ACCELERON PHARMA INC
Form 10-Q
August 04, 2016
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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 June 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: 001-36065

ACCELERON PHARMA INC.
(Exact name of registrant as specified in its charter)

| Delaware | 2836 | 27-0072226 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

128 Sidney Street
Cambridge, MA 02139
(617) 649-9200
(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 x Accelerated filer o

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 July 31, 2016, there were 37,596,691 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

Acceleron Pharma Inc.
Condensed Consolidated Balance Sheets
(amounts in thousands except share and per share data)
(unaudited)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $36,995 | $27,783 |
| Collaboration receivables (all amounts are with related party) | 3,239 | 3,628 |
| Prepaid expenses and other current assets | 3,081 | 2,458 |
| Short-term investments | 83,724 | 77,064 |
| Total current assets | 127,039 | 110,933 |
| Property and equipment, net | 4,190 | 3,106 |
| Restricted cash | 996 | 796 |
| Other assets | 8 | 368 |
| Long-term investments | 141,997 | 31,134 |
| Total assets | $274,230 | $146,337 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $566 | $875 |
| Accrued expenses | 11,824 | 12,400 |
| Deferred revenue | 541 | 555 |
| Deferred rent | 762 | 661 |
| Total current liabilities | 13,693 | 14,491 |
| Deferred revenue, net of current portion | 3,973 | 4,239 |
| Deferred rent, net of current portion | 1,340 | 1,157 |
| Warrants to purchase common stock | 11,368 | 17,187 |
| Total liabilities | 30,374 | 37,074 |
| Commitments and contingencies (Note 14) | | |
| Stockholders' equity: | | |
| Undesignated preferred stock, $0.001 par value: 25,000,000 shares authorized and no shares issued or outstanding | — | — |
| Common stock, $0.001 par value: 175,000,000 shares authorized; 37,328,903 and 33,313,355 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively | 38 | 34 |
| Additional paid-in capital | 567,999 | 416,926 |
| Accumulated deficit | (324,433) | (307,477) |
| Accumulated other comprehensive income (loss) | 252 | (220) |
| Total stockholders' equity | 243,856 | 109,263 |
| Total liabilities and stockholders' equity | $274,230 | $146,337 |

See accompanying notes to these condensed consolidated financial statements.

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Acceleron Pharma Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(amounts in thousands except per share data)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue: | | | | |
| Collaboration revenue: | | | | |
| License and milestone | $135 | $431 | $15,279 | $803 |
| Cost-sharing, net | 3,060 | 5,286 | 6,117 | 9,336 |
| Total revenue (all amounts are with related party) | 3,195 | 5,717 | 21,396 | 10,139 |
| Costs and expenses: | | | | |
| Research and development | 16,138 | 14,150 | 32,390 | 28,930 |
| General and administrative | 6,712 | 4,661 | 12,618 | 9,360 |
| Total costs and expenses | 22,850 | 18,811 | 45,008 | 38,290 |
| Loss from operations | (19,655) | (13,094) | (23,612) | (28,151) |
| Other (expense) income, net: | | | | |
| Other (expense) income, net | (2,864) | 2,557 | 5,819 | 2,979 |
| Interest income | 503 | 154 | 837 | 217 |
| Total other (expense) income, net | (2,361) | 2,711 | 6,656 | 3,196 |
| Net loss applicable to common stockholders | $(22,016) | $(10,383) | $(16,956) | $(24,955) |
| Net loss per share applicable to common stockholders-basic and diluted (Note 9) | $(0.59) | $(0.32) | $(0.46) | $(0.76) |
| Weighted-average number of common shares used in computing net loss per share applicable to common stockholders-basic and diluted | 37,272 | 32,870 | 37,092 | 32,754 |
| Other comprehensive loss: | | | | |
| Net loss | $(22,016) | $(10,383) | $(16,956) | $(24,955) |
| Net unrealized holding gains (losses) on short-term and long-term investments during the period | 227 | (19) | 472 | (62) |
| Comprehensive loss | $(21,789) | $(10,402) | $(16,484) | $(25,017) |

See accompanying notes to these condensed consolidated financial statements.

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Acceleron Pharma Inc.
Condensed Consolidated Statements of Cash Flows
(amounts in thousands)
(unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating Activities | | |
| Net loss | $(16,956) | $(24,955) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 715 | 574 |
| Loss on disposition of fixed assets | 19 | 12 |
| Stock-based compensation | 8,800 | 5,231 |
| Change in fair value of warrants | (5,819) | (2,979) |
| Net amortization of premium on investments | (432) | (777) |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | (619) | 648 |
| Collaboration receivables | 389 | (1,919) |
| Accounts payable | (309) | 1,066 |
| Accrued expenses | (525) | 1,373 |
| Restricted cash | (200) | — |
| Deferred revenue | (280) | (803) |
| Deferred rent | 284 | (244) |
| Net cash used in operating activities | (14,933) | (22,773) |
| Investing Activities | | |
| Purchase of investments | (160,798) | (132,709) |
| Proceeds from maturities of investments | 44,178 | 14,985 |
| Purchases of property and equipment | (1,560) | (244) |
| Net cash used in investing activities | (118,180) | (117,968) |
| Financing Activities | | |
| Proceeds from issuance of common stock from public offering, net issuance costs | 140,391 | — |
| Proceeds from exercise of stock options and warrants to purchase common stock | 1,550 | 2,130 |
| Proceeds from issuances of common stock related to employee stock purchase plan | 384 | 307 |
| Net cash provided by financing activities | 142,325 | 2,437 |
| Net increase (decrease) in cash and cash equivalents | 9,212 | (138,304) |
| Cash and cash equivalents at beginning of period | 27,783 | 176,460 |
| Cash and cash equivalents at end of period | $36,995 | $38,156 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | |
| Reclassification of warrant liability to additional paid-in capital | $— | $465 |
| Purchase of property and equipment included in accounts payable and accrued expenses | $258 | $157 |

See accompanying notes to these condensed consolidated financial statements.

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Acceleron Pharma Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Nature of Business

Acceleron Pharma Inc. (Acceleron or the Company) is a Cambridge, Massachusetts-based clinical stage biopharmaceutical company focused on the discovery, development and commercialization of highly innovative therapeutics to treat serious and rare diseases. The Company's research focuses on key natural regulators of cellular growth and repair, particularly the Transforming Growth Factor-Beta (TGF-beta) protein superfamily. By combining its discovery and development expertise, including its proprietary knowledge of the TGF-beta superfamily, and its internal protein engineering and manufacturing capabilities, the Company has built a highly productive discovery and development platform that has generated innovative therapeutic candidates with novel mechanisms of action. The Company has four internally discovered therapeutic candidates that are currently in clinical trials.

The Company is subject to risks common to companies in the biotechnology industry, including, but not limited to, risk that the Company never achieves profitability, the need for substantial additional financing, risk of relying on third parties, risks of clinical trial failures, dependence on key personnel, protection of proprietary technology and compliance with government regulations.

2. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

The accompanying interim condensed consolidated financial statements are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited annual financial statements as of and for the year ended December 31, 2015, and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of June 30, 2016, and the results of its operations and its cash flows for the three and six months ended June 30, 2016 and 2015.

The results for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016, any other interim periods, or any future year or period. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, and the notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

On January 11, 2016, the Company completed its underwritten public offering of 3,750,000 shares of common stock at a public offering price of $40.00 per share. The aggregate net proceeds received by the Company, after underwriting discounts and commissions and other offering expenses, were $140.3 million.

The accompanying interim condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the financial statements. As of June 30, 2016, the Company's significant accounting policies and estimates, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, have not changed.

3. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 financial statements, and the reported amounts expensed during the reporting period.

Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including: expected business and operational changes, sensitivity and volatility associated with the assumptions used

in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of

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reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the consolidated financial statements if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made. In preparing these consolidated financial statements, management used significant estimates in the following areas, among others: revenue recognition, stock-based compensation expense, the determination of the fair value of stock-based awards, the fair value of liability-classified warrants, accrued expenses, and the recoverability of the Company's net deferred tax assets and related valuation allowance.

4. Segment Information

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, or decision making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the chief executive officer. The Company and the chief executive officer view the Company's operations and manage its business as one operating segment, which is the discovery, development and commercialization of highly innovative therapeutics to treat serious and rare diseases. The Company does use contract research organizations and research institutions located outside the United States. Some of these expenses are subject to collaboration reimbursement which is presented as a component of cost sharing, net in the consolidated statements of operations and comprehensive loss.

5. Cash Equivalents and Short-term and Long-term Investments

The Company considers all highly liquid investments purchased with original maturities of 90 days or less at acquisition to be cash equivalents. Cash and cash equivalents include cash held in banks and amounts held primarily in interest-bearing money market accounts. Cash equivalents are carried at cost, which approximates their fair market value.

The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified all of its marketable securities at June 30, 2016 as "available-for-sale" pursuant to ASC 320, Investments – Debt and Equity Securities. The Company records available-for-sale securities at fair value, with the unrealized gains and losses included in accumulated other comprehensive income (loss) in stockholders' equity. There were no realized gains or losses on marketable securities for the three and six months ended June 30, 2016 and 2015.

Investments not classified as cash equivalents are presented as either short-term or long-term investments based on both their maturities as well as the time period the Company intends to hold such securities.

The Company adjusts the cost of available-for-sale debt securities for amortization of premiums and accretion of discounts to maturity. The Company includes such amortization and accretion in interest income. The cost of securities sold is based on the specific identification method. The Company includes in interest income interest and dividends on securities classified as available-for-sale.

The Company reviews marketable securities for other-than-temporary impairment whenever the fair value of a marketable security is less than the amortized cost and evidence indicates that a marketable security's carrying amount is not recoverable within a reasonable period of time. Other-than-temporary impairments of investments are recognized in the consolidated statements of operations if the Company has experienced a credit loss, has the intent to sell the marketable security, or if it is more likely than not that the Company will be required to sell the marketable security before recovery of the amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, compliance with the Company's investment policy, the severity and the duration of the impairment and changes in value subsequent to the end of the period.

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The following is a summary of cash, cash equivalents and investments as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Cash and cash equivalents due in 90 days or less | $36,995 | $ — | $ — | $36,995 |
| Available-for-sale securities: | | | | |
| Corporate obligations due in one year or less | 45,836 | 10 | (10) | 45,836 |
| Corporate obligations due in more than one year | 53,187 | 155 | (9) | 53,333 |
| U.S. Treasury securities due in one year or less | 7,497 | 7 | — | 7,504 |
| U.S. Treasury securities due in more than one year | 26,535 | 86 | — | 26,621 |
| Certificates of deposit due in one year or less | 19,116 | — | — | 19,116 |
| Certificates of deposit due in more than one year | 11,746 | — | — | 11,746 |
| Mortgage and other asset backed securities due in one year or less | 11,267 | 3 | (2) | 11,268 |
| Mortgage and other asset backed securities due in more than one year | 50,285 | 18 | (6) | 50,297 |
| Total available-for-sale securities | 225,469 | 279 | (27) | 225,721 |
| Total cash, cash equivalents and available-for-sale securities | $262,464 | $ 279 | $ (27) | $262,716 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Cash and cash equivalents due in 90 days or less | $27,783 | $ — | $ — | $27,783 |
| Available-for-sale securities: | | | | |
| Corporate obligations due in one year or less | 53,243 | — | (81) | $53,162 |
| Corporate obligations due in more than one year | 14,112 | — | (72) | 14,040 |
| U.S. Treasury securities due in one year or less | 6,016 | — | (4) | 6,012 |
| U.S. Treasury securities due in more than one year | 4,995 | — | (15) | 4,980 |
| Certificates of deposit due in one year or less | 11,890 | — | — | 11,890 |
| Certificates of deposit due in more than one year | 4,886 | — | — | 4,886 |
| Mortgage and other asset backed securities due in one year or less | 6,010 | — | (10) | 6,000 |
| Mortgage and other asset backed securities due in more than one year | 7,266 | — | (38) | 7,228 |
| Total available-for-sale securities | $108,418 | $ — | $ (220) | $108,198 |
| Total cash, cash equivalents and available-for-sale securities | $136,201 | $ — | $ (220) | $135,981 |

6. Restricted Cash

As of June 30, 2016 the Company maintained letters of credit totaling $1.0 million held in the form of certificates of deposit and money market funds as collateral for the Company's facility lease obligations and its credit cards. As of December 31, 2015, the Company maintained letters of credit totaling $0.8 million held in the form of certificates of deposit.

7. Concentrations of Credit Risk and Off-Balance Sheet Risk

The Company has no off-balance sheet risk, such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of cash, cash equivalents, restricted cash, short-term and long-term investments and collaboration receivables. The Company maintains its cash and cash equivalent balances and short-term and long-term investments with financial institutions that management believes are creditworthy. Short-term and long-term investments consist of investment grade corporate obligations, treasury notes, asset backed securities, and certificates of deposit. The Company's investment policy includes guidelines on the quality of the institutions and financial instruments and defines allowable investments that the Company believes minimizes the exposure to concentrations of credit risk.

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The Company routinely assesses the creditworthiness of its customers and collaboration partners. The Company has not experienced any material losses related to receivables from individual customers and collaboration partners, or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's collaboration receivables.

8. Fair Value Measurements

The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input applicable to each financial instrument as of June 30, 2016 and December 31, 2015 (in thousands):

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Money market funds | $35,292 | $ — | $ — | $35,292 |
| Corporate obligations | — | 101,172 | — | 101,172 |
| U.S. Treasury securities | — | 34,125 | — | 34,125 |
| Certificates of deposit | — | 30,862 | — | 30,862 |
| Mortgage and other asset backed securities | — | 61,565 | — | 61,565 |
| Restricted cash | 996 | — | — | 996 |
| Total assets | $36,288 | $ 227,724 | $ — | $264,012 |
| Liabilities: | | | | |
| Warrants to purchase common stock | $— | $ — | $ 11,368 | $11,368 |
| Total liabilities | $— | $ — | $ 11,368 | 11,368 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Money market funds | $24,811 | $ — | $ — | $24,811 |
| Corporate obligations | — | 67,706 | — | 67,706 |
| U.S. Treasury securities | — | 10,991 | — | 10,991 |
| Certificates of deposit | — | 16,776 | — | 16,776 |
| Mortgage and other asset backed securities | — | 13,228 | — | 13,228 |
| Restricted cash | 796 | — | — | 796 |
| Total assets | $25,607 | $ 108,701 | $ — | $134,308 |
| Liabilities: | | | | |
| Warrants to purchase common stock | $— | $ — | $ 17,187 | $17,187 |
| Total liabilities | $— | $ — | $ 17,187 | $17,187 |

The money market funds noted above are included in cash and cash equivalents in the accompanying balance sheets. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the hierarchy during the six months ended June 30, 2016 or the year ended December 31, 2015.

Items measured at fair value on a recurring basis include warrants to purchase common stock (Note 13). During the periods presented, the Company has not changed the manner in which it values assets and liabilities that are measured at fair value using Level 3 inputs.

The following table sets forth a summary of changes in the fair value of the Company's common stock warrant liability, which has been classified within Level 3 of the fair value hierarchy, wherein fair value is estimated using significant unobservable inputs (in thousands):

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| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Beginning balance | $17,187 | $14,124 |
| Change in fair value | (5,819) | (2,979) |
| Exercises | — | (465) |
| Repurchases | — | — |
| Conversions | — | — |
| Ending balance | $11,368 | $10,680 |

The fair value of the warrants to purchase common stock on the date of issuance and on each re-measurement date for those warrants classified as liabilities was estimated using either the Monte Carlo simulation framework, which incorporates future financing events over the remaining life of the warrants to purchase common stock, or for certain re-measurement dates, when the warrants are deeply in the money, the Black-Scholes option pricing model. At each reporting period the Company evaluates the best valuation methodology, and at June 30, 2016, the Monte Carlo simulation framework was used. Due to the nature of these inputs, the valuation of the warrants is considered a Level 3 measurement.

The Company measures eligible assets and liabilities at fair value, with changes in value recognized in earnings. Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to re-measure any of its existing financial assets or liabilities, and did not elect the fair value option for any financial assets and liabilities transacted in the six months ended June 30, 2016 or the year ended December 31, 2015.

9. Net Loss Per Share

The following common stock equivalents were excluded from the calculation of diluted net loss per share for the periods indicated because their inclusion would have had an anti-dilutive effect (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Outstanding stock options | 3,503 | 3,477 | 3,503 | 3,477 |
| Common stock warrants | 397 | 400 | 397 | 400 |
| Shares issuable under employee stock purchase plan | 13 | 11 | 13 | 11 |
| Restricted stock units | 608 | 28 | 608 | 28 |
| | 4,521 | 3,916 | 4,521 | 3,916 |

10. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, other events, and circumstances from non-owner sources. Accumulated other comprehensive income (loss) is presented separately on the consolidated balance sheets and consists entirely of cumulative unrealized gains and losses from short-term and long-term investments as of June 30, 2016.

11. Subsequent Events

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure.

12. Recently Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the

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company expects to receive for those goods or services. The new standard will be effective for the Company on January 1, 2018. The Company is currently evaluating the method of adoption and the potential impact that Topic 606 may have on its financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40). The ASU requires all entities to evaluate for the existence of conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the issuance date of the financial statements. The accounting standard is effective for interim and annual periods ending after December 15, 2016, and will not have a material impact on the consolidated financial statements, but may impact the Company's footnote disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810), Amendments to the Consolidation Analysis, which updated accounting guidance on consolidation requirements. This update changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The Company adopted this standard on January 1, 2016 and the adoption did not have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes. The new standard requires that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. The new standard will be effective for the Company on January 1, 2017. The Company is currently evaluating the method of adoption and the potential impact that Topic 740 may have on its financial position and results of operations.

In February 2016 the FASB issued ASU 2016-02, Leases (Topic 842), Amendments to the FASB Accounting Standards Codification, which replaces the existing guidance for leases. ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. This guidance is effective for annual and interim periods beginning after December 15, 2018 and requires retrospective application. The Company is currently assessing the impact that adopting ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016 the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share based payments, including income tax consequences, classification of awards as either equity, or liabilities, an option to make a policy election to recognize gross share based compensation expense with actual forfeitures recognized as they occur as well as certain classification changes on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact that adopting ASU 2016-09 will have on its consolidated financial statements and related disclosures.

13. Warrants

Below is a summary of the number of shares issuable upon exercise of outstanding warrants and the terms and accounting treatment for the outstanding warrants (in thousands, except per share data):

| Warrants as of | | | | Balance Sheet Classification | |
|---|---|---|---|---|---|
| June 30, | December 31, 2015 | Weighted-Average Exercise Price Per Share | Expiration | June 30, 2016 | December 31, 2015 |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| Warrants to purchase common stock | 393 | 393 | $ 5.88 | June 10, 2020 - July 9, 2020 | Liability | Liability |
| Warrants to purchase common stock | 4 | 5 | 4.00 - 7.40 | March 28, 2017 - December 31, 2017 | Equity(1) (2) | Equity(2) |
| All warrants | 397 | 398 | $ 5.88 | | | |

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(1) In March 2016, the warrant holders exercised warrants to purchase 1,317 shares of Common Stock on a net basis, resulting in the issuance of 1,109 shares of Common Stock.

(2) Warrants to purchase common stock were issued in connection with various debt financing transactions that were consummated in periods prior to December 31, 2012. See discussion below for further details.

In connection with the Series E redeemable convertible preferred stock (Series E Preferred Stock) financing transactions that took place in June 2010 and July 2010, the Company issued warrants to purchase up to 871,580 shares of common stock. Each warrant was immediately exercisable and expires ten years from the original date of issuance. The warrants to purchase shares of the Company's common stock have an exercise price equal to the estimated fair value of the underlying instrument as of the initial date such warrants were issued. Each warrant is exercisable on either a physical settlement or net share settlement basis from the date of issuance. The warrant agreement contains a provision requiring an adjustment to the number of shares in the event the Company issues common stock, or securities convertible into or exercisable for common stock, at a price per share lower than the warrant exercise price. The Company concluded the anti-dilution feature required the warrants to be classified as liabilities under ASC Topic 815, Derivatives and Hedging—Contracts in Entity's Own Equity (ASC 815). The warrants are measured at fair value, with changes in fair value recognized as a gain or loss to other income (expense) in the statements of operations and comprehensive income (loss) for each reporting period thereafter. The fair value of the common stock warrants were recorded as a discount to the preferred stock issued of $3.0 million, and the preferred stock was being accreted to the redemption value. At the end of each reporting period or through the life of the instrument, the Company re-measured the fair value of the outstanding warrants, using current assumptions, resulting in an increase in fair value of $2.9 million and a decrease of $2.6 million for the three months ended June 30, 2016 and 2015, respectively, and a decrease in fair value of $5.8 million and $3.0 million for the six months ended June 30, 2016 and 2015, respectively, which was recorded in other (expense) income in the accompanying consolidated statements of operations and comprehensive loss. The Company will continue to re-measure the fair value of the liability associated with the warrants to purchase common stock at the end of each reporting period until the earlier of the exercise or the expiration of the applicable warrants. All remaining outstanding warrants were fully vested and exercisable as of June 30, 2016 and December 31, 2015.

14. Commitments and Contingencies

Legal Proceedings

The Company, from time to time, may be party to litigation arising in the ordinary course of its business. The Company was not subject to any material legal proceedings during the three months ended June 30, 2016, and, to the best of its knowledge, no material legal proceedings are currently pending or threatened.

Other

The Company is also party to various agreements, principally relating to licensed technology, that require future payments relating to milestones not met at June 30, 2016 and December 31, 2015, or royalties on future sales of specified products. No royalty payments under these agreements are expected to be payable in the immediate future. See Note 15 for discussion of these arrangements.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to the agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

15. Significant Agreements

Celgene

Overview

On February 20, 2008 the Company entered into a collaboration, license, and option agreement with Celgene Corporation (Celgene) relating to sotatercept (the Sotatercept Agreement). On August 2, 2011, the Company entered into a second collaboration, license and option agreement with Celgene for luspatercept (the Luspatercept Agreement), and also amended certain terms of the Sotatercept Agreement. These agreements provide Celgene exclusive licenses for sotatercept and luspatercept in all indications, as well as exclusive rights to obtain a license to certain future compounds. Celgene is an

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integrated global biopharmaceutical company engaged primarily in the discovery, development and commercialization of innovative therapies for the treatment of cancer and inflammatory diseases through next-generation solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation.

There have been no material changes to the key terms of the Sotatercept and Luspatercept Agreements since December 31, 2015. For further information on the terms of the agreements as well as the historical accounting analysis, please see the notes to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2015.

Sotatercept Agreement

Under the terms of the Sotatercept Agreement, the Company and Celgene collaborate worldwide for the joint development and commercialization of sotatercept. The Company also granted Celgene an option to license three discovery stage compounds. Under the terms of the agreement, the Company and Celgene will jointly develop, manufacture and commercialize sotatercept.

The Company retained responsibility for research and development through the end of Phase 2a clinical trials, as well as manufacturing the clinical supplies for these trials. These activities were substantially completed in 2011. Celgene is conducting the ongoing Phase 2 trials and will be responsible for any Phase 3 clinical trials, as well as additional Phase 2 clinical trials, and will be responsible for overseeing the manufacture of Phase 3 and commercial supplies by third party contract manufacturing organizations.

Through June 30, 2016, the Company has received $43.3 million in research and development funding and milestone payments for sotatercept under the original and modified agreements. The next likely clinical milestone payment would be $10.0 million and result from Celgene's start of a Phase 3 study in chronic kidney disease.

Luspatercept Agreement

Under the terms of the Luspatercept Agreement, the Company and Celgene collaborate worldwide for the joint development and commercialization of luspatercept. The Company also granted Celgene an option for future products for which Acceleron files an Investigational New Drug application for the treatment of anemia.

The Company retains responsibility for research and development through the end of Phase 1 and initial Phase 2 clinical trials, as well as manufacturing the clinical supplies for these studies. Celgene will conduct subsequent Phase 2 and Phase 3 clinical studies. Acceleron will manufacture luspatercept for the Phase 1 and Phase 2 clinical trials and Celgene will be responsible for overseeing the manufacture of Phase 3 and commercial supplies by third party contract manufacturing organizations.

Through June 30, 2016, the Company has received $81.6 million in research and development funding and milestone payments for luspatercept. The next likely clinical milestone payment would be $25.0 million and result from U.S. Food and Drug Administration or European Medical Association acceptance of a Biologics Licensing Application or equivalent for luspatercept in either myelodysplastic syndromes or beta-thalassemia. The Company has not yet identified additional compounds for the treatment of anemia. Accordingly, there is no assurance that the Company will generate future value from additional programs.

Both Agreements

The Company and Celgene shared development costs under the Sotatercept and Luspatercept Agreements through December 31, 2012. As of January 1, 2013, Celgene has been responsible for paying 100% of worldwide development costs under both agreements. Celgene will be responsible for all commercialization costs worldwide. The Company has the right to co-promote sotatercept, luspatercept and future products under both agreements in North America. Celgene's option to buy down royalty rates for sotatercept and luspatercept expired unexercised and, therefore, the Company will receive tiered royalties in the low-to-mid twenty percent range on net sales of sotatercept and luspatercept. The royalty schedules for sotatercept and luspatercept are the same.

Accounting Analysis

During the three months ended June 30, 2016 and 2015, the Company recognized $0.1 million and $0.4 million, respectively, and during the six months ended June 30, 2016 and 2015, $0.3 million and $0.8 million, respectively, of the total deferred revenue as license and milestone revenue in the accompanying consolidated statements of operations

and comprehensive loss.

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As noted above, under the terms of the Luspatercept Agreement the Company retained responsibility for certain research and development activities through the completion of Phase 1 and initial Phase 2 clinical trials, as well as manufacturing the clinical supplies for these studies. Celgene is responsible for the conduct of subsequent Phase 2 and Phase 3 clinical studies. In November 2013, the Company agreed to conduct additional activities for the benefit of the luspatercept program including certain clinical and non-clinical services such as multiple toxicology studies and associated assay development and sample testing, clinical extension studies, and market development work. These activities are reimbursed under the same terms and rates of the existing Agreements. The Company evaluated the additional services to be provided and determined that as the Company is under no obligation to conduct these additional activities, these services do not represent a deliverable under or modification to the Luspatercept Agreement, but rather, represent a separate services arrangement which should be accounted for as the services are delivered.

Pursuant to the terms of the agreement, Celgene and the Company shared development costs, with Celgene responsible for substantially more than half of the costs for sotatercept and luspatercept until December 31, 2012 and 100% of the costs from January 1, 2013 and thereafter. Payments from Celgene with respect to research and development costs incurred by the Company are recorded as cost-sharing revenue. Payments by the Company to Celgene for research and development costs incurred by Celgene are recorded as a reduction to cost-sharing revenue. The Company recorded net cost-sharing revenue of $3.1 million and $5.3 million during the three months ended June 30, 2016 and 2015, respectively, and $6.1 million and $9.3 million during the six months ended June 30, 2016 and 2015, respectively.

Other Agreements

Other

In 2004, the Company entered into a license agreement with a non-profit institution for an exclusive, sublicensable, worldwide, royalty-bearing license to certain patents developed by the institution (Primary Licensed Products). In addition, the Company was granted a non-exclusive, non-sub-licensable license for Secondary Licensed Products. As compensation for the licenses, the Company issued 62,500 shares of its common stock to the institution, the fair value of which was $25,000, and was expensed during 2004 to research and development expense. The Company also agreed to pay specified development milestone payments totaling up to $2.0 million for sotatercept and $0.7 million for luspatercept. In addition, the Company is obligated to pay milestone fees based on the Company’s research and development progress, and U.S. sublicensing revenue ranging from 10%-25%, as well as a royalty ranging from 1.0%-3.5% of net sales on any products under the licenses. During the three months ended June 30, 2016 and 2015, the Company expensed $0.1 million and $0.1 million, respectively, and during the six months ended June 30, 2016 and 2015, respectively, the Company expensed $1.0 million and $0.1 million of milestones and fees defined under the agreement.

In 2004, the Company entered into another license agreement with certain individuals for an exclusive, sublicensable, worldwide, royalty-bearing license to certain patents developed by the individuals. The Company agreed to pay specified development and sales milestone payments aggregating up to $1.0 million relating to the development and commercialization of dalantercept. In addition, the Company is required to pay royalties in the low single-digits on worldwide net product sales of dalantercept, with royalty obligations continuing at a 50% reduced rate for a period of time after patent expiration. If the Company sublicenses its patent rights, it will owe a percentage of sublicensing revenue, excluding payments based on the level of sales, profits or other levels of commercialization. During the three and six months ended June 30, 2016 and 2015, the Company did not reach any milestones defined under the agreement and, therefore, no amounts have been paid or expensed.

During 2012, the Company executed a license agreement with a research institution for an exclusive, sublicensable, worldwide, royalty-bearing license. The Company is obligated to pay development milestones and commercial milestone fees relating to dalantercept totaling up to $1.0 million. The Company will also pay $25,000 annually upon first commercial sale as well as royalties of 1.5% of net sales on any products developed under the patents. During the three and six months ended June 30, 2016 and 2015, the Company did not reach any milestones defined under the agreement and, therefore, no amounts have been paid or expensed.

In May 2014, the Company executed a collaboration agreement with a research technology company. The Company paid an upfront research fee of $0.3 million upon execution of the agreement. The Company also received an option to obtain a commercial license to the molecules developed during the collaboration. During the three months ended June 30, 2016 and 2015, the Company expensed $0.2 million and $0.4 million, respectively, and during the six months ended June 30, 2016 and 2015, the Company expensed $0.5 million and $0.8 million, respectively, of milestones and fees, which is recorded as research and development expense.

16. Stock-Based Compensation

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The Company recognized stock-based compensation expense related to stock options, restricted stock units and the 2013 Employee Stock Purchase Plan (2013 ESPP) totaling $4.6 million, $2.7 million, $8.8 million and $5.2 million during the three months ended June 30, 2016 and 2015 and the six months ended June 30, 2016 and 2015, respectively.

Total compensation cost recognized for all stock-based compensation awards in the consolidated statements of operations and comprehensive loss is as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Research and development | $1,850 | $1,019 | $3,676 | $2,101 |
| General and administrative | 2,701 | 1,641 | 5,124 | 3,130 |
| | $4,551 | $2,660 | $8,800 | $5,231 |

Stock Options

The fair value of each stock option issued to employees was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Expected volatility | 64.5% | 66.8% | 64.4% | 67.1% |
| Expected term (in years) | 6.0 | 6.0 | 5.9 | 6.0 |
| Risk-free interest rate | 1.5 % | 1.6 % | 1.4 % | 1.7 % |
| Expected dividend yield | — % | — % | — % | — % |

The following table summarizes the stock option activity under the Company’s 2003 Stock Option and Restricted Stock Plan and 2013 Equity Incentive Plan during the six months ended June 30, 2016 (in thousands):

| Number |
|---|