BELLICUM PHARMACEUTICALS, INC
Form 10-Q
November 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016
OR
o 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: 001-36783

BELLICUM PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	2836	20-1450200
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2130 W. Holcombe Blvd., Ste. 800
Houston, TX 77030
(832) 384-1100
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of October 28, 2016, there were 27,105,698 outstanding shares of Bellicum's common stock, par value, $0.01 per share.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Bellicum Pharmaceuticals, Inc.
Balance Sheets
(In thousands, except share and par value amounts)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,694	$ 70,241
Investment securities, available for sale - short-term	56,613	23,820
Accounts receivable, interest and other receivables	305	440
Prepaid expenses and other current assets	1,975	2,389
Total current assets	107,587	96,890
Investment securities, available for sale - long-term	23,791	56,304
Property and equipment, net	11,064	6,882
Other assets	262	330
TOTAL ASSETS	$ 142,704	$ 160,406
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,618	$ 2,106
Accrued expenses and other current liabilities	6,796	5,080
Current portion of capital lease obligation	19	13
Current portion of deferred rent	246	246
Total current liabilities	8,679	7,445
Long-term liabilities:		
Long-term debt	20,076	—
Capital lease obligation	136	118
Deferred rent and other liabilities	726	826
TOTAL LIABILITIES	29,617	8,389
Commitments and contingencies: (Note: 9)		
Stockholders' equity:		
Preferred stock: $0.01 par value; 10,000,000 shares authorized: no shares issued and outstanding	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized at September 30, 2016 and December 31, 2015, 27,774,415 shares issued and 27,096,952 shares outstanding at September 30, 2016; 27,609,344 shares issued and 26,931,881 shares outstanding at December 31, 2015	278	276
Treasury stock: 677,463 shares held at September 30, 2016 and December 31, 2015	(5,056)	(5,056)
Additional paid-in capital	328,582	318,591
Accumulated other comprehensive income (loss)	78	(302)
Accumulated deficit	(210,795)	(161,492)
Total stockholders' equity	113,087	152,017
Total liabilities and stockholders' equity	$ 142,704	$ 160,406

See accompanying notes, which are an integral part of these unaudited financial statements.

Table of Contents

Pharmaceuticals, Inc.
Statements of Operations and Comprehensive Income (Loss)
(In thousands, except share and per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
REVENUES				
Grants	$114	$57	$307	$248
Total revenues	114	57	307	248
OPERATING EXPENSES				
Research and development	13,290	9,792	36,459	23,522
General and administrative	4,252	3,882	12,715	8,856
Total operating expenses	17,542	13,674	49,174	32,378
Loss from operations	(17,428)	(13,617)	(48,867)	(32,130)
OTHER INCOME (EXPENSE):				
Interest income	224	211	687	432
Interest expense	(515)	—	(1,123)	—
Other expense	—	(2)	—	(2)
Total other income (expense)	(291)	209	(436)	430
NET LOSS	$(17,719)	$(13,408)	$(49,303)	$(31,700)
Net loss per common share attributable to common shareholders, basic and diluted	$(0.66)	$(0.51)	$(1.83)	$(1.21)
Weighted-average shares outstanding, basic and diluted	26,966,630	26,376,456	26,919,984	26,301,914
Net loss	$(17,719)	$(13,408)	$(49,303)	$(31,700)
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities	(18)	—	380	(204)
Comprehensive loss	$(17,737)	$(13,408)	$(48,923)	$(31,904)

See accompanying notes, which are an integral part of these unaudited financial statements.

Table of Contents

Bellicum Pharmaceuticals, Inc.
Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(49,303)	$(31,700)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	9,243	5,938
Depreciation expense	1,619	769
Amortization of premium on investment securities, net	449	377
Amortization of lease liability	(100)	(54)
Amortization of deferred financing costs	275	—
Loss on disposition of investment securities	—	14
Loss on disposition of fixed assets	20	2
Changes in operating assets and liabilities:		
Receivables	135	(90)
Prepaid expenses and other assets	482	(681)
Accounts payable	(488)	325
Accrued liabilities and other	1,716	1,510
NET CASH USED IN OPERATING ACTIVITIES	(35,952)	(23,590)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(26,116)	(79,100)
Proceeds from sale of investment securities	25,767	7,743
Purchases of property and equipment	(5,787)	(4,597)
CASH USED IN INVESTING ACTIVITIES	(6,136)	(75,954)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	20,000	—
Payment of debt issuance costs	(199)	—
Proceeds from exercise of stock options	562	—
Proceeds from issuance of common stock - ESPP	188	442
Payment of issuance costs on common stock	—	(8)
Payment on capital lease obligation	(10)	(5)
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,541	429
NET CHANGE IN CASH AND CASH EQUIVALENTS	(21,547)	(99,115)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	70,241	191,602
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$48,694	$92,487
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$710	$—
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accrued issuance costs for long-term debt	$1,390	$—
Purchases of property and equipment in accounts payables and accrued liabilities	$1,066	$—
Capital lease obligation incurred for property and equipment	$34	$65

See accompanying notes, which are an integral part of these unaudited financial statements.

5

Bellicum Pharmaceuticals, Inc.

Notes to Unaudited Financial Statements

NOTE 1 - ORGANIZATION AND BUSINESS DESCRIPTION

Bellicum Pharmaceuticals, Inc., the Company or Bellicum, was incorporated in Delaware in July 2004 and is based in Houston, Texas. The Company is a clinical stage biopharmaceutical company focused on discovering and developing novel cellular immunotherapies for various forms of cancer, including both hematological cancers and solid tumors, as well as orphan inherited blood disorders. The Company is devoting substantially all of its present efforts to developing next-generation product candidates in some of the most important areas of cellular immunotherapy, including, hematopoietic stem cell transplantation, CAR T and TCR cell therapy. The Company has not generated any revenue from product sales to date and if the Company does not successfully commercialize any of the Company's product candidates, the Company will not be able to generate product revenue or achieve profitability. As of September 30, 2016, the Company had an accumulated deficit of $210.8 million.

The Company is subject to risks common to companies in the biotechnology industry and the future success of the Company is dependent on its ability to successfully complete the development of, and obtain regulatory approval for, its product candidates, manage the growth of the organization, obtain additional financing necessary in order to develop, launch and commercialize its product candidates, and compete successfully with other companies in its industry.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim financial statements are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow the requirements of the U.S. Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been omitted. In management’s opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary for the fair presentation of the Company’s financial position and its results of operations and its cash flows for the periods presented. All such adjustments are normal and recurring in nature. These statements do not include all disclosures required by GAAP and should be read in conjunction with the Company’s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2015 (the Annual Report). A copy of the Annual Report is available on the SEC’s website, www.sec.gov, under the Company’s ticker symbol “BLCM” or on Bellicum’s website, www.bellicum.com. The results for the interim periods are not necessarily indicative of the results expected for the full fiscal year or any other interim period. Any reference in these footnotes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

Use of Estimates

The preparation of the financial statements in accordance with GAAP requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, and expenses. Actual results could differ from those estimates.

Net Loss and Net Loss per Share of Common Stock Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period without consideration for common stock equivalents. The following outstanding shares of common stock equivalents were excluded from the computations of diluted net loss per share of common stock attributable to common stockholders for the periods presented, as the effect of including such securities would be anti-dilutive.

	As of September 30,	
	2016	2015
Common Stock Equivalents:	Number of shares	
Warrants to purchase common stock	—	355,392
Unvested shares of restricted stock	88,236	117,647
Options to purchase common stock	4,501,561	3,547,949
	4,589,797	4,020,988

6

Table of Contents

Investment Securities

Consistent with its investment policy, the Company invests its cash allocated to fund its short-term liquidity requirements with prominent financial institutions in bank depository accounts and institutional money market funds and the Company invests the remainder of its cash in corporate debt securities and municipal bonds rated at least A quality or equivalent, U.S. Treasury notes and bonds and U.S. and state government agency-backed securities.

The Company determines the appropriate classification of investment securities at the time of purchase and reevaluates its classification as of each balance sheet date. All investment securities owned during the nine months ended September 30, were classified as available-for-sale. The cost of securities sold is based on the specific identification method. Investment securities are recorded as of each balance sheet date at fair value, with unrealized gains and, to the extent deemed temporary, unrealized losses included in stockholders' equity. Interest and dividend income on investment securities, accretion of discounts and amortization of premiums and realized gains and losses are included in interest income in the Statements of Operations and Comprehensive Income (Loss).

An investment security is considered to be impaired when a decline in fair value below its cost basis is determined to be other than temporary. The Company evaluates whether a decline in fair value of an investment security is below its cost basis and is other than temporary using available evidence. In the event that the cost basis of the investment security exceeds its fair value, the Company evaluates, among other factors, the amount and duration of the period that the fair value is less than the cost basis, the financial health of and business outlook for the issuer, including industry and sector performance, and operational and financing cash flow factors, overall market conditions and trends, the Company's intent to sell the investment security and whether it is more likely than not that the Company would be required to sell the investment security before its anticipated recovery. If a decline in fair value is determined to be other than temporary, the Company records an impairment charge in the statement of comprehensive income (loss) and establishes a new cost basis in the investment.

Property and Equipment

Property and equipment consists of office furniture, laboratory equipment, computer equipment and software, equipment held under capital leases, and leasehold improvements. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the respective assets.

Office furniture	5 years
Laboratory equipment	5 years
Computer equipment and software	3 to 5 years
Equipment under capital lease	5 years
Leasehold improvements	Shorter of asset's useful life or remaining term of lease

Rent

The Company recognizes rent expense for leases with increasing annual rents on a straight-line basis over the term of the lease. The amount of rent expense in excess of cash payments is classified as accrued rent. Any lease incentives received are deferred and amortized over the term of the lease.

Debt Issuance Costs

Costs related to debt issuance are presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts.

Application of New Accounting Standards

Effective January 1, 2016, the Company adopted the accounting guidance in ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. See Note 5 to the unaudited financial statements included herein.

New Accounting Requirements and Disclosures

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The pronouncement will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases.

Table of Contents

This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation," which simplifies accounting for share-based compensation arrangements, primarily as it relates to accounting for the income tax effects of share-based compensation. Under the pronouncement, an entity can make an entity-wide accounting policy decision to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures as they occur. The pronouncement is effective for annual periods beginning after December 31, 2016, with earlier adoption permitted. The Company does not believe the adoption of this standard will have a material impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not believe the adoption of this standard will have a material impact on the Company's financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which provides guidance on the classification of certain cash receipts and payments in the statement of cash flows. The pronouncement is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Earlier application is permitted in any interim or annual period. The Company does not believe the adoption of this standard will have a material impact on the Company's financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENT SECURITIES

Fair Value Measurement

The Company follows ASC, Topic 820, Fair Value Measurements and Disclosures, or ASC 820, for application to financial assets. ASC 820 defines fair value, provides a consistent framework for measuring fair value under GAAP and requires fair value financial statement disclosures. ASC 820 applies only to the measurement and disclosure of financial assets that are required or permitted to be measured and reported at fair value under other ASC topics (except for standards that relate to share-based payments such as ASC Topic 718, Compensation – Stock Compensation).

The valuation techniques required by ASC 820 may be based on either observable or unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, and unobservable inputs reflect the Company's market assumptions.

These inputs are classified into the following hierarchy:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date;

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly; and

Level 3 Inputs – unobservable inputs for the assets.

The following tables present the Company's investment securities (including, if applicable, those classified on the Company's balance sheet as cash equivalents) that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, respectively:

Table of Contents

	Balance at September 30, 2016	Fair Value Measurements at Reporting Date Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Cash Equivalents:				
Money market funds	$40,440	$40,440	$ —	$ —
Total Cash Equivalents	$40,440	$40,440	$ —	$ —
Investment Securities:				
U.S. government agency-backed securities	$30,781	$—	$ 30,781	$ —
Corporate debt securities	46,624	—	46,624	—
Municipal bonds	2,999	—	2,999	—
Total Investment Securities	$80,404	$—	$ 80,404	$ —

	Balance at December 31, 2015	Fair Value Measurements at Reporting Date Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Cash Equivalents:				
Money market funds	$52,714	$52,714	$ —	$ —
U.S. government agency-backed securities	9,500	—	9,500	—
Total Cash Equivalents	$62,214	$52,714	$ 9,500	$ —
Investment Securities:				
U.S. government agency-backed securities	$22,388	$—	$ 22,388	$ —
Corporate debt securities	51,547	—	51,547	—
Municipal bonds	6,189	—	6,189	—
Total Investment Securities	$80,124	$—	$ 80,124	$ —

Corporate debt securities and municipal bonds are valued based on various observable inputs such as benchmark yields, reported trades, broker/dealer quotes, benchmark securities and bids.

Investment securities, all classified as available-for-sale, consisted of the following as of September 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Estimated Fair Value
	(in thousands)			
Investment Securities:				
U.S. government agency-backed securities	$30,755	$ 27	$ (1)	$ 30,781
Corporate debt securities	46,572	81	(29)	46,624

Municipal bonds	2,999	1	(1)	2,999
Total Investment Securities	$ 80,326	$ 109	$ (31)	$ 80,404

Table of Contents

The Company's investment securities as of September 30, 2016, will reach maturity between October 2016 and January 2019, with a weighted-average maturity date in July 2017.

Management believes that the carrying value of the debt facility approximates its fair value, as the Company's debt facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics. The fair value of the Company's debt facility is determined under Level 2 in the fair value hierarchy.

NOTE 4 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other liabilities consist of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Accrued manufacturing costs	$1,965	$ 2,412
Accrued payroll	1,338	1,332
Accrued property and equipment purchases	1,034	139
Accrued patient treatment costs	628	333
Accrued preclinical study costs	521	—
Accrued medical facility fees	159	282
Accrued other	1,151	582
Total accrued expenses and other current liabilities	$6,796	$ 5,080

NOTE 5 - DEBT

Term Loan

On March 10, 2016, (the Closing Date), the Company, entered into a Loan and Security Agreement (the Loan Agreement) with Hercules Capital, Inc. (Hercules), as agent and a lender, Hercules Technology II, L.P., as a lender and Hercules Technology III, L.P., as a lender, under which the Company borrowed $15.0 million on the Closing Date. On September 15, 2016, the Company, borrowed an additional $5.0 million under the Loan Agreement. Subject to the terms and conditions of the Loan Agreement, including approval by Hercules’ investment committee and the Company’s achievement of specified milestones in the Loan Agreement (the Milestones), the Company may borrow an additional $10.0 million through March 15, 2017. The Company intends to use the proceeds received under the Loan Agreement for funding the build-out of our manufacturing facilities and general corporate purposes.

The interest rate will be calculated at a rate equal to the greater of either (i) 9.35% plus the prime rate as reported in The Wall Street Journal minus 3.50%, and (ii) 9.35%. Payments under the Loan Agreement are interest only for 18 months from the Closing Date, extendable to 24 months upon the Company achieving the Milestones. The interest only period will be followed by equal monthly payments of principal and interest amortized over a 30 months schedule through the maturity date of March 1, 2020 (the “Loan Maturity Date”); provided that if the Milestones are achieved, the Company will make equal monthly payments of principal and interest amortized over a 24 months schedule through the Loan Maturity Date. The remaining principal balance will be due and payable on the Loan Maturity Date. In addition, upon the Loan Maturity date or such earlier date specified in the Loan Agreement, a final payment equal to $1,390,000 (the Final Facility Charge), plus, subject to and contingent on the funding of the additional $10.0 million loan advance, an additional facility charge of $695,000. The Company’s obligations under the Loan Agreement are secured by a security interest in substantially all of its assets, other than its intellectual property. If the Company prepays the loan, including interest, prior to December 31, 2016, there will be no prepayment penalty. If the Company prepays the loan, including interest, after January 1, 2017 but prior to the date that is 24 months following the Closing Date, it will pay Hercules a prepayment charge based on a prepayment fee equal to 2.00% of the amount prepaid; if the prepayment occurs thereafter, it will pay Hercules a prepayment charge based on a prepayment fee equal to 1.00% of the amount prepaid. The prepayment charge is also applicable upon the occurrence of a change of control of the Company. In addition to a prepayment charge, if any, the Company will pay Hercules the Final Facility Charge.

Table of Contents

The Loan Agreement includes customary affirmative and restrictive covenants, but does not include any financial maintenance covenants, and also includes standard events of default, including payment defaults. Upon the occurrence of an event of default, a default interest rate of an additional 5% may be applied to the outstanding loan balance and Hercules may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Loan Agreement.
The Company paid expenses related to the Loan Agreement of $199,000, which, along with the Final Facility Charge of $1,390,000, have been recorded as deferred financing costs, which offset long-term debt on the Company's balance sheet. Deferred financing costs of $1,589,000 will be amortized over the term of the loan, and will be included in interest expense. During the three and nine months ended September 30, 2016, interest expense included $125,000 and $275,000, respectively, of amortized deferred financing costs.

NOTE 6 - LEASES
Leases

On July 11, 2016, the Company entered into a First Amendment to Lease Agreement (the “Lease Amendment”) with Life Science Plaza Investment Group, LP, as successor-in-interest to Sheridan Hills Developments, L.P. (the “Original Landlord”) to amend the Lease Agreement, dated May 6, 2015, between the Company and the Original Landlord (the “Lease”). Pursuant to the Lease Amendment, the initial term of the Lease was extended to August 31, 2026 and the Company leased an aggregate of 3,328 additional square feet (the “Expansion Space”). For the Expansion Space, the Company is required to remit base monthly rent of approximately $5,800, which will increase at an average approximate rate of 5% per year.

On September 26, 2016, the Company entered into a Second Amendment to Lease Agreement (the “Second Amendment”) with Life Science Plaza Investment Group, LP. Pursuant to the Second Amendment, the Company leased an aggregate of 212 additional square feet of interior mechanical space on the 5th floor of the building, or the “Expansion Space”. For the Expansion Space, the Company is required to remit base monthly rent of approximately $385, which will increase at an average approximate rate of 5% per year to August 31, 2026.

Both lease amendments were evaluated for accounting treatment under ASC 840 - Leases, and determined to be operating leases.

NOTE 7 - SHARE-BASED COMPENSATION

At September 30, 2016, the Company had share-based awards outstanding under four share-based compensation plans as follows:

The 2006 Stock Option Plan (the 2006 Plan) provided for the issuance of non-qualified stock options to employees, including officers, non-employee directors and consultants to the Company. As of September 30, 2016, 146,210 shares of common stock were reserved for issuance pursuant to outstanding options previously granted under the 2006 Plan to purchase common stock of the Company. The 2006 Plan was terminated by the Board in October 2014.
The 2011 Stock Option Plan (the 2011 Plan) provided for the issuance of incentive and non-qualified stock options to employees, including officers, non-employee directors and consultants to the Company. As of September 30, 2016, 2,090,845 shares of common stock were reserved for issuance pursuant to outstanding options previously granted under the 2011 Plan to purchase common stock of the Company. The 2011 Plan terminated upon the effectiveness of the 2014 Plan described below.
The 2014 Equity Incentive Plan (the 2014 Plan) became effective in December 2014, upon the closing of the Company's initial public offering. The 2014 Plan provides for the issuance of equity awards, including incentive and non-qualified stock options and restricted stock awards to employees, including officers, non-employee directors and consultants to the Company or its affiliates. The 2014 Plan also provides for the grant of performance cash awards and

performance-based stock awards. The aggregate number of shares of common stock that are authorized for issuance under the 2014 Plan is 2,990,354 shares, plus any shares subject to outstanding options that were granted under the 2011 Plan or 2006 Plan that are forfeited, terminated, expired or are otherwise not issued.
The 2014 Employee Stock Purchase Plan (the ESPP) provides for eligible Company employees, as defined by the ESPP, to be given an opportunity to purchase the Company's common stock at a discount, through payroll deductions, with stock purchases being made upon defined purchase dates. The ESPP authorizes the issuance of up to 550,000 shares of common stock, pursuant to purchase rights granted to the employees. No shares were purchased during the quarter ended September 30, 2016 or 2015.

11

Table of Contents

A summary of activity within the ESPP follows:	Nine months ended September 30,	
	2016	2015
	(amounts in thousands)	
Deductions from employees	$290	$296
Share-based compensation expense recognized	$208	$166
Remaining share-based compensation expense	$58	$300
Proceeds received by the Company for ESPP	$188	$159
Number of shares purchased by employees under ESPP	17,115	9,829

The Company granted options to purchase 46,000 and 1,086,457 shares of its common stock during the three and nine months ended September 30, 2016, respectively. The fair value of the option grants during the nine months ended September 30, 2016 and 2015 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Black-Scholes option pricing weighted-average assumptions:	Nine months ended September 30,	
	2016	2015
Expected volatility	71.9%	87.3%
Expected term (in years)	6.08	6.08