Corvus Pharmaceuticals, Inc.
Form 10-Q
November 01, 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

Corvus Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-37719	46-4670809
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

863 Mitten Road, Suite 102
Burlingame, CA 94010

(Address of principal executive offices, including Zip Code)

Registrant’s telephone number, including area code: (650) 900-4520

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 any 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	

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, 29,282,086 shares of the registrant’s common stock, $0.0001 par value per share, were outstanding.

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CORVUS PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

CORVUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 40,747	$ 45,106
Marketable securities	81,892	44,949
Prepaid and other current assets	1,893	1,179
Total current assets	124,532	91,234
Property and equipment, net	2,226	2,672
Other assets	464	869
Total assets	$ 127,222	$ 94,775
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,885	$ 3,454
Accrued and other liabilities	5,863	5,515
Total current liabilities	7,748	8,969
Other liabilities	627	971
Total liabilities	8,375	9,940
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock: $0.0001 par value; 10,000,000 shares authorized at September 30, 2018 and December 31, 2017; 0 shares issued and outstanding at September 30, 2018 and December 31, 2017	—	—
Common stock: $0.0001 par value; 290,000,000 shares authorized at September 30, 2018 and December 31, 2017; 29,282,086 and 21,041,250 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3	2
Additional paid-in capital	278,842	208,408
Accumulated other comprehensive loss	(35)	(41)

Accumulated deficit	(159,963)	(123,534)
Total stockholders' equity	118,847	84,835
Total liabilities and stockholders' equity	$ 127,222	$ 94,775

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CORVUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	$ 8,374	$ 10,733	$ 30,192	$ 36,617
General and administrative	2,775	2,211	7,859	7,718
Total operating expenses	11,149	12,944	38,051	44,335
Loss from operations	(11,149)	(12,944)	(38,051)	(44,335)
Interest income and other expense, net	651	227	1,621	601
Net loss	$ (10,498)	$ (12,717)	$ (36,430)	$ (43,734)
Net loss per share, basic and diluted	$ (0.36)	$ (0.62)	$ (1.35)	$ (2.14)
Shares used to compute net loss per share, basic and diluted	29,087,129	20,501,382	26,906,463	20,426,263
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities	(15)	38	6	25
Comprehensive loss	$ (10,513)	$ (12,679)	$ (36,424)	$ (43,709)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CORVUS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net loss	$ (36,430)	$ (43,734)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	667	623
Accretion related to marketable securities	(437)	(177)
Stock-based compensation	5,330	4,490
Changes in operating assets and liabilities:		
Prepaid and other current assets	(708)	(5)
Other assets	406	(189)
Accounts payable	(1,569)	1,712
Accrued and other liabilities	355	2,375
Other long-term liabilities	(345)	(328)
Net cash used in operating activities	(32,731)	(35,233)
Cash flows from investing activities		
Purchases of marketable securities	(129,805)	(75,073)
Maturities of marketable securities	93,299	149,500
Purchase of property and equipment	(220)	(274)
Net cash provided by (used) in investing activities	(36,726)	74,153
Cash flows from financing activities		
Proceeds from issuance of common stock, net	64,877	–
Proceeds from exercise of common stock options	221	134
Net cash provided by financing activities	65,098	134
Net increase (decrease) in cash and cash equivalents	(4,359)	39,054
Cash and cash equivalents at beginning of the period	45,106	5,050
Cash and cash equivalents at end of the period	$ 40,747	$ 44,104
Supplemental disclosures of cash flow information		
Purchases of property and equipment incurred but not paid	$ 6	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CORVUS PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Organization

Corvus Pharmaceuticals, Inc. ("Corvus" or the "Company") was incorporated in Delaware on January 27, 2014 and commenced operations in November 2014. Corvus is a clinical-stage biopharmaceutical company focused on the development and commercialization of precisely targeted oncology therapies. The Company's operations are located in Burlingame, California. The Company has four insignificant subsidiaries.

Initial Public Offering

On March 22, 2016, the Company's registration statement on Form S-1 (File No. 333-208850) relating to its initial public offering ("IPO") of its common stock was declared effective by the Securities and Exchange Commission ("SEC") and the shares of its common stock began trading on the NASDAQ Global Market on March 23, 2016. The public offering price of the shares sold in the IPO was $15.00 per share. The IPO closed on March 29, 2016, pursuant to which the Company sold 4,700,000 shares of its common stock. On April 26, 2016, the Company sold an additional 502,618 shares of its common stock to the underwriters upon partial exercise of their over-allotment option, at the initial offering price of $15.00 per share. The Company received aggregate net proceeds of approximately $70.6 million, after underwriting discounts, commissions and offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of convertible preferred stock were converted into common stock.

Follow-on Public Offering

In March 2018, the Company completed a follow-on public offering in which the Company sold 8,117,647 shares of common stock at a price of $8.50 per share, which included 1,058,823 shares issued pursuant to the underwriters' exercise of their option to purchase additional shares of common stock. The aggregate net proceeds received by the Company from the offering were approximately $64.9 million, net of underwriting discounts and commissions and offering expenses payable by the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company's functional and reporting currency is the U.S. dollar. The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. Since its inception, the Company has incurred significant losses and negative cash flows from operations. During the nine months ended September 30, 2018, the Company incurred a net loss of $36.4 million and used $32.7 million of cash in operations. As of September 30, 2018, the Company had an accumulated deficit of $160.0 million and cash, cash equivalents and marketable securities of $122.6 million. The Company has financed its operations primarily with the proceeds from the sale of stock. The Company will need to raise additional capital to meet its business objectives. The Company believes that its current cash, cash equivalents and marketable securities will be sufficient to fund its planned expenditures and meet its obligations through at least the next twelve months from the issuance of these financial statements.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements and related disclosures are unaudited, have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented.

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The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed consolidated 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 full year or for any other future year or interim period. The accompanying condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2018.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from such estimates.

Concentrations of Credit Risk and Other Risks and Uncertainties

Substantially all of the Company's cash and cash equivalents are deposited in accounts with two financial institutions that management believes are of high credit quality. Such deposits may, at times, exceed federally insured limits. The Company maintains its cash with an accredited financial institution and accordingly, such funds are subject to minimal credit risk. The Company's marketable securities consist of investments in U.S. Treasury securities, U.S. government agency securities and corporate debt obligations, which can be subject to certain credit risks. However, the Company mitigates the risks by investing in high-grade instruments, limiting its exposure to any one issuer, and monitoring the ongoing creditworthiness of the financial institutions and issuers. The Company has not experienced any losses on its deposits of cash, cash equivalents or marketable securities.

The Company is subject to a number of risks similar to other early stage biopharmaceutical companies, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, its reliance on third parties to conduct its clinical trials, the need to obtain marketing approval for its product candidates, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company's product candidates, its right to develop and commercialize its product candidates pursuant to the terms and conditions of the licenses granted to the Company, and protection of proprietary technology. If the Company does not successfully commercialize or partner any of its product candidates, it will be unable to generate product revenue or achieve profitability.

Segments

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment, that of the development of and commercialization of oncology therapies.

Critical Accounting Policies

The Company's critical accounting policies are described in Note 2 to our consolidated financial statements for the year ended December 31, 2017, included in our Annual Report on Form 10-K. There have been no material changes to the Company's critical accounting policies during the nine months ended September 30, 2018.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014 09, Revenue from Contracts with Customers, which required an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014 09 will replace most existing revenue recognition guidance in U.S. GAAP when it became effective on January 1, 2018 for public companies. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus

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Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which relates to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The Company adopted this guidance on January 1, 2018. The adoption of this guidance did not have a material impact on its condensed consolidated financial statements as the Company is not yet generating revenues.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that replaces existing lease guidance. The new standard requires lessees to record right of use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. Further in 2018, the FASB provided an optional transition and practical expedient to not evaluate under the new guidance existing or expired land easements that were not previously accounted for as leases under the current guidance. The standard is effective for the Company beginning January 1, 2019, with early application permitted. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

3. Net Loss per Share

The following table shows the calculation of net loss per share (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss - basic and diluted	$ (10,498)	$ (12,717)	$ (36,430)	$ (43,734)
Denominator:				
Weighted average common shares outstanding	29,228,005	20,934,754	27,120,068	20,932,772
Less: weighted average common shares subject to repurchase	(140,876)	(433,372)	(213,605)	(506,509)
Weighted average common shares outstanding used to compute basic and diluted net loss per share	29,087,129	20,501,382	26,906,463	20,426,263
Net loss per share, basic and diluted	$ (0.36)	$ (0.62)	$ (1.35)	$ (2.14)

The amounts in the table below were excluded from the calculation of diluted net loss per share, due to their anti dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Common stock subject to repurchase	99,831	392,327	99,831	392,327
Outstanding options	2,814,745	2,432,037	2,814,745	2,432,037
Total shares of common stock equivalents	2,914,576	2,824,364	2,914,576	2,824,364

4. Fair Value Measurements

Financial assets and liabilities are measured and recorded at fair value. The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy prioritizes valuation inputs based on the observable nature of those

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inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

Level 1—Quoted prices in active markets for identical assets or liabilities

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3—Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability

There have been no transfers of assets and liabilities between levels of hierarchy.

The Company's Level 2 investments are valued using third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar investments, issuer credit spreads, benchmark investments, prepayment/default projections based on historical data and other observable inputs.

The following tables present information as of September 30, 2018 and December 31, 2017 about the Company's assets that are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy the Company utilized to determine such fair values (in thousands):

	September 30, 2018			
	Fair Value Measured Using			Total
	(Level 1)	(Level 2)	(Level 3)	Balance
Assets				
Cash equivalents	$ —	$ 39,933	$ —	$ 39,933
Marketable securities	1,996	79,896	—	81,892
	$ 1,996	$ 119,829	$ —	$ 121,825

	December 31, 2017			
	Fair Value Measured Using			Total
	(Level 1)	(Level 2)	(Level 3)	Balance
Assets				
Cash equivalents	$ –	$ 44,555	$ —	$ 44,555
Marketable securities	–	44,949	—	44,949
	$ –	$ 89,504	$ —	$ 89,504

As of September 30, 2018, marketable securities had a maximum remaining maturity of nine months.

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As of September 30, 2018 and December 31, 2017, the fair value of available for sale marketable securities by type of security were as follows (in thousands):

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 1,996	$ —	$ —	$ 1,996
U.S. Government agency securities	63,168	—	(34)	63,134
Corporate debt obligations	16,763	—	(1)	16,762
	$ 81,927	$ —	$ (35)	$ 81,892

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency securities	$ 32,311	$ —	$ (39)	$ 32,272
Corporate debt obligations	12,679	—	(2)	12,677
	$ 44,990	$ —	$ (41)	$ 44,949

5. License and Collaboration Agreements

Scripps Licensing Agreement

In December 2014, the Company entered into a license agreement with The Scripps Research Institute (“Scripps”), pursuant to which it was granted a non exclusive, world wide license for all fields of use under Scripps’ rights in certain know how and technology related to a mouse hybridoma clone expressing an anti human CD73 antibody, and to progeny, mutants or unmodified derivatives of such hybridoma and any antibodies expressed by such hybridoma. Scripps also granted the Company the right to grant sublicenses in conjunction with other proprietary rights the Company holds, or to others collaborating with or performing services for the Company. Under this license agreement, Scripps has agreed not to grant any additional commercial licenses with respect to such materials, other than march in rights granted to the U.S. government.

Upon execution of the agreement, the Company made a one time cash payment to Scripps of $10,000 in 2015 and is also obligated to pay a minimum annual fee to Scripps of $25,000. The one time cash payment was recorded as

research and development expense as technological feasibility of the asset had not been established and there was no alternative future use. The first minimum annual fee payment was due on the first anniversary of the effective date of the agreement and will be due on each subsequent anniversary of the effective date for the term of the agreement. The Company is also required to make performance based cash payments upon successful completion of clinical and sales milestones. The aggregate potential milestone payments are $2.6 million. The Company is also required to pay royalties on net sales of licensed products sold by it, its affiliates and its sublicensees at a rate in the low single digits. In addition, should the Company sublicense the rights licensed under the agreement, it has agreed to pay a percentage of sublicense revenue received at specified rates that start at double digit percentages and decrease to single digit percentages based on the elapsed time from the effective date of the agreement and the time of entry into such sublicense. To date, no milestone payments have been made.

The Company’s license agreement with Scripps will terminate upon expiration of its obligation to pay royalties to Scripps under the license agreement. The Company’s license agreement with Scripps is terminable by the consent of the parties, at will by the Company upon providing 90 days written notice to Scripps, or by Scripps for certain material breaches, or if the Company undergoes a bankruptcy event. In addition, Scripps may terminate the license on a product by product basis, or the entire agreement, if the Company fails to meet specified diligence obligations related to the development and commercialization of licensed products. Scripps may also terminate the agreement after the third anniversary of the effective date of the agreement if it reasonably believes, based on reports the Company provides to Scripps, that the Company has not used commercially reasonable efforts as required under the agreement, subject to a specified notice and cure period.

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Vernalis Licensing Agreement

In February 2015, the Company entered into a license agreement with Vernalis (R&D) Limited ("Vernalis"), which was subsequently amended as of November 5, 2015, and, pursuant to which the Company was granted an exclusive, worldwide license under certain patent rights and know-how, including a limited right to grant sublicenses, for all fields of use to develop, manufacture and commercialize products containing certain adenosine receptor antagonists, including CPI-444. Pursuant to this agreement, the Company made a one-time cash payment to Vernalis in the amount of $1.0 million, which was recorded as research and development expense as technological feasibility of the asset had not been established and there was no alternative future use. The Company is also required to make cash milestone payments to Vernalis upon the successful completion of clinical and regulatory milestones for licensed products depending on the indications for which such licensed products are developed and upon achievement of certain sales milestones. In February 2017, the Company made a milestone payment of $3.0 million to Vernalis following the expansion of a cohort of patients with renal cell cancer treated with single agent CPI-444 in the Company's Phase 1/1b clinical trial. The aggregate potential milestone payments exceed $200 million for all indications.

The Company has also agreed to pay Vernalis tiered incremental royalties based on the annual net sales of licensed products containing CPI 444 on a product by product and country by country basis, subject to certain offsets and reductions. The tiered royalty rates for products containing CPI 444 range from the mid single digits up to the low double digits on a country by country net sales basis. The royalties on other licensed products that do not include CPI 444 also increase with the amount of net sales on a product-by-product and country by country basis and range from the low single digits up to the mid single digits on a country by country net sales basis. The Company is also obligated to pay to Vernalis certain sales milestones as indicated above when worldwide net sales reach specified levels over an agreed upon time period.

The agreement will expire on a product by product and country by country basis upon the expiration of the Company's payment obligations to Vernalis in respect of a particular product and country. Both parties have the right to terminate the agreement for an uncured material breach by the other party. The Company may also terminate the agreement at its convenience by providing 90 days written notice, provided that the Company has not received notice of its own default under the agreement at the time the Company exercises such termination right. Vernalis may also terminate the agreement if the Company challenges a licensed patent or undergoes a bankruptcy event.

Genentech Collaboration Agreements

In October 2015, the Company entered into a clinical trial collaboration agreement with Genentech to evaluate the safety, tolerability and preliminary efficacy of CPI-444 combined with Genentech's investigational cancer immunotherapy, Tecentriq (atezolizumab), a fully humanized monoclonal antibody targeting protein programmed cell death ligand 1("PD-L1"), in a variety of solid tumors in a Phase 1/1b clinical trial. Pursuant to this agreement, the

Company will be responsible for the conduct and cost of the relevant studies, under the supervision of a joint development committee made up of representatives of the Company and representatives of Genentech. Genentech will supply Tecentriq. As part of the agreement, the Company granted Genentech certain rights of first negotiation to participate in future clinical trials that the Company may conduct evaluating the administration of CPI-444 in combination with an anti-PD-1 or anti-PD-L1 antibody. If the Company and Genentech do not reach agreement on the terms of any such participation by Genentech within a specified time period, the Company retains the right to collaborate with third parties in such activities. The Company also granted Genentech certain rights of first negotiation should it decide to license development and commercialization rights to CPI-444. Should the Company and Genentech not reach agreement on the terms of such a license within a specified time period, it retains the right to enter into a license with another third party.

The Company and Genentech each have the right to terminate the agreement for material breach by the other party. In addition, the agreement may be terminated by either party due to safety considerations, if directed by a regulatory authority or if development of CPI-444 or Tecentriq is discontinued. Further, the agreement will expire after a set period of time following the provision by the Company of the final clinical study report to Genentech.

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In May, 2017, the Company signed a second clinical trial collaboration agreement with Genentech. Under this second agreement, CPI-444 administered in combination with Tecentriq (atezolizumab) will be evaluated in a Phase 1b/2 randomized, controlled clinical study as second-line therapy in patients with non-small cell lung cancer who are resistant and/or refractory to prior therapy with an anti-PD-(L)1 antibody. It is anticipated that the study will enroll up to 65 patients in the treatment arm. Genentech will be responsible for the conduct of the study and the parties will share the cost of the Phase 1b/2 trial, which began enrolling patients in the fourth quarter of 2017. The Company is responsible for supplying CPI-444 and retains global development and commercialization rights to CPI-444. The Company and Genentech each have the right to terminate the agreement for material breach by the other party. In addition, the agreement may be terminated by either party due to safety considerations, if directed by a regulatory authority or if development of CPI-444 or Tecentriq is discontinued.

6. Balance Sheet Components (in thousands)

	September 30, 2018	December 31, 2017
Prepaid and Other Current Assets		
Interest receivable	$ 347	$ 132
Prepaid research and development manufacturing expenses	—	327
Prepaid insurance	215	164
Other	1,331	556
	$ 1,893	$ 1,179
Property and Equipment		
Laboratory equipment	$ 2,241	$ 2,034
Computer equipment and purchased software	138	130
Leasehold improvements	2,084	2,078
	4,463	4,242
Less: accumulated depreciation and amortization	(2,237)	(1,570)
	$ 2,226	$ 2,672
Accrued and Other Liabilities		
Accrued clinical trial related	$ 2,746	$ 2,870
Accrued manufacturing expense	1,477	1,056
Personnel related	725	572
Deferred rent	435	410
Accrued legal and accounting	165	224
Other accrued expenses	315	383
	$ 5,863	$ 5,515
Other Liabilities		
Deferred rent	$ 627	$ 960
Shares subject to vesting	—	11
	$ 627	$ 971

7. Common Stock

As of September 30, 2018, the amended and restated certificate of incorporation authorizes the Company to issue 290 million shares of common stock and 10 million shares of preferred stock.

Each share of common stock is entitled to one vote. Common stockholders are entitled to dividends if and when declared by the board of directors. As of September 30, 2018, no dividends on common stock had been declared.

In September 2017, the Company entered into a sales agreement (the “Sales Agreement”) with Cowen and Company, LLC (“Cowen”) to sell shares of the Company’s common stock, from time to time, with aggregate gross sales proceeds of up to $125,000,000, through an at-the-market equity offering program under which Cowen will act as its sales agent. The issuance and sale of shares of common stock by the Company pursuant to the Sales Agreement are

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deemed an “at-the-market” offering under the Securities Act of 1933, as amended. Cowen is entitled to compensation for its services equal to up to 3.0% of the gross proceeds of any shares of common stock sold through Cowen under the Sales Agreement. During the nine months ended September 30, 2018, the Company received no proceeds from the sale of shares of common stock pursuant to the Sales Agreement.

The Company has reserved shares of common stock for issuance as follows:

	September 30, 2018	December 31, 2017
Shares available for future option grants	3,491,995	2,576,535
Outstanding options	2,814,745	3,013,394
Unvested restricted common stock (founders and early exercise of stock options)	99,831	319,203
Shares reserved for employee stock purchase plan	400,000	400,000
Total	6,806,571	6,309,132

8. Stock Option Plans

In February 2014, the Company adopted the 2014 Equity Incentive Plan (the “2014 Plan”), which was subsequently amended in November 2014, July 2015 and September 2015, under which it granted incentive stock options (“ISOs”) or non-qualified stock options (“NSOs”). Terms of stock agreements, including vesting requirements, are determined by the board of directors or a committee authorized by the board of directors, subject to the provisions of the 2014 Plan. In general, awards granted by the Company vest over four years and have a maximum exercise term of 10 years. The 2014 Plan provides that grants must be at an exercise price of 100% of fair market value of the Company’s common stock as determined by the board of directors on the date of the grant.

In connection with the consummation of the IPO in March 2016, the 2016 Equity Incentive Award Plan (the “2016 Plan”), became effective. Under the 2016 Plan, incentive stock options, non-statutory stock options, stock purchase rights and other stock-based awards may be granted. Terms of stock agreements, including vesting requirements, are determined by the board of directors or a committee authorized by the board of directors, subject to the provisions of the 2016 Plan. In general, awards granted by the Company vest over four years and have a maximum exercise term of 10 years. The 2016 Plan provides that grants must be at an exercise price of 100% of fair market value of the Company’s common stock as determined by the board of directors on the date of the grant. In conjunction with adopting the 2016 Plan, the 2014 Plan was terminated and no further awards will be granted under the 2014 Plan. Options outstanding under the 2014 Plan as of the effective date of the 2016 Plan that are forfeited or lapse unexercised may be re-issued under the 2016 Plan, up to a maximum of 1,136,229 shares.

Activity under the Company's stock option plans is set forth below:

		Options Outstanding	
	Shares Available for Grant	Number of Options	Weighted Average Exercise Price
Balance at December 31, 2017	2,576,535	3,013,394	$ 11.78
Additional shares authorized	840,000	—	—
Options granted	(388,500)	388,500	10.92
Options exercised	—	(123,189)	1.68
Options forfeited	463,960	(463,960)	12.68
Balance at September 30, 2018	3,491,995	2,814,745	$ 11.95

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9. Stock Based Compensation

The Company's results of operations include expenses relating to employee and non employee stock based awards as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	$ 692	$ 626	$ 2,237	$ 1,891
General and administrative	1,102	875	3,093	2,599
Total	$ 1,794	$ 1,501	$ 5,330	$ 4,490

10. Income Taxes

During the three and nine months ended September 30, 2018 and 2017, the Company recorded no income tax benefits for the net operating losses (NOLs) incurred due to the uncertainty of realizing a benefit from those items.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the "Tax Act") was enacted into law and the new legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. The Company was required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring its U.S. deferred tax assets and liabilities as well as reassessing the net realizability of its deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows the Company to record provisional amounts to the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate during a measurement period not to extend beyond one year of the enactment date.

11. Commitments and Contingencies

Facility Lease

In January 2015, the Company signed an initial operating lease, effective February 1, 2015 for 8,138 square feet of office and laboratory space with a one year term. Between January 2015 and April 2018, the Company entered into a series of lease amendments to increase the amount of leased space to 27,100 square feet and extend the expiration of the lease to February 2021. The lease agreement includes an annual rent escalation clause and a right to extend the term at the then current market rate for three years. Under the lease and subsequent amendments, the landlord provided approximately $1.9 million in free rent and lease incentives. The Company records rent expense on a straight-line basis over the effective term of the lease, including any free rent periods and incentives. The lease requires the Company to pay additional amounts for operating and maintenance expenses. Rent expense related to the facilities lease for the three and nine months ended September 30, 2018 was approximately $166,000 and $511,000, respectively. Rent expense for the three and nine months ended September 30, 2017 was approximately $184,000 and $550,000, respectively.

As of September 30, 2018, future minimum lease payments under the facility lease were as follows (in thousands):

Year Ended December 31 (in thousands)	
2018*	$ 270
2019	1,110
2020	1,142
2021	95
Total	$ 2,617

* Remainder of the year

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Indemnifications

In the ordinary course of business, the Company enters into agreements that may