Global Blood Therapeutics, Inc.
Form 10-Q
November 09, 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 September 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-37539

Global Blood Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

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

400 East Jamie Court, Suite 101, South San Francisco

South San Francisco, CA 94080

(Address of principal executive offices)

(650) 741-7700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

As of November 1, 2016, there were 37,316,451 shares of the registrant s Common Stock, par value $0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 217,837	$ 148,502
Prepaid expenses	1,706	1,222
Other assets, current	1,723	1,096
Total current assets	221,266	150,820
Property and equipment, net	2,626	2,114
Restricted cash	140	140
Total assets	$ 224,032	$ 153,074
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,038	$ 3,361
Accrued liabilities	5,863	4,400
Accrued compensation	3,351	2,242
Other liabilities, current	905	720
Total current liabilities	13,157	10,723
Other liabilities, noncurrent	775	1,556
Total liabilities	13,932	12,279
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized as of September 30, 2016 (unaudited) and December 31, 2015		
Common stock, $0.001 par value, 150,000,000 shares authorized as of September 30, 2016 (unaudited) and December 31, 2015, respectively; 36,516,130 and 29,359,800 shares issued and outstanding as of September 30, 2016 (unaudited) and December 31, 2015, respectively	37	29
Additional paid-in capital	363,789	239,231

Accumulated deficit		(153,726)		(98,465)
Total stockholders equity		210,100		140,795
Total liabilities and stockholders equity	$	224,032	$	153,074

See accompanying notes to unaudited interim condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating expenses:				
Research and development	$ 15,145	$ 12,106	$ 40,847	$ 25,257
General and administrative	5,999	2,669	14,821	5,473
Related party expenses				65
Total operating expenses	21,144	14,775	55,668	30,795
Loss from operations	(21,144)	(14,775)	(55,668)	(30,795)
Interest and other (expense) income, net	159	11	407	20
Net loss and comprehensive loss	$ (20,985)	$ (14,764)	$ (55,261)	$ (30,775)
Net loss attributable to common stockholders	$ (20,985)	$ (15,551)	$ (55,261)	$ (34,955)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.58)	$ (0.90)	$ (1.72)	$ (4.83)
Weighted-average number of shares used in computing net loss per share attributable to common stockholders, basic and diluted	36,353,958	17,288,610	32,074,779	7,242,559

See accompanying notes to unaudited interim condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (55,261)	$ (30,775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	841	606
Loss on disposal of fixed assets		29
Stock-based compensation	5,884	1,731
Fair value of stock issued for license		4,492
Changes in operating assets and liabilities:		
Prepaid expenses	(484)	(489)
Other assets, current	(3)	(210)
Accounts payable	(1,478)	851
Accrued liabilities	1,746	1,928
Accrued compensation	1,109	601
Other liabilities	(25)	(7)
Net cash used in operating activities	(47,671)	(21,243)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,106)	(775)
Net cash used in investing activities	(1,106)	(775)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs	116,995	126,360
Proceeds from issuance of restricted stock awards		2,108
Repurchase of unvested restricted stock awards		(66)
Proceeds from issuance of common stock in settlement of employee stock purchase plan and exercise of stock options	1,117	44
Net cash provided by financing activities	118,112	128,446
Net increase in cash and cash equivalents	69,335	106,428
Cash and cash equivalents at beginning of period	148,502	52,069
Cash and cash equivalents at end of period	$ 217,837	$ 158,497

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:				
Accretion of Series A and Series B redeemable convertible preferred stock	$		$	4,180
Conversion of redeemable convertible preferred stock to common stock at closing of initial public offering	$		$	106,342
Accrued purchase of property and equipment	$	247	$	
Accrued offering costs	$		$	130

See accompanying notes to unaudited interim condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Global Blood Therapeutics Inc. (the Company , we , us , and our) was incorporated in Delaware in February 2011 an commenced operations in May 2012. We are a clinical-stage biopharmaceutical company dedicated to discovering, developing and commercializing novel therapeutics to treat grievous blood-based disorders with significant unmet need. Our primary activities have been establishing our facilities, recruiting personnel, conducting development of our product candidates, including clinical trials, and raising capital. Our principal operations are based in South San Francisco, California, and we operate in one segment.

Follow-on Offering

On June 24, 2016, we completed a follow-on offering and issued 6,400,000 shares of common stock at a price of $18.75 per share. In July 2016, we sold an additional 267,228 shares of our common stock directly to the underwriters when they exercised their over-allotment option at the price of $18.75 per share. We received total proceeds of $117.0 million from the offering, net of underwriting costs and commissions, and offering expenses.

Need for Additional Capital

In the course of our development activities, we have sustained operating losses and we expect such losses to continue over the next several years. Our ultimate success depends on the outcome of our research and development activities. Since inception through September 30, 2016, we have incurred cumulative net losses of $153.7 million. We expect to incur additional losses in the future to conduct product research and development and we recognize the need to raise additional capital to fully implement our business plan. We intend to raise such capital through the issuance of additional equity, and potentially through borrowings, and strategic alliances with partner companies. However, if such financing is not available at adequate levels, we will need to reevaluate our operating plans. We believe that our existing cash and cash equivalents will be sufficient to fund our cash requirements for at least the next twelve months.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2015 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any other interim period or for any other future year.

The accompanying interim unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K, filed with the SEC on March 29, 2016.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Use of Estimates

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

Principles of Consolidation

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

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents, which consist primarily of amounts invested in money market accounts, are stated at fair value.

Accruals of Research and Development Costs

We record accruals for estimated costs of research, preclinical, nonclinical and clinical studies and manufacturing development. These costs are a significant component of our research and development expenses. A substantial portion of our ongoing research and development activities are conducted by third-party service providers, including contract research organizations. We accrue the costs incurred under our agreements with these third parties based on actual work completed in accordance with agreements established with these third parties. We determine the actual costs through discussions with internal personnel and external service providers as to the progress or stage of completion of the services and the agreed-upon fee to be paid for such services. We make significant judgments and estimates in determining the accrual balance in each reporting period. As actual costs become known, we adjust our accruals. We have not experienced any material deviations between accrued clinical trial expenses and actual clinical trial expenses. However, actual services performed, number of subjects enrolled, and the rate of subject enrollment may vary from our estimates, resulting in adjustments to clinical trial expense in future periods. Changes in these estimates that result in material changes to our accruals could materially affect our results of operations.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash and cash equivalents. Our cash and cash equivalents are held primarily in one large financial institution in the United States as of September 30, 2016. We believe that this financial institution is financially sound, and accordingly, minimal credit

risk exists with respect to this financial institution.

Fair Value Measurement

The carrying amounts of certain financial instruments, including cash and cash equivalents, restricted cash, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities.

Research and Development Costs

Research and development costs are expensed as incurred and consist of salaries and benefits, stock-based compensation expense, lab supplies and facility costs, as well as fees paid to other nonemployees and entities that conduct certain research and development activities and manufacturing of clinical materials on our behalf. Amounts incurred in connection with license agreements are also included in research and development expense. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are capitalized and then expensed as the related goods are delivered or the services are performed.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Stock-based Compensation

We measure and recognize stock-based compensation expense, including employee and non-employee equity awards, based on fair value at the grant date. We use the Black-Scholes option-pricing model to calculate fair value. Stock-based compensation expense recognized in the statements of operations is based on options ultimately expected to vest, taking into consideration estimated forfeitures. Stock-based compensation expense is revised in subsequent periods, if necessary, if actual forfeitures differ from these estimates. When estimating forfeitures, we consider historic voluntary termination behaviors as well as trends of actual option forfeitures. For options granted to non-employees, we revalue the unearned portion of the stock-based compensation and the resulting change in fair value is recognized in the statements of operations over the period the related services are rendered.

Net Loss per Share Attributable to Common Stockholders

Net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period, without consideration for common stock equivalents. The net loss attributable to common stockholders is calculated by adjusting our net loss for the accretion and dividends on redeemable convertible preferred stock prior to the conversion of the redeemable convertible preferred stock upon our initial public offering, or IPO, in August 2015. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since the effects of potentially dilutive securities are antidilutive given our net loss.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial statements upon adoption.

In February 2016, the FASB issued Accounting Standards Update, or ASU No. 2016-02, Leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We are currently in the process of evaluating the impact the adoption of this new standard will have on our financial position or results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The new standard simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those

annual periods. We are currently in the process of evaluating the impact the adoption of this new standard will have on our financial position or results of operations and have not elected to early adopt the amendment.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard provides guidance on eight specific cash flow classification issues. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We believe that the adoption of this new standard will have no impact on our financial position or results of operations and have not elected to early adopt the amendment.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

3. Fair Value Measurements

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Financial instruments include cash and cash equivalents, restricted cash, accounts payable and accrued liabilities that approximate fair value due to their relatively short maturities.

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

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

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

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

Financial assets subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows (in thousands):

	September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Money market funds	$ 208,616	$	$	$ 208,616
Total financial assets	$ 208,616	$	$	$ 208,616

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				

Money market funds	$ 148,642	$	$	$ 148,642
Total financial assets	$ 148,642	$	$	$ 148,642

Our financial instruments consist of Level 1 assets. Where quoted prices for identical assets are available in an active market, securities are classified as Level 1. Level 1 assets consist of highly liquid money market funds, which as of September 30, 2016 and December 31, 2015 includes $140,000 of funds that are collateral for our facility lease that are included within restricted cash. There were no unrealized gains and losses in our investments in these money market funds.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

4. Balance Sheet Components

Property and Equipment

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

	September 30, 2016	December 31, 2015
Laboratory equipment	$ 3,715	$ 3,151
Computer equipment	970	596
Leasehold improvements	678	340
Construction-in-progress	206	129
Total property and equipment	5,569	4,216
Less: accumulated depreciation and amortization	(2,943)	(2,102)
Property and equipment, net	$ 2,626	$ 2,114

Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Accrued clinical and manufacturing expenses	$ 4,823	$ 4,025
Accrued professional and consulting services	921	287
Other	119	88
Total accrued liabilities	$ 5,863	$ 4,400

Other liabilities, current and noncurrent

Other liabilities consist of the following (in thousands):

	September 30, 2016	December 31, 2015

Restricted shares subject to repurchase, current	$	850	$	677
Deferred rent, current		53		38
Other taxes payable		2		5
Total other liabilities, current	$	905	$	720
Restricted shares subject to repurchase, noncurrent	$	728	$	1,470
Deferred rent, noncurrent		47		86
Total other liabilities, noncurrent	$	775	$	1,556

5. Stockholders Equity

Common Stock

We have reserved the following shares of common stock for issuance:

	September 30, 2016
Restricted shares subject to future vesting	752,220
Options issued and outstanding	2,703,252
Options available for future grants	1,484,701
Employee stock purchase plan	76,118
Total common stock reserved for issuance	5,016,291

Restricted Stock

We have issued restricted stock awards to employees under our 2012 Stock Option and Grant Plan (the 2012 Plan). Under the related stock purchase agreements, we have the right to repurchase the common stock at the lower of fair market value and the stockholders original purchase price which right lapses according to individual vesting schedules.

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Notes to Unaudited Interim Condensed Consolidated Financial Statements

In order to vest, the holders are required to provide continued service to us. Upon vesting, the appropriate amounts are transferred from liabilities to additional paid-in capital. If the employment or other service relationship of the holder of any unvested restricted common stock is terminated for any reason, we have the right to repurchase the unvested shares at the lower of fair market value or the stockholder s original purchase price. As such, the shares subject to future vesting are not deemed outstanding for accounting purposes until the shares vest.

Restricted shares subject to repurchase and related liability were as follows (in thousands, except share data):

	September 30, 2016	December 31, 2015
Restricted shares subject to repurchase:		
Shares issued to founders		6,250
Shares issued pursuant to the 2012 Stock Option and Grant Plan	777,041	1,091,038
Total restricted shares subject to repurchase	777,041	1,097,288
Liability pertaining to restricted shares subject to repurchase		
Other liabilities, current	$ 850	$ 677
Other liabilities, noncurrent	728	1,470
Total liabilities pertaining to shares subject to repurchase	$ 1,578	$ 2,147

6. Stock-based Awards

Equity Incentive Plans

In July 2015, we adopted the 2015 Stock Option and Incentive Plan (the 2015 Plan). Under the 2015 Plan, 1,430,000 shares of our common stock were initially reserved for the issuance of stock options, restricted stock, and other equity-based awards to employees, non-employee directors, and consultants under terms and provisions established by the Board of Directors and approved by our stockholders. The 2015 Plan also provides for automatic annual increases in the number of shares reserved for future issuance. As of September 30, 2016, there were 1,484,701 shares available for future grants under the 2015 Plan.

In 2012, we adopted the 2012 Plan under which the Board of Directors was authorized to grant incentive stock options to employees, including officers and members of the Board of Directors who are also employees of ours, and non-statutory stock options (options that do not qualify as incentive options) and/or our restricted stock and other

equity-based awards to employees, officers, directors, or consultants of ours. Upon adoption of the 2015 Plan, no new awards or grants are permitted under the 2012 Plan.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Employee Stock Purchase Plan

In July 2015, we adopted the 2015 Employee Stock Purchase Plan (the 2015 ESPP). Under the 2015 ESPP, 50,000 shares of our common stock were initially reserved for employee purchases of our common stock under terms and provisions established by the Board of Directors and approved by our stockholders. The 2015 ESPP also provides for automatic annual increases in the number of shares reserved for future issuance.

Stock Option Awards

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

	Number of Options	Weighted-Average Exercise Price	Weighted-Average remaining contractual term (years)	Aggregate Intrinsic Value (in thousands)
Balance Outstanding, December 31, 2015	2,058,787	$ 8.71	9.0	
Options granted	1,034,575	$ 16.74		
Options exercised	(103,602)	$ 0.95		
Options canceled	(286,508)	$ 18.96		
Balance Outstanding, September 30, 2016	2,703,252	$ 10.99	8.7	$ 35,600
Exercisable, September 30, 2016	823,118	$ 6.59	7.9	$ 14,082
Vested and expected to vest, September 30, 2016	2,508,295	$ 10.78	8.6	$ 33,533

Stock Options Granted to Employees with Service-Based Vesting Conditions Valuation Assumptions

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected term (in years)	6.0-6.1	5.3-6.3	5.3-6.1	5.3-6.3
Volatility	70.6%-70.9%	73.8%-75.3%	70.6%-82.3%	73.8%-77.0%

Risk-free interest rate	1.3%-1.5%	1.6%-1.8%	1.1%-1.9%	1.5%-1.8%
Dividend yield				

Performance-Contingent Awards

On April 9, 2015, our Board of Directors granted a total of 326,424 performance-contingent awards to members of our senior management team. Of the total performance-contingent awards granted, 227,139 were performance-contingent options and 99,285 were performance-contingent shares of restricted common stock. The exercise price of each performance-contingent option and the purchase price for the performance-contingent restricted shares is $3.40 per share, which the Board of Directors determined was the fair market value on the grant date.

These awards have dual triggers of vesting based upon the successful achievement of four corporate operating milestones within specified timelines, as well as a requirement for continued employment. When a performance goal is deemed to be probable of achievement, time-based vesting and recognition of stock-based compensation expense commences. In the event any of the corporate operating milestones are not achieved by the specified timelines, such vesting tranche will terminate and no longer be exercisable with respect to that portion of the shares. During the nine months ended September 30, 2016, the Compensation Committee of our Board of Directors modified one of the corporate operating milestones, which resulted in two of the corporate operating milestones being achieved; accordingly, an aggregate of 94,502 shares underlying options and 49,643 shares of restricted stock associated with these two milestones vested and, as a result, $1.5 million of compensation cost was recognized for the performance-contingent awards, including $1.4 million of compensation cost related to the modified corporate operating milestone. One of the remaining two corporate operating milestones was not met within the timeframe required for achievement during the nine months ended September 30, 2016; accordingly, 47,500 shares underlying options and 24,821 shares of restricted stock associated with the milestone were forfeited. As of September 30, 2016, unvested performance-contingent awards included 47,495 shares underlying options and 24,821 shares of restricted stock associated with the remaining operating milestone.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Market-Condition Award

On April 9, 2015, our Board of Directors granted a market-condition award to our Chief Executive Officer of 99,285 shares of restricted common stock. The market-condition award does not vest until our market capitalization (determined based on the number of shares of common stock outstanding multiplied by the closing market price for our common stock as reported on NASDAQ) exceeds at least $2.0 billion for 20 consecutive trading days on or before the date twenty-four (24) months after the closing of our initial public offering, or IPO.

The fair value of the market-condition award of $0.70 was determined on the grant date utilizing a lattice model that was prepared by a third party valuation firm with an expected term of 2.4 years. In August 2015, we began to recognize compensation costs for this award concurrent with the closing of our IPO.

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development	$ 1,019	$ 527	$ 2,065	$ 1,232
General and administrative	2,133	347	3,819	499
Total stock-based compensation expense	$ 3,152	$ 874	$ 5,884	$ 1,731

Total stock-based compensation recognized for employees and non-employees was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Employee options and restricted stock awards	$ 3,044	$ 534	$ 5,651	$ 1,366
Non-employee options	108	340	233	365
Total stock-based compensation expense	$ 3,152	$ 874	$ 5,884	$ 1,731

Unrecognized Stock-Based Compensation Expense and Weighted-Average Remaining Amortization Period

As of September 30, 2016 the unrecognized stock-based compensation cost, net of expected forfeitures, and the estimated weighted-average amortization period, using the straight-line attribution method, was as follows (in thousands, except amortization period):

	Unrecognized Compensation Cost	Weighted-average remaining amortization period (years)
Options	$ 12,864	2.5
Restricted stock awards	607	1.8
2015 ESPP	193	0.2
Total unrecognized stock-based compensation expense	$ 13,664	

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

7. Net Loss per Share Attributable to Common Stockholders

The following table sets forth the computation of the basic and diluted net loss per share attributable to common stockholders during the three and nine months ended September 30, 2016 and 2015, respectively (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net loss	$ (20,985)	$ (14,764)	$ (55,261)	$ (30,775)
Accretion and dividends on redeemable convertible preferred stock		(787)		(4,180)
Net loss attributable to common stockholders	$ (20,985)	$ (15,551)	$ (55,261)	$ (34,955)
Denominator:				
Weighted average common shares outstanding	36,353,958	17,288,610	32,074,779	7,242,559
Net loss per share attributable to common stockholders, basic and diluted	$ (0.58)	$ (0.90)	$ (1.72)	$ (4.83)

Since we were in a loss position for all periods presented, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Share issuances under equity incentive plan	2,703,252	1,990,473	2,703,252	1,990,473
Restricted stock subject to future vesting	752,220	1,171,506	752,220	1,171,506
Total	3,455,472	3,161,979	3,455,472	3,161,979

8. Related Party Transactions

Our largest investors include investment funds controlled by Third Rock Ventures, LLC (TRV) and two members of our Board of Directors are affiliated with TRV. Management and advisory fee expenses incurred with TRV were zero for both the three and nine months ended September 30, 2016 and zero and $65,000 for the three and nine months ended September 30, 2015, respectively.

9. License Agreement

In September 2015, we executed an agreement with the Regents of the University of California, or the Regents, for an exclusive license to those rights the Regents may own in certain patents and patent applications relating to GBT440 and GBT440 analogs, and in exchange have committed to pay a royalty of less than 1% on future net sales. In connection with this agreement we issued 85,714 shares of our common stock with an estimated fair value of $4.5 million, which was recorded in research and development expense in our statement of operations.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and related notes thereto for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2016, or our Annual Report.

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

Overview

We are a clinical-stage biopharmaceutical company dedicated to discovering, developing and commercializing novel therapeutics to treat grievous blood-based disorders with significant unmet need. We are developing our initial product candidate, GBT440, as an oral, once-daily therapy for sickle cell disease, or SCD. We are currently evaluating GBT440 in SCD patients in an ongoing Phase 1/2 clinical trial, and are preparing to initiate a Phase 3 clinical trial of GBT440 in adult and adolescent patients with SCD. In addition, we are evaluating the safety and pharmacokinetics of single and multiple doses of GBT440 in adolescent patients with SCD.

SCD is a genetic disease marked by red blood cell, or RBC, destruction and occluded blood flow and hypoxia, leading to anemia, stroke, multi-organ failure, severe pain crises, and shortened patient life span. GBT440 inhibits abnormal hemoglobin polymerization, the underlying mechanism of RBC sickling. In our clinical trials of GBT440 in SCD patients to date, we observed reduced markers of red blood cell destruction, improvements in anemia, improvements in markers of tissue oxygenation, and reduced numbers of sickled RBCs.

In addition, we are conducting a Phase 2a clinical trial of GBT440 for the treatment of idiopathic pulmonary fibrosis, or IPF, which is a hypoxemic pulmonary disorder. We are also engaged in other pre-clinical research and development activities. We own or jointly own and have exclusively licensed rights to our portfolio of product candidates in the United States, Europe and other major markets. We own two issued U.S. patents that cover the composition of matter of GBT440, which are due to expire in 2032 and 2035, respectively (absent any applicable patent term extensions), and we own or co-own additional pending patent applications in the United States and selected foreign countries.

Since our inception in 2011, we have devoted substantially all of our resources to identifying and developing our product candidates, including conducting clinical trials and preclinical studies and providing general and administrative support for these operations.

Prior to our initial public offering, or IPO, we had funded our operations primarily from the issuance and sale of redeemable convertible preferred stock. In August 2015, we completed our IPO pursuant to which we issued 6,900,000 shares of our common stock at a price of $20.00 per share. We received $126.2 million from the IPO, net of underwriting discounts and commissions, and offering expenses. In July 2016, we completed a follow-on offering pursuant to which we issued an aggregate of 6,667,228 shares of our common stock at a price of $18.75 per share, including 6,400,000 shares sold at the initial closing in June 2016 and 267,228 shares sold pursuant to the exercise of the underwriters over-allotment option to purchase additional shares in July 2016. We received aggregate proceeds of $117.0 million from the offering, net of underwriting discounts and commissions, and offering expenses. In October 2016, we filed our shelf registration statement on Form S-3 for the potential offering, issuance and sale by us of up to a maximum aggregate offering price of $250 million of our common stock, preferred stock, debt securities, warrants, and/or units. However, future financing may not be available in amounts or on terms acceptable to us, if at all.

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We have never been profitable and have incurred net losses in each year since inception. Our net losses were $21.0 million and $14.8 million for the three months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 we had an accumulated deficit of $153.7 million. To date, we have not generated any revenue. We do not expect to receive any revenue from any product candidates that we develop unless we obtain regulatory approval and commercialize our products or enter into collaborative agreements with third parties. Substantially all of our net losses have resulted from costs incurred in connection with our research and development programs and from general and administrative costs associated with our operations. As of September 30, 2016, we had $217.8 million of cash and cash equivalents.

Critical Accounting Polices and Estimates

Our management s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies from those described in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report filed with the SEC on March 29, 2016.

Results of Operations

Comparison of the Three Months Ended September 30, 2016 and 2015

	Three Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in thousands, except percentages)			
Operating expenses:				
Research and development	$ 15,145	$ 12,106	$ 3,039	25%
General and administrative	5,999	2,669	3,330	125%
Total operating expenses	21,144	14,775	6,369	43%
Loss from operations	(21,144)	(14,775)	(6,369)	43%
Interest and other (expense) income, net	159	11	148	*%
Net loss	$ (20,985)	$ (14,764)	$ (6,221)	42%

* *Change is not meaningful*

The largest component of our total operating expenses is our investment in research and development activities, including the pre-clinical and clinical development of GBT440. We allocate research and development salaries, benefits, stock-based compensation and indirect costs to GBT440 and other product candidates that we may pursue on a program-specific basis, and we include these costs in the program-specific expenses.

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We expect our research and development expenses will increase in future periods as we continue to invest in research and development activities related to developing our product candidates, especially GBT440, and as programs advance into later stages of development that involve additional and larger clinical trials. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming, and the successful development of our product candidates is highly uncertain. As a result, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

The following table summarizes our research and development expenses incurred during the respective periods:

	Three Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in thousands, except percentages)			
Research and development expenses:				
GBT440 for the treatment of SCD	$ 10,108	$ 9,844	$ 264	3%
GBT440 for the treatment of hypoxemic pulmonary disorders	1,991			