ACCELERON PHARMA INC
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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 ý 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 ý

As of October 31, 2015, there were 33,253,235 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)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$43,438	$176,460
Short-term investments	72,459	—
Collaboration receivables (all amounts are with related party)	3,950	3,367
Prepaid expenses and other current assets	2,536	2,480
Total current assets	122,383	182,307
Property and equipment, net	2,945	3,087
Long-term investments	32,253	—
Restricted cash	796	902
Other assets	43	—
Total assets	$158,420	$186,296
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,647	$724
Accrued expenses	8,968	6,848
Deferred revenue	596	1,162
Deferred rent	661	519
Total current liabilities	12,872	9,253
Deferred revenue, net of current portion	4,374	4,816
Deferred rent, net of current portion	1,322	1,818
Warrants to purchase common stock	8,064	14,124
Total liabilities	26,632	30,011
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; 33,197,649 and 32,432,025 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	34	33
Additional paid-in capital	412,170	399,835
Accumulated deficit	(280,395)	(243,583)
Accumulated other comprehensive loss	(21)	—
Total stockholders' equity	131,788	156,285
Total liabilities and stockholders' equity	$158,420	$186,296

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Collaboration revenue:				
License and milestone	$205	$280	$1,008	$1,302
Cost-sharing, net	3,950	3,228	13,286	9,592
Total revenue (all amounts are with related party)	4,155	3,508	14,294	10,894
Costs and expenses:				
Research and development	13,335	11,876	42,261	36,318
Litigation settlement	—	—	—	5,000
General and administrative	5,433	3,023	14,796	10,485
Total costs and expenses	18,768	14,899	57,057	51,803
Loss from operations	(14,613)	(11,391)	(42,763)	(40,909)
Other income, net:				
Other income, net	2,616	3,394	5,595	8,130
Interest income	139	25	356	59
Interest expense	—	—	—	(922)
Total other income, net	2,755	3,419	5,951	7,267
Net loss applicable to common stockholders	$(11,858)	$(7,972)	$(36,812)	$(33,642)
Net loss per share applicable to common stockholders-basic and diluted (Note 9)	$(0.36)	$(0.25)	$(1.12)	$(1.18)
Weighted-average number of common shares used in computing net loss per share applicable to common stockholders-basic and diluted	33,097	31,855	32,869	28,594
Other comprehensive loss:				
Net loss	$(11,858)	$(7,972)	$(36,812)	$(33,642)
Net unrealized holding gains (losses) on short-term and long-term investments during the period	41	—	(21)	—
Comprehensive loss	$(11,817)	$(7,972)	$(36,833)	$(33,642)

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)

	Nine Months Ended September 30, 2015	2014
Operating Activities		
Net loss	$(36,812)	$(33,642)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	871	832
Loss on disposition of fixed assets	12	—
Stock-based compensation	8,295	3,327
(Payment) / accretion of deferred interest	—	(536)
Amortization of deferred debt issuance costs	—	36
Change in fair value of warrants	(5,595)	(8,124)
Net amortization of premium on investments	(543)	—
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(99)	(1,723)
Collaboration receivables	(583)	388
Accounts payable	1,923	2,429
Accrued expenses	2,037	(923)
Deferred revenue	(1,008)	(1,302)
Deferred rent	(354)	(374)
Restricted cash	106	11
Net cash used in operating activities	(31,750)	(39,601)
Investing Activities		
Purchase of investments	(134,328)	—
Proceeds from maturities investments	30,138	—
Purchases of property and equipment	(659)	(498)
Net cash used in investing activities	(104,849)	(498)
Financing Activities		
Proceeds from issuance of common stock from public offering, net issuance costs	—	129,174
Proceeds from exercise of stock options and warrants to purchase common stock	2,987	3,349
Proceeds from issuances of common stock related to employee stock purchase plan	590	—
Payments of long-term debt	—	(16,331)
Net cash provided by financing activities	3,577	116,192
Net (decrease) increase in cash and cash equivalents	(133,022)	76,093
Cash and cash equivalents at beginning of period	176,460	113,163
Cash and cash equivalents at end of period	$43,438	$189,256
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$—	$1,574
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Reclassification of warrant liability to additional paid-in capital	$465	$7,601
Purchase of property and equipment included in accounts payable and accrued expenses	$82	$7

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 biopharmaceutical company focused on the discovery, development and commercialization of novel therapeutic candidates that are based on the mechanisms that the human body uses to regulate the growth and repair of its cells and tissues. The Company's research focuses on key natural regulators of cellular growth and repair, particularly the Transforming Growth Factor-Beta (TGF-ß) protein superfamily. By combining its discovery and development expertise, including its proprietary knowledge of the TGF-ß 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, 2014, 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 September 30, 2015, and the results of its operations and its cash flows for the three and nine months ended September 30, 2015 and 2014.
The results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015, 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, 2014, 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, 2014.
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 September 30, 2015, 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, 2014, 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 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

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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 novel therapeutic candidates that are based on the mechanisms that the human body uses to regulate the growth and repair of its cells and tissues. All material long-lived assets of the Company reside in the United States. The Company does use contract research organizations (CROs) 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 September 30, 2015 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 nine months ended September 30, 2015 and 2014.

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. We include 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 available-for-sale securities as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	$43,438	$—	$—	$43,438
Available-for-sale securities:				
Corporate obligations due in one year or less	51,881	5	(17)	51,869
Corporate obligations due in more than one year	14,925	3	(16)	14,912
U.S. Treasury securities due in one year or less	6,026	4	—	6,030
U.S. Treasury securities due in more than one year	—	—	—	—
Certificates of deposit due in one year or less	6,555	—	—	6,555
Certificates of deposit due in more than one year	7,565	—	—	7,565
Mortgage and other asset backed securities due in one year or less	8,004	1	—	8,005
Mortgage and other asset backed securities due in more than one year	9,777	1	(2)	9,776
Total available-for-sale securities	$104,733	$14	$(35)	$104,712
Total cash, cash equivalents and available-for-sale securities	$148,171	$14	$(35)	$148,150

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	$176,460	$—	$—	$176,460
Available-for-sale securities:				
Total available-for-sale securities	—	—	—	—
Total cash, cash equivalents and available-for-sale securities	$176,460	$—	$—	$176,460

6. Restricted Cash

As of September 30, 2015 and December 31, 2014, the Company maintained letters of credit totaling $0.8 million and $0.9 million respectively held in the form of certificates of deposit as collateral for the Company’s facility lease obligations and its credit cards.

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 equivalents 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.

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, management believes no additional credit risk beyond amounts provided for collection losses are probable in the Company's collaboration receivables.

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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 September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 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	$40,905	$—	$—	$40,905
Corporate obligations	—	66,781	—	66,781
U.S. Treasury securities	—	6,030	—	6,030
Certificates of deposit	—	14,120	—	14,120
Mortgage and other asset backed securities	—	17,781	—	17,781
Restricted cash	796	—	—	796
Total assets	$41,701	$ 104,712	$—	$146,413
Liabilities:				
Warrants to purchase common stock	$—	$—	$8,064	$8,064
Total liabilities	$—	$—	$8,064	8,064

	December 31, 2014			
	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	$169,679	$—	$—	$169,679
Restricted cash	902	—	—	902
Total assets	$170,581	$—	$—	$170,581
Liabilities:				
Warrants to purchase common stock	$—	$—	$14,124	$14,124
Total liabilities	$—	$—	$14,124	$14,124

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 have been classified within Level 3 of the fair value hierarchy, wherein fair value is estimated using significant unobservable inputs (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Beginning balance	$14,124	$30,753
Change in fair value	(5,595)	(8,124)
Exercises	(465)	(7,601)
Ending balance	$8,064	$15,028

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 nine months ended September 30, 2015 or the year ended December 31, 2014.

The fair value of the warrants to purchase common stock on the date of issuance and on each re-measurement date for those warrants to purchase common stock classified as liabilities was estimated using either the Black-Scholes option pricing

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model, due to the warrants being deeply in the money, or the Monte Carlo simulation framework, which incorporates future financing events over the remaining life of the warrants to purchase common stock. At each reporting period the Company evaluates the best valuation methodology, and at September 30, 2015, 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 nine months ended September 30, 2015 or the year ended December 31, 2014.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of September 30, 2015 and December 31, 2014, the Company did not have any significant uncertain tax positions.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Outstanding stock options	3,328	3,459	3,328	3,459
Common stock warrants	398	610	398	610
Shares issuable under employee stock purchase plan	19	15	19	15
Restricted stock units	524	—	524	—
	4,269	4,084	4,269	4,084

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 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 September 30, 2015.

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 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.

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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 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 does not expect adoption of this guidance will have a material impact on our financial statements.

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	
	September 30, 2015	December 31, 2014	Weighted-Average Exercise Price Per Share	Expiration	September 30, 2015	December 31, 2014
Warrants to purchase common stock	393	409	5.88	June 10, 2020 - July 9, 2020	Liability(2)	Liability(2)
Warrants to purchase common stock	5	13	4.00 - 7.40	March 31, 2016 - December 31, 2017	Equity(1) (3) (4)	Equity(1) (3) (4)
All warrants	398	422	$5.87			

(1) In March 2015, the warrant holders exercised warrants to purchase 5,029 shares of Common Stock on a net basis, resulting in the issuance of 4,519 shares of Common Stock.

(2) In May 2015, the warrant holders exercised warrants to purchase 16,665 shares of Common Stock on a net basis, resulting in the issuance of 13,588 shares of Common Stock.

(3) In August 2015, the warrant holders exercised warrants to purchase 2,399 shares of Common Stock on a net basis, resulting in the issuance of 2,075 shares of Common Stock.

(4) 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 remeasured the fair value of the outstanding warrants, using current assumptions, resulting in a decrease in fair value of $2.6 million and $3.4 million for the three months ended September 30, 2015 and 2014, respectively, and a decrease in fair value of $5.6 million and $8.1 million for the nine months ended September 30, 2015 and 2014, respectively, which was recorded in other 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 September 30, 2015 and December 31, 2014.

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 September 30, 2015, 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 September 30, 2015 and December 31, 2014, 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 a global biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory related diseases.

There have been no material changes to the key terms of the Sotatercept and Luspatercept Agreements since December 31, 2014. For further information on our 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, 2014.

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 for myelodysplastic syndromes (MDS), chronic kidney disease, and -thalassemia 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 September 30, 2015, the Company has received $42.9 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 September 30, 2015, the Company has received $56.6 million in research and development funding and milestone payments for luspatercept. The next likely clinical milestone payment would be $15.0 million and result from Celgene's start of a Phase 3 study in MDS or -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 September 30, 2015 and 2014, the Company recognized $0.2 million and $0.3 million, respectively, and during the nine months ended September 30, 2015 and 2014, the Company $1.0 million and $1.3 million, respectively, of the total deferred revenue as license and milestone revenue in the accompanying consolidated statements of operations and comprehensive loss.

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 $3.9 million and $3.2 million during the three months ended September 30, 2015 and 2014, respectively, and $13.3 million and $9.6 million during the nine months ended September 30, 2015 and 2014, 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

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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 September 30, 2015 and 2014, the Company expensed zero and $0.1 million, respectively, and during the nine months ended September 30, 2015 and 2014, the Company expensed $0.1 million and $0.1 million, respectively, of milestones and fees defined under the agreement, which is recorded as research and development expense.

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 nine months ended September 30, 2015 and 2014, 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 the nine months ended September 30, 2015 and 2014, 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 and 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 September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, the Company expensed milestones and fees of $0.2 million, $0.3 million, $1.0 million and $0.5 million, respectively, which is recorded as research and development expense.

16. Stock-Based Compensation

The Company recognized stock-based compensation expense related to stock options, restricted stock units and the 2013 Employee Stock Purchase Plan (2013 ESPP) totaling $3.1 million, $1.2 million, $8.3 million and $3.3 million during the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Research and development	$1,201	$486	$3,302	$1,339
General and administrative	1,863	708	4,993	1,988
	$3,064	$1,194	$8,295	$3,327

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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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected volatility	66.0 %	70.7 %	67.1 %	71.2 %
Expected term (in years)	6.0	6.0	6.0	6.0
Risk-free interest rate	1.7 %	1.9 %	1.7 %	1.8 %
Expected dividend yield	— %	— %	— %	— %

The following table summarizes the stock option activity under the Company's share-based compensation plans during the nine months ended September 30, 2015 (in thousands):

	Number of Grants	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life (in years)	Aggregate Intrinsic Value(1)
Outstanding at December 31, 2014	3,230	$9.77	6.43	
Granted	861	$40.09		
Exercised	(722)	$4.14		
Canceled or forfeited	(42)	$31.19		
Outstanding at September 30, 2015	3,327	$18.57	6.57	$36,624
Exercisable at September 30, 2015	1,968	$9.69	5.10	$32,283
Vested and expected to vest at September 30, 2015(2)	3,259			