under the 2017 Inducement Plan and 2015 Plan and related information:

		Number of RSUs	Weighted-Average Grant Date Fair Value
Non-vested units	December 31, 2017	467,463	$ 24.93
RSUs granted		529,985	57.68
RSUs vested		(162,301)	34.36
RSUs forfeited		(68,153)	41.12
Non-vested units	September 30, 2018	766,994	$ 43.98

Market-Condition Awards Granted to Employees

On August 11, 2017, our Board of Directors approved awards of up to an aggregate of 365,250 RSUs to certain of our senior management team under the 2015 Plan, the vesting of which are contingent upon a combination of continued employment and achieving certain market capitalization milestones. The market-condition awards do not vest until the achievement of their respective market capitalization milestones, which must occur on or before December 31, 2019. The grant date fair value of these market-condition awards was estimated using a Monte Carlo simulation model. The derived service periods, which are the estimated periods of time that would be required to satisfy the market conditions, are also determined at the grant date. We record expense on a straight-line basis over the applicable derived service periods.

During the nine-month period ended September 30, 2018, certain market capitalization milestones were achieved, resulting in vesting of related market-condition RSUs. For the nine-month period ended September 30, 2018, we recognized $2.9 million in stock-based compensation expense related to the market-condition awards (allocated as $0.2 million for research and development expense and $2.7 million for general and administrative expense). The following table summarizes activity of the market-condition awards under the 2015 Plan and related information:

	Number of units	Weighted-Average Grant Date Fair Value
Non-vested market-condition awards December 31, 2017	353,250	$ 15.15
Granted		
Vested	(188,400)	18.22
Forfeited	(5,600)	11.64
	159,250	$ 11.64

Non-vested market-condition awards September 30, 2018

Employee Stock Purchase Plan

In July 2015, we adopted the 2015 Employee Stock Purchase Plan (the 2015 ESPP). Under the 2015 ESPP our employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market value of the stock at the beginning of the offering period or at the end of each applicable purchase period. As approved by the Compensation Committee of the Board of Directors in December 2017, the 2015 ESPP provides for offering periods of two years in duration with purchase periods occurring every six months during an offering period. Contributions under the 2015 ESPP are limited to a maximum of 15% of an employee s eligible compensation. ESPP purchases are settled with common stock from the ESPP s previously authorized and available pool of shares.

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The fair values of the rights granted under the 2015 ESPP were calculated using the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Expected term (in years)	0.5 2.0	0.5	0.5 2.0	0.5
Volatility	59.2%-65.4%	60.1%-63.5%	59.2%-66.8%	60.1%-63.5%
Risk-free interest rate	1.6%-2.7%	0.7%-1.2%	1.6%-2.7%	0.7%-1.2%
Dividend yield				

Stock-Based Compensation Expense

Total stock-based compensation recognized by function was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	$ 2,835	$ 1,564	$ 9,587	$ 4,077
General and administrative	4,133	2,143	12,965	4,864
Total stock-based compensation expense	$ 6,968	$ 3,707	$ 22,552	$ 8,941

7. Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Since we were in a loss position for all periods presented, diluted net loss per share is the same as basic net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following securities were not included in the diluted net loss per share calculations because their effect was anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options to purchase common stock	3,200,529	2,889,431	3,200,529	2,889,431
Restricted stock subject to future vesting	71,246	315,542	71,246	315,542
Restricted stock units	926,244	769,783	926,244	769,783
Total	4,198,019	3,974,756	4,198,019	3,974,756

8. Commitments and Contingencies

Facilities

In March 2017, we entered into a noncancelable operating lease (the Lease) for approximately 67,185 square feet of space in South San Francisco, California (the Existing Premises). The date on which we became responsible for paying rent under the Lease was December 15, 2017 (the Rent Commencement Date). The Lease expires 10 years after the Rent Commencement Date. The Lease grants us an option to extend the Lease for an additional 10-year period. Future minimum rental payments under the Lease during the 10-year term are $48.3 million in the aggregate. The Lease further provides that we are obligated to pay to the landlord certain costs, including taxes and operating expenses. The Lease term commenced in November 2017 as we gained control over physical access to the Existing Premises. We have acquired $11.1 million of leasehold improvements at our Existing Premises with the tenant inducement allowance provided under the Lease. We are required to repay $1.7 million of the tenant inducement allowance to the landlord in the form of additional monthly rent with interest applied over the term of the Lease.

In August 2018, we entered into an amendment to the Lease (the Lease Amendment) to relocate the leased premises from the Existing Premises to a to-be-constructed-building consisting of approximately 164,150 rentable square feet of space (the Substitute Premises) when the Substitute Premises are ready for occupancy (the Substitute Premises Commencement Date). The Lease Amendment has a contractual term (the Substitute Premises Term) of 10 years from the Substitute Premises Commencement Date. The Lease Amendment grants us an option to extend the Lease for an additional 10-year period. Future minimum rental payments under the Lease Amendment during the 10-year term are $121.5 million in the aggregate. Under the Lease Amendment, we are obligated to pay to the landlord certain costs, including taxes and operating expenses. The Lease Amendment also provides a tenant inducement allowance of up to $27.9 million, of which $4.1 million, if utilized, would be repaid to the landlord in the form of additional monthly rent with interest applied.

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In March 2017, we provided a standby letter of credit of $0.9 million as security for our obligations under the Lease on our Existing Premises. The security deposit was increased to $2.4 million under the Lease Amendment. This standby letter of credit is classified as restricted cash.

We intend to vacate the Existing Premises and surrender and deliver the Existing Premises to landlord on or before the date which is sixty days after the Substitute Premises Commencement Date, upon which time we will have no further obligations with respect to the Existing Premises. Upon signing of the Lease Amendment, we re-evaluated the remaining useful life of the leasehold improvements at our Existing Premises and started to amortize the leasehold improvements over the remaining period of expected use, resulting in an acceleration of depreciation expenses which was insignificant during the period ended September 30, 2018.

Future annual minimum lease payments due under the Lease and Lease Amendment at December 31 of each year are as follows (in thousands):

Year ending December 31,	Amount[1]
2018 (three months)	$ 1,076
2019	4,406
2020	6,513
2021	11,642
2022	12,020
Thereafter	102,776
Total	$ 138,433

(1) *The table above is prepared under the assumption that the Substitute Premises Commencement at the Substitute Premises starts on June 30, 2020.*

Rent expense for the three months ended September 30, 2018 and 2017 was $0.9 million and $0.4 million, respectively, and for the nine months ended September 30, 2018 and 2017 was $2.7 million and $1.1 million, respectively. The operating leases require us to share in prorated operating expenses and property taxes based upon actual amounts incurred; those amounts are not fixed for future periods and, therefore, are not included in the future commitments listed above.

Contingencies

In the ordinary course of business, we may be subject to legal claims and regulatory actions that could have a material adverse effect on our business or financial position. We assess our potential liability in such situations by analyzing potential outcomes, assuming various litigation, regulatory and settlement strategies. If we determine a loss is probable and its amount can be reasonably estimated, we accrue an amount equal to the estimated loss.

No losses and no provision for a loss contingency have been recorded to date.

Contingent Payments

In August 2018, we entered into a license agreement (the License Agreement) with F. Hoffmann-La Roche Ltd. and Hoffmann-La Roche Inc. (together, Roche) pursuant to which Roche granted us an exclusive and sublicensable worldwide license under certain patent rights and know-how to develop and commercialize inclacumab for all indications and uses, except diagnostic use. Roche retained a non-exclusive, worldwide, perpetual, royalty-free license to inclacumab solely for any diagnostic use. As of September 30, 2018, we have paid Roche an upfront payment of $2.0 million. We are obligated to make contingent payments to Roche totaling approximately $125.5 million upon achievement of certain clinical development and regulatory milestones for inclacumab and commercial sales milestones if they occur before certain dates in the future. We are also obligated to make royalty payments to Roche based on tiered percentages ranging from low double-digit for the first annual net sales of inclacumab tier up to mid double-digit for annual net sales over $1.0 billion.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2018, or our Annual Report.

This discussion and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. In some cases you can identify forward-looking statements by terms such as may, will, expect, anticipate, estimate, intend, plan, predict, potential, believe, should and similar expressions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section of this Quarterly Report on Form 10-Q titled Risk Factors. We caution readers not to place undue reliance on any forward-looking statements made by us, which speak only as of the date they are made. Except as may be required by law, we assume no obligation to update these forward-looking statements or the reasons that results could differ from these forward-looking statements.

Overview

We are a clinical-stage biopharmaceutical company determined to discover, develop and deliver innovative treatments that provide hope to underserved patient communities. Our lead product candidate is voxelotor (previously known as GBT440), an oral, once-daily therapy that modulates hemoglobin s affinity for oxygen, which we believe inhibits hemoglobin polymerization in sickle cell disease, or SCD.

We are currently evaluating voxelotor in adult and adolescent patients with SCD in a Phase 3 clinical trial, which we call the HOPE Study. In June 2018, we completed a planned review of Part A of the HOPE Study. On the primary endpoint (the proportion of patients with greater than 1 g/dL increase in hemoglobin versus baseline), a statistically significant increase was demonstrated with voxelotor at both the 1500 mg and 900 mg doses after 12 weeks of treatment versus placebo. Based upon the primary endpoint results, we believe voxeletor meets the standard for potential accelerated approval under Subpart H, and we are in discussions with the FDA regarding the potential for such approval including design of required post-marketing confirmatory studies, but we cannot be assured that the FDA will agree with this approach. The FDA grants accelerated approval under Subpart H for new drugs that address serious or life-threatening illnesses and that provide meaningful therapeutic benefit to patients over existing treatments. Accelerated approval under Subpart H does not ensure faster development timelines or ensure regulatory approval. In addition, any drug approved under Subpart H, including voxelotor if it were approved, is required to be further evaluated in post-marketing studies to verify clinical benefit or on the basis of an effect on a clinical endpoint other than