

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

Commission File Number: 001-37798

Selecta Biosciences, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

26-1622110

(I.R.S. Employer Identification No.)

480 Arsenal Way

Watertown, MA

(Address Of Principal Executive Offices)

02472

(Zip Code)

617-923-1400

(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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 3, 2018, the registrant had 22,396,183 shares of common stock, par value \$0.0001 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, and the plans and objectives of management for future operations and future results of anticipated products are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential”, or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including the factors described under the sections in this Quarterly Report titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as the following:

- our status as a development-stage company and our expectation to incur losses in the future;
- our future capital needs and our need to raise additional funds;
- our ability to build a pipeline of product candidates and develop and commercialize drugs;
- our unproven approach to therapeutic intervention;
- our ability to enroll patients in clinical trials, timely and successfully complete those trials and receive necessary regulatory approvals;
- our ability to establish our own manufacturing facilities and to receive or manufacture sufficient quantities of our product candidates;
- our ability to maintain our existing or future collaborations or licenses;
- our ability to protect and enforce our intellectual property rights;
- federal, state, and foreign regulatory requirements, including FDA regulation of our product candidates;
- our ability to obtain and retain key executives and attract and retain qualified personnel; and
- our ability to successfully manage our growth.

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Selecta Biosciences, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share data and par value)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash, cash equivalents, and restricted cash	\$ 60,237	\$ 70,698
Short-term deposits and investments	5,991	25,940
Prepaid expenses and other current assets	2,607	2,042
Total current assets	68,835	98,680
Property and equipment, net	2,137	2,091
Restricted cash and other assets	2,465	329
Total assets	\$ 73,437	\$ 101,100
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,789	\$ 1,606
Accrued expenses	10,184	8,580
Deferred revenue, current portion	1,918	787
Total current liabilities	13,891	10,973
Non-current liabilities:		
Deferred rent and lease incentive	98	151
Loan payable	21,212	21,042
Deferred revenue, net of current portion	12,870	15,919
Other long-term liabilities	1,104	1,201
Total liabilities	49,175	49,286
Commitments and contingencies (Notes 8 and 12)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	—	—
Common stock, \$0.0001 par value; 200,000,000 shares authorized; 22,396,183 and 22,343,254 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	3	3
Additional paid-in capital	275,888	273,128
Accumulated deficit	(247,153)	(216,897)
Accumulated other comprehensive loss	(4,476)	(4,420)
Total stockholders' equity	24,262	51,814
Total liabilities and stockholders' equity	\$ 73,437	\$ 101,100

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

Selecta Biosciences, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Loss
(Amounts in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
Grant and collaboration revenue	\$ —	\$ 26	\$ —	\$ 163
Operating expenses:				
Research and development	14,407	10,994	25,546	22,038
General and administrative	4,362	4,903	9,036	8,778
Total operating expenses	18,769	15,897	34,582	30,816
Loss from operations	(18,769)	(15,871)	(34,582)	(30,653)
Investment income	246	101	534	214
Foreign currency transaction gain (loss), net	84	82	71	(83)
Interest expense	(365)	(279)	(715)	(579)
Other income (expense), net	8	—	8	—
Net loss	(18,796)	(15,967)	(34,684)	(31,101)
Other comprehensive loss:				
Foreign currency translation adjustment	(90)	(43)	(71)	80
Unrealized gain on securities	12	10	15	25
Total comprehensive loss	\$ (18,874)	\$ (16,000)	\$ (34,740)	\$ (30,996)
Net loss per share:				
Basic and diluted	\$ (0.84)	\$ (0.85)	\$ (1.55)	\$ (1.67)
Weighted average common shares outstanding:				
Basic and diluted	22,355,603	18,814,570	22,350,591	18,645,339

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

Selecta Biosciences, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Amounts in thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	
Cash flows from operating activities		
Net loss	\$ (34,684)	\$ (31,101)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	584	386
Amortization of premiums (accretion of discounts) on investments	(91)	160
Gain on disposal of property and equipment	(22)	—
Stock-based compensation expense	2,439	1,558
Non-cash interest expense	265	204
Changes in operating assets and liabilities:		
Accounts receivable	—	215
Prepaid expenses, deposits and other current assets	(107)	1,356
Accounts payable	155	(2,254)
Deferred revenue	(88)	(90)
Accrued expenses and other liabilities	1,167	5,636
Net cash used in operating activities	<u>(30,382)</u>	<u>(23,930)</u>
Cash flows from investing activities		
Receipts from the maturity of investments	33,955	27,147
Purchases of short-term investments	(13,900)	(32,522)
Purchases of property and equipment	(456)	(459)
Proceeds from the sale of property and equipment	31	—
Net cash provided by (used in) investing activities	<u>19,630</u>	<u>(5,834)</u>
Cash flows from financing activities		
Repayments of long-term debt	—	(1,836)
Proceeds from Private Placement, net of issuance costs (\$2.9 million)	—	49,986
Proceeds from issuance of common stock	—	5,000
Proceeds from exercise of stock options	311	504
Proceeds from issuance of common stock under Employee Stock Purchase Plan	51	—
Net cash provided by financing activities	<u>362</u>	<u>53,654</u>
Effect of exchange rate changes on cash	(71)	80
Net change in cash, cash equivalents, and restricted cash	(10,461)	23,970
Cash, cash equivalents, and restricted cash at beginning of period	71,027	59,050
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 60,566</u>	<u>\$ 83,020</u>
Supplement cash flow information		
Cash paid for interest	\$ 539	\$ 461
Noncash investing activities		
Purchase of property and equipment not yet paid	\$ 183	\$ 12
Unrealized gain on marketable securities	\$ 15	\$ 25

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

Selecta Biosciences, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of the Business and Basis of Presentation

Selecta Biosciences, Inc. (the “Company”) was incorporated in Delaware on December 10, 2007, and is based in Watertown, Massachusetts. The Company is a biopharmaceutical company dedicated to developing the first generation of nanoparticle immunomodulatory drugs for the treatment and prevention of human diseases. Since inception, the Company has devoted its efforts principally to research and development of its technology and product candidates, recruiting management and technical staff, acquiring operating assets, and raising capital.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, new technological innovations, protection of proprietary technology, dependence on key personnel, compliance with government regulations and the need to obtain additional financing. Product candidates currently under development will require significant additional research and development efforts, including extensive pre-clinical and clinical testing and regulatory approval, prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel infrastructure and extensive compliance-reporting capabilities.

The Company’s product candidates are in development. There can be no assurance that the Company’s research and development will be successfully completed, that adequate protection for the Company’s intellectual property will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. Even if the Company’s product development efforts are successful, it is uncertain when, if ever, the Company will generate significant revenue from product sales. The Company operates in an environment of rapid change in technology and substantial competition from pharmaceutical and biotechnology companies. In addition, the Company is dependent upon the services of its employees and consultants.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements for the three and six months ended June 30, 2018 and 2017 have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2017 included in the Company’s Annual Report on Form 10-K that was filed with the SEC on March 15, 2018 (the “Annual Report on Form 10-K”). The unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all adjustments which are necessary for a fair statement of the Company’s financial position as of June 30, 2018 and consolidated results of operations and cash flows for the six months ended June 30, 2018. Such adjustments are of a normal and recurring nature. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018.

Liquidity

The Company has incurred losses since inception and negative cash flows from operating activities. As of June 30, 2018 and December 31, 2017, the Company had an accumulated deficit of \$247.2 million and \$216.9 million, respectively. The Company’s cash and cash equivalents as of June 30, 2018 and December 31, 2017, includes \$0.7 million and \$1.2 million of unrestricted cash held by its Russian subsidiary. The future success of the Company is dependent upon its ability to obtain additional capital through issuances of equity and debt securities and from collaboration and grant agreements in order to further the development of its technology and product candidates, and ultimately upon its ability to attain profitable operations. There can be no assurance that the Company will be able to obtain the necessary financing to successfully develop and market its product candidates or attain profitability.

Based on the current operating plan, the Company expects that its cash, cash equivalents and short-term investments as of June 30, 2018, will fund its operating expenses and capital expenditure requirements through the end of the third quarter of 2019. The current operating plan accounts for funding in preparation for the planned Phase 3 clinical trial for SEL-212 and initial patient enrollment into a couple of Phase 3 clinical trial sites, but the Company will require an additional equity offering or other external sources of capital to expand enrollment in the Phase 3 trial and to conduct the planned head-to-head trial against Krystexxa. The Company has based this estimate on assumptions that may prove to be wrong, and the Company could use its capital resources sooner than it currently expects. Additionally, the process of testing product candidates in clinical trials is costly, and the timing

of progress in these trials is uncertain. Because the Company's product candidates are in various stages of clinical and preclinical development and the outcome of these efforts is uncertain, the Company cannot estimate the actual amounts necessary to successfully complete the development and commercialization of its product candidates or whether, or when, it may achieve profitability.

Guarantees and Indemnifications

As permitted under Delaware law, the Company indemnifies its officers, directors, consultants and employees for certain events or occurrences that happen by reason of the relationship with, or position held at, the Company. Through June 30, 2018, the Company had not experienced any losses related to these indemnification obligations, and no claims were outstanding. The Company does not expect significant claims related to these indemnification obligations and, consequently, concluded that the fair value of these obligations is negligible, and no related reserves were established.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Selecta RUS, LLC ("Selecta (RUS)"), a Russian limited liability corporation, and Selecta Biosciences Security Corporation, a Massachusetts Security Corporation. All significant intercompany accounts and transactions have been eliminated.

Foreign Currency

The functional currency of Selecta (RUS) is the Russian ruble. Assets and liabilities of Selecta (RUS) are translated at period-end exchange rates, while revenues and expenses are translated at average exchange rates for the period. Translation gains and losses are reflected in accumulated other comprehensive loss within stockholders' deficit. Foreign currency transaction gains or losses are reflected in the consolidated statements of operations and comprehensive loss.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company's 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's management considers many factors in selecting appropriate financial accounting policies and controls, and bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. In preparing these consolidated financial statements, management used significant estimates in the following areas, among others: revenue recognition, accounting for stock-based compensation and estimating accrued research and development expenses. The Company assesses the above estimates on an ongoing basis; however, actual results could materially differ from those estimates.

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, the Company's Chief Executive Officer, in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment, the research and development of nanoparticle immunomodulatory drugs for the treatment and prevention of human diseases.

Cash Equivalents, Short-term Investments and Restricted Cash

Cash equivalents include all highly liquid investments maturing within 90 days from the date of purchase. Investments consist of securities with remaining maturities greater than 90 days when purchased. The Company classifies these investments as available-for-sale and records them at fair value in the accompanying consolidated balance sheets. Unrealized gains or losses are included in accumulated other comprehensive income (loss). Changes in fair value are recognized through net income. Premiums or discounts from par value are amortized to investment income over the life of the underlying investment.

The Company, as part of its cash management strategy, may invest in reverse repurchase agreements. All reverse repurchase agreements are tri-party and have maturities of three months or less at the time of investment. These agreements are collateralized by U.S. treasury securities for an amount no less than 102% of their value.

Although available to be sold to meet operating needs or otherwise, securities are generally held through maturity. The cost of securities sold is determined based on the specific identification method for purposes of recording realized gains and losses. During the reporting periods, there were no realized gains or losses on sales of investments, and no investments were adjusted for other than temporary declines in fair value.

As of June 30, 2018, the Company has restricted cash balances relating to a secured letter of credit in connection with its Headquarters Lease (as defined in Note 8). The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the consolidated statement of cash flows:

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 60,237	\$ 82,630
Restricted cash	—	74
Restricted cash included in other assets	329	316
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	<u>\$ 60,566</u>	<u>\$ 83,020</u>

Concentrations of Credit Risk and Off-Balance Sheet Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash and cash equivalents are deposited with federally insured financial institutions in the United States and may, at times, exceed federally insured limits. Management believes that the financial institutions that hold the Company's deposits are financially credit worthy and, accordingly, minimal risk exists with respect to those balances. Generally, these deposits may be redeemed upon demand and therefore bear minimal interest rate risk. As an integral part of operating its Russian subsidiary, the Company also maintains cash in Russian bank accounts in denominations of both Russian rubles and U.S. dollars. As of June 30, 2018, the Company maintained approximately \$0.7 million in Russian bank accounts, of which \$0.7 million was held in U.S. dollars.

The Company did not have any off-balance sheet arrangements as of June 30, 2018 and December 31, 2017.

Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash equivalents, short-term investments, restricted cash, accounts payable, loans payable, and common stock warrants. The carrying amounts of cash equivalents, short-term investments, restricted cash, accounts receivable, and accounts payable approximate their estimated fair value due to their short-term maturities. At June 30, 2018, the carrying amount of the Company's loan payable approximates its estimated fair value due to the consistency between the prevailing market rates in effect for similar loans and the effective interest rate of 7.01% for the Company's loan outstanding.

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1—Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value of the Company's loan payable was determined using Level 3 inputs.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may change for many instruments. This condition could cause an instrument to be reclassified within levels in the fair value hierarchy. There were no transfers within the fair value hierarchy during the six months ended June 30, 2018 or the year ended December 31, 2017.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets, generally seven years for furniture and fixtures, five years for laboratory equipment and office equipment and three years for computer equipment. Leasehold improvements are amortized over their useful life or the life of the lease, whichever is shorter. Major additions and betterments are capitalized. Maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations as incurred. Costs incurred for construction in progress are recorded as assets and are not amortized until the construction is substantially complete and the assets are ready for their intended use.

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for potential impairment. Impairment is assessed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends, and product development cycles. Impairment in the carrying value of each asset is assessed when the undiscounted expected future cash flows derived from the asset are less than their carrying value. The Company did not recognize any impairment charges as of June 30, 2018 and December 31, 2017.

Debt Issuance Costs

Debt issuance costs and fees paid to lenders are classified as a debt discount and are recorded as a direct deduction from the face amount of the related debt. Issuance costs paid to third parties that are the direct result of the debt issuance are capitalized as a direct deduction from the face amount of the related debt. Debt issuance costs are amortized over the term of the related debt using the interest method and recorded as interest expense. Costs and fees paid to third parties are expensed as incurred.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in the equity of a business entity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) consists of: (i) all components of net loss and (ii) all components of comprehensive loss other than net loss, referred to as other comprehensive loss. Other comprehensive loss is comprised of foreign currency translation adjustments and the unrealized gains and losses on available-for-sale securities.

The components of accumulated other comprehensive income (loss), net of tax, were as follows (in thousands):

	Foreign currency translation adjustment	Unrealized gains (losses) on available-for-sale securities	Accumulated other comprehensive income (loss)
Balance at December 31, 2017	\$ (4,404)	\$ (16)	\$ (4,420)
Other comprehensive income (loss) during the period	(71)	15	(56)
Balance at June 30, 2018	\$ (4,475)	\$ (1)	\$ (4,476)

Revenue Recognition

The Company currently generates its revenue through grants, collaboration and license agreements with strategic collaborators for the development and commercialization of product candidates. Prior to January 1, 2018, the Company recognized revenue in accordance with ASC Topic 605, *Revenue Recognition* ("ASC 605"). Under ASC 605, the Company recognized revenue when all of the following criteria were met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

Under ASC 605, amounts received prior to satisfying the revenue recognition criteria were recognized as deferred revenue in the Company's consolidated balance sheets. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date were classified as deferred revenue, current portion. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date were classified as deferred revenue, net of current portion.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 and its related amendments (collectively referred to as ASC 606) requires that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606, *Revenue from Contracts with Customers*, on January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC 605, which is also referred to herein as "legacy GAAP" or the "previous guidance". Refer to Note 12 to its consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for the impact of adoption of ASU 2014-09 on the Company's consolidated financial position, results of operations, equity and cash flows as of the adoption date and for the three and six months ended June 30, 2018. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures.

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies each performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. If a promised good or service is not distinct, it is combined with other performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. For example, certain performance obligations associated with Spark (see Note 12 to the Company's consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q) will be satisfied over time, and revenue will be recognized using the output method, based on the proportion of actual deliveries to the total expected deliveries over the initial term.

Collaboration and Grant Revenue

The Company currently generates its revenue through grants, collaboration and license agreements with strategic collaborators for the development and commercialization of product candidates. The grants, collaboration and license agreements are within the scope of ASC 606.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under the agreements, the Company performs the five steps above. As part of the accounting for the arrangement, the Company must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. The Company uses key assumptions to determine the stand-alone selling price, which may include market conditions, reimbursement rates for personnel costs, development timelines and probabilities of regulatory success.

The Company capitalizes the incremental costs of obtaining a contract with a customer if it expects to recover those costs. Such incremental costs would not have been incurred if the contract with a customer had not been obtained.

Licenses of intellectual property: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. If not distinct, the license is combined with other performance obligations in the contract. For licenses that are combined with other performance obligations, the Company assesses the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition. Optional licenses are evaluated to determine if they are issued at a discount, and therefore, represent material rights and accounted for as separate performance obligations.

Milestone Payments: At the inception of each arrangement that includes developmental and regulatory milestone payments, the Company evaluates whether the achievement of each milestone specifically relates to the Company's efforts to satisfy a performance obligation or transfer a distinct good or service within a performance obligation. If the achievement of a milestone is considered a direct result of the Company's efforts to satisfy a performance obligation or transfer a distinct good or service and the receipt of the payment is based upon the achievement of the milestone, the associated milestone value is allocated to

that distinct good or service. If the milestone payment is not specifically related to the Company's effort to satisfy a performance obligation or transfer a distinct good or service, the amount is allocated to all performance obligations using the relative standalone selling price method. The Company also evaluates the milestone to determine whether they are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price to be allocated, otherwise, such amounts are constrained and excluded from the transaction price. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the transaction price. Any such adjustments to the transaction price are allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

Manufacturing Supply Services: Arrangements that include a promise for future supply of drug substance or drug product for either clinical development or commercial supply at the customer's discretion are evaluated to determine if they are distinct and optional. For optional services that are distinct, the Company assesses if they are priced at a discount, and therefore, provide a material right to the licensee to be accounted for as separate performance obligations.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company will recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied) in accordance with the royalty recognition constraint.

Research and Development Costs

Costs incurred in the research and development of the Company's products are expensed as incurred. Research and development expenses include costs incurred in performing research and development activities, including salaries and benefits, facilities cost, overhead costs, contract services, supplies and other outside costs. Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made.

Clinical Trial Costs

Clinical trial costs are a component of research and development expenses. The Company accrues and expenses clinical trial activities performed by third parties based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activation, and other information provided to the Company by its vendors.

Income Taxes

The Company provides deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the Company's financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the deferred tax assets to the amount that will more-likely-than-not be realized.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more-likely-than-not that a position will be sustained, none of the benefit attributable to the position is recognized. The tax benefit to be recognized for any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes. To date, the Company has not incurred interest and penalties related to uncertain tax positions.

Warrants

The Company determines the accounting classification of warrants that are issued, as either liability or equity, by first assessing whether the warrants meet liability classification in accordance with ASC 480-10, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and then in accordance with ASC 815-40, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. Under ASC 480, warrants are considered liability classified if the warrants are mandatorily redeemable, obligate the issuer to settle the warrants or the underlying shares by paying cash or other assets, or warrants that must or may require settlement by issuing variable number of shares.

If warrants do not meet liability classification under ASC 480-10, the Company assesses the requirements under ASC 815-40, which states that contracts that require or may require the issuer to settle the contract for cash are liabilities recorded at fair value, irrespective of the likelihood of the transaction occurring that triggers the net cash settlement feature. If the warrants do not require liability classification under ASC 815-40, in order to conclude equity classification, the Company assesses whether the warrants are indexed to its common stock and whether the warrants are classified as equity under ASC 815-40 or other

applicable GAAP. After all relevant assessments are made, the Company concludes whether the warrants are classified as liability or equity. Liability classified warrants are required to be accounted for at fair value both on the date of issuance and on subsequent accounting period ending dates, with all changes in fair value after the issuance date recorded in the statements of operations as a gain or loss. Equity classified warrants are accounted for at fair value on the issuance date with no changes in fair value recognized after the issuance date.

Stock-Based Compensation

The Company accounts for all stock-based compensation granted to employees and non-employees using a fair value method. Stock-based compensation awarded to employees is measured at the grant date fair value and is recognized over the requisite service period of the awards, usually the vesting period, on a straight-line basis, net of estimated forfeitures. Prior to the adoption of ASU 2018-07 during the second quarter of 2018 described below in "Recent Accounting Pronouncements", stock-based compensation awarded to non-employees was subject to revaluation over its vesting terms. Subsequent to the adoption of ASU 2018-07, non-employee share-based payment awards are measured on the date of grant, similar to share-based payment awards granted to employees. The Company reduces recorded stock-based compensation for estimated forfeitures. To the extent that actual forfeitures differ from the Company's estimates, the differences are recorded as a cumulative adjustment in the period the estimates were adjusted. Stock-based compensation expense recognized in the consolidated financial statements is based on awards that are ultimately expected to vest.

Net Loss Per Share

The Company has reported losses since inception and has computed basic net loss per share by dividing net loss by the weighted average number of common shares outstanding for the period. The Company has computed diluted net loss per common share after considering all potentially dilutive common shares, including stock options, convertible preferred stock, and warrants outstanding during the period except where the effect of including such securities would be antidilutive. Because the Company has reported net losses since inception, these potential common shares have been anti-dilutive and basic and diluted loss per share have been the same.

Deferred Rent

Rent expense and lease incentives from operating leases are recognized on a straight-line basis over the lease term. The difference between rent expense recognized and rental payments is recorded as deferred rent in the accompanying consolidated balance sheets.

Contingent Liabilities

The Company accounts for its contingent liabilities in accordance with ASC No. 450, *Contingencies*. A provision is recorded when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. As of June 30, 2018 and December 31, 2017, the Company was not a party to any litigation that could have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. ASU 2016-01 is effective for annual reporting beginning after December 15, 2017, including interim periods within the year of adoption, and calls for prospective application, with early application permitted. The Company adopted ASU 2016-01 during the first quarter of 2018. Because the Company held no equity investments upon adoption, there was no impact on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires a lessee to separate the lease components from the non-lease components in a contract and recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. It also aligns lease accounting for lessors with the revenue recognition guidance in ASU 2014-09. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company believes it has less than five lease contracts that will need to be evaluated under ASU 2016-02, and thus does not expect the adoption of ASU 2016-02 to have a material effect on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230) - Classifications of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), to clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The adoption of ASU 2016-15 will have a retrospective impact to its third quarter due to the recognition of debt extinguishment costs during the three and nine months ended September 30, 2017. The Company will classify debt extinguishment costs as cash outflows for financing activities in accordance with ASU 2016-15.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash* ("ASU 2016-18"). This guidance requires that a statement of cash flows explain the total change during the period of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period to total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter ended March 31, 2018. The adoption of ASU 2016-18 resulted in the Company's cash, cash equivalents and restricted cash being included in the beginning and ending amounts for the periods shown on the statement of cash flows and was applied retroactively and reflected in the balances presented for any prior periods. The Company believes that the adoption of this guidance did not have a significant impact on its consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 specifies the types of changes to the terms or conditions of a share-based payment award that require an entity to apply modification accounting in accordance with Topic 718. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for public entities for fiscal years beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-01 did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (ASU 2018-07), to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU is effective for public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company early adopted ASU 2018-07 during the second quarter of 2018. Prior to the adoption of ASU 2018-07, stock-based compensation awarded to non-employees was subject to revaluation over its vesting terms. Subsequent to the adoption of ASU 2018-07, non-employee share-based payment awards are measured on the date of grant, similar to share-based payment awards granted to employees. The adoption of ASU 2018-07 did not have a material impact on the Company's consolidated financial statements.

3. Available-for-Sale Marketable Securities

As of June 30, 2018 and December 31, 2017, the Company's available-for-sale marketable securities consisted of U.S. government and agency securities and corporate bonds.

The following tables summarize the Company's available-for-sale marketable securities by major type of security as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	\$ 5,992	\$ —	\$ (1)	\$ 5,991
Total available-for-sale marketable securities	<u>\$ 5,992</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 5,991</u>

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	\$ 12,798	\$ —	\$ (10)	\$ 12,788
Corporate bonds	13,158	—	(6)	13,152
Total available-for-sale marketable securities	<u>\$ 25,956</u>	<u>\$ —</u>	<u>\$ (16)</u>	<u>\$ 25,940</u>

All available-for-sale marketable securities are classified in the Company's consolidated balance sheets as short-term deposits and investments.

The Company classifies its marketable debt securities based on their contractual maturity dates. As of June 30, 2018, the Company's marketable debt securities mature at various dates through August 2018. The fair values and amortized cost of marketable debt securities by contractual maturity were as follows (in thousands):

	June 30, 2018		December 31, 2017	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	\$ 5,991	\$ 5,992	\$ 25,940	\$ 25,956

As of June 30, 2018, the Company held a total of 2 U.S. government and agency security positions, all of which were in an unrealized loss position, none of which had been in an unrealized loss position for 12 months or greater. The aggregate fair value of U.S. government and agency security investments in an unrealized loss position is \$6.0 million.

Based on the Company's review of these securities, the Company believes that the cost basis is recoverable, and it had no other-than-temporary impairments on these securities as of June 30, 2018. The Company does not intend to sell these debt securities and the Company believes it is not more-likely-than-not that it will be required to sell these securities before the recovery of their amortized cost basis, which may be at maturity.

4. Net Loss Per Share

The Company has reported a net loss for the three and six months ended June 30, 2018 and 2017, and for this reason basic and diluted net loss per share are the same for all periods presented. The following table sets forth the computation of basic and diluted net loss per share (in thousands, except share and per-share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	\$ (18,796)	\$ (15,967)	\$ (34,684)	\$ (31,101)
Denominator:				
Weighted-average common shares outstanding—basic and diluted	22,355,603	18,814,570	22,350,591	18,645,339
Net loss per share —basic and diluted	\$ (0.84)	\$ (0.85)	\$ (1.55)	\$ (1.67)

All potential dilutive common shares have been excluded from the computation of the diluted net loss per share for all periods presented, as the effect would have been anti-dilutive. Potential dilutive common share equivalents consist of the following:

	June 30,	
	2018	2017
Stock options to purchase common stock	3,242,670	2,143,734
Unvested restricted stock units	40,000	—
Stock warrants to purchase common stock	176,432	176,432
Total	3,459,102	2,320,166

5. Fair Value Measurements

The tables below present information about the Company's financial assets that are measured and carried at fair value as of June 30, 2018 and December 31, 2017, and indicate the level within the fair value hierarchy where each measurement is classified. Below is a summary of assets measured at fair value on a recurring basis (in thousands):

	June 30, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
Cash equivalents:				
Money market funds	\$ 32,260	\$ —	\$ —	\$ 32,260
Commercial paper	—	1,699	—	1,699
Total cash equivalents	\$ 32,260	\$ 1,699	\$ —	\$ 33,959
Short-term investments:				
U.S. government and agency securities	\$ —	\$ 5,991	\$ —	\$ 5,991
Total short-term investments	\$ —	\$ 5,991	\$ —	\$ 5,991

	December 31, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Cash equivalents:				
Money market funds	\$ 39,478	\$ —	\$ —	\$ 39,478
U.S. government and agency securities	—	1,000	—	1,000
Total cash equivalents	\$ 39,478	\$ 1,000	\$ —	\$ 40,478
Short-term investments:				
Corporate bonds	\$ 13,152	\$ —	\$ —	\$ 13,152
U.S. government and agency securities	—	12,788	—	12,788
Total short-term investments	\$ 13,152	\$ 12,788	\$ —	\$ 25,940

At June 30, 2018, cash and cash equivalent investments were held in money market funds and commercial paper maturing within 90 days from the date of purchase. At December 31, 2017, cash and cash equivalent investments were held in money market funds and U.S. government and agency securities maturing within 90 days from the date of purchase.

The average maturity date for U.S. government and agency securities, included in investments at June 30, 2018 and December 31, 2017 was 181 days and 179 days, respectively. Fair value of U.S. government and agency securities approximated amortized value at each reporting date.

The average maturity date for corporate bonds, included in investments at December 31, 2017 was 168 days. Fair value of corporate bonds approximated amortized value at December 31, 2017.

6. Property and Equipment

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

	June 30, 2018	December 31, 2017
Laboratory equipment	\$ 5,138	\$ 5,138
Computer equipment and software	562	480
Leasehold improvements	278	278
Furniture and fixtures	252	235
Office equipment	118	118
Construction in process	196	—
Total property and equipment	6,544	6,249
Less accumulated depreciation	(4,407)	(4,158)
Property and equipment, net	\$ 2,137	\$ 2,091

Depreciation expense was \$0.4 million and \$0.2 million for the three months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, depreciation expense was \$0.6 million and \$0.4 million, respectively.

7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Payroll and employee related expenses	\$ 1,815	\$ 1,902
Current portion of deferred rent and lease incentive	94	72
Collaboration and licensing	1,023	1,020
Accrued patent fees	699	268
Accrued external research and development costs	5,210	3,578
Accrued professional and consulting services	528	859
Accrued grant refund	175	175
Accrued interest	94	89
Other	546	617
Accrued expenses	\$ 10,184	\$ 8,580

8. Commitments and Contingencies

Operating Leases

The Company has a non-cancellable operating lease for its laboratory and office space located at 480 Arsenal Way, Watertown, Massachusetts ("Headquarters Lease"). As part of the Headquarters Lease agreement, the landlord provided the Company a tenant improvement allowance of up to \$0.7 million, which the Company fully utilized during 2012. The tenant improvement allowance is accounted for as a lease incentive obligation and is being amortized as a reduction to rent expense over the lease term. The leasehold improvements are capitalized as a component of property and equipment.

In connection with the Headquarters Lease, the Company secured a letter of credit for \$0.3 million which renews automatically each year and is classified in restricted cash and other deposits in the accompanying consolidated balance sheets.

In August 2016, the Company signed an amendment to the Headquarters Lease, which extends the term through March 31, 2020. The Headquarters Lease includes a rent escalation clause, and accordingly, rent expense is being recognized on a straight-line basis over the lease term.

In October 2017, the Company entered into a lease for approximately 5,100 square feet of additional office space located in Watertown, Massachusetts. The lease expires on March 31, 2020. The lease includes a rent escalation clause, and accordingly, rent expense is being recognized on a straight-line basis over the lease term.

As of both June 30, 2018 and December 31, 2017, deferred rent and lease incentive liability totaled \$0.2 million. Included in that amount, the current portion of deferred rent and lease incentive liability is classified as accrued expenses and was less than \$0.1 million at both June 30, 2018 and December 31, 2017.

The Company has a month-to-month facility agreement for its Moscow, Russia facility. Rent expense is recognized as incurred.

Rent expense for the three months ended June 30, 2018 and 2017 was \$0.5 million and \$0.4 million, respectively. For the six months ended June 30, 2018 and 2017, rent expense was \$1.0 million and \$0.9 million, respectively.

As of June 30, 2018, the aggregate future minimum lease payments related to these leases are as follows (in thousands):

Year ending December 31,		
2018 (Remainder)	\$	724
2019		1,482
2020		375
Total minimum lease payments	\$	<u>2,581</u>

Other

As permitted under Delaware law, the Company indemnifies its directors for certain events or occurrences while the director is, or was, serving at the Company's request in such capacity. The term of the indemnification is for the director's lifetime. The maximum potential amount of future payments the Company could be required to make is unlimited; however, the Company has directors' insurance coverage that limits its exposure and enables it to recover a portion of any future amounts paid. The Company also has indemnification arrangements under certain of its facility leases that require it to indemnify the landlord against certain costs, expenses, fines, suits, claims, demands, liabilities, and actions directly resulting from certain breaches, violations, or non-performance of any covenant or condition of the Company's lease. The term of the indemnification is for the term of the related lease agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. To date, the Company had not experienced any material losses related to any of its indemnification obligations, and no material claims with respect thereto were outstanding.

The Company is a party in various other contractual disputes and potential claims arising in the ordinary course of business. The Company does not believe that the resolution of these matters will have a material adverse effect the Company's business, financial position, results of operations or cash flows.

9. Debt

2015 Term Loan

On August 9, 2013, the Company entered into a loan and security agreement with Oxford Finance LLC ("Oxford") and Square 1 Bank ("Square 1") to borrow up to \$7.5 million. The Company initially borrowed \$3.0 million in August 2013 and subsequently borrowed an additional \$4.5 million in July 2014. In December 2015, the Company refinanced this debt facility to increase the amount of the borrowing to \$12.0 million and to extend the repayment term. The amounts borrowed are collectively referred to as the "2015 Term Loan". The lenders for the refinanced debt facility are Oxford and Pacific Western Bank ("Pacific Western"). Pacific Western had acquired Square 1 since the time of the original loan. Such a change in lender

does not constitute third party financing on its own and does not require extinguishment accounting. As a result of the refinancing, the stated interest rate was also adjusted to reflect the current market borrowing rate.

Prior to the extinguishment of the 2015 Term Loan debt in September 2017 that is discussed in greater detail below, the 2015 Term Loan was collateralized by substantially all of the assets of the Company and bore interest at 8.1% per annum. The monthly payments for the 2015 Term Loan were initially interest only through January 2017. Principal repayments for the 2015 Term Loan were due over 30 monthly installments beginning on February 1, 2017.

The 2015 Term Loan could be prepaid at the Company's option at any time prior to maturity subject to a prepayment fee of 2% if prepaid after the first anniversary but before the second anniversaries, and 1% if prepaid after the second anniversary. The 2015 Term Loan did not include any financial covenants. The 2015 Term Loan required a final payment fee of 6.0% on the aggregate principal amounts borrowed upon repayment at maturity, on a prepayment date, or upon default. The final payment fee totaling \$0.7 million was recorded as a loan discount.

In connection with the 2015 Term Loan, the Company granted the lenders warrants in August 2013 to purchase up to 26,668 shares of the Company's Series D Preferred and additional warrants in July 2014 to purchase up to 40,000 shares of the Company's Series D Preferred. As of the IPO, the warrants to purchase up to 66,668 shares of the Company's Series D Preferred were converted to warrants to purchase up to 17,888 shares of the Company's common stock at an exercise price of \$16.77 per share. These warrants are classified as permanent equity in the accompanying consolidated balance sheets and will expire ten years from the date of issuance.

Additionally, with the refinancing of the 2015 Term Loan at December 31, 2015, the Company granted the lenders 37,978 shares of the Company's Series E Preferred which also was converted at the IPO to warrants to purchase up to 15,094 shares of Company's common stock at an exercise price of \$11.32 per share. These warrants are classified as permanent equity in the accompanying consolidated balance sheets and will expire ten years from the date of issuance.

The initial grant date fair value of the Series D Preferred and Series E Preferred warrants was \$0.1 million and \$0.1 million for each issuance, respectively and was recorded as a loan discount.

In December 2016, a total of 16,493 warrants to purchase common stock were exercised under a cashless exercise, resulting in a net issuance of 4,697 shares of common stock. The warrant exercise price had been established at the time the warrants were converted.

2017 Term Loan

On September 12, 2017, the Company entered into a term loan facility of up to \$21.0 million (the "2017 Term Loan") with Silicon Valley Bank, a California corporation ("SVB"), the proceeds of which were used to repay the 2015 Term Loan and for general corporate and working capital purposes. The Company refers to the 2015 Term Loan and the 2017 Term Loan, collectively, as the "Term Loans." The 2017 Term Loan is governed by a loan and security agreement, dated September 12, 2017, between the Company and SVB (the "Loan Agreement"). The 2017 Term Loan was funded in full on September 13, 2017 (the "Funding Date").

On the Funding Date, the Company entered into a payoff letter with SVB, pursuant to which SVB utilized \$10.0 million of the 2017 Term Loan to pay off all outstanding obligations under the 2015 Term Loan. The Company recognized a loss on extinguishment of debt in the amount of \$0.7 million during the three months ended September 30, 2017.

The Company incurred less than \$0.1 million in debt issuance costs in connection with the closing of the 2017 Term Loan. Debt issuance costs are presented in the consolidated balance sheet as a direct deduction from the associated liability and amortized to interest expense over the term of the related debt.

The 2017 Term Loan will mature on February 1, 2022. Each advance under the 2017 Term Loan accrues interest at a floating per annum rate equal to one-half of one percent above the prime rate (as published in the money rates section of The Wall Street Journal). The 2017 Term Loan provides for interest-only payments monthly until August 31, 2019. Thereafter, amortization payments will be payable monthly in equal installments of principal and variable interest to fully amortize the outstanding principal over the remaining term of the loan. The monthly interest is subject to recalculation upon a change in the prime rate. The Company may prepay the 2017 Term Loan in full but not in part provided that the Company (i) provides five business days' prior written notice to SVB, (ii) pays on the date of such prepayment (A) all outstanding principal plus accrued and unpaid interest, and (B) a prepayment premium of 3% if prepaid before the first anniversary, 2% if prepaid after the first anniversary but before the second anniversaries, and 1% if prepaid after the second anniversary.

Amounts outstanding during an event of default are payable upon SVB's demand and shall accrue interest at an additional rate of 4.0% per annum of the past due amount outstanding. The events of default under the Loan Agreement include, but are not limited to, the Company's failure to make any payments of principal or interest under the Loan Agreement or other transaction documents, the Company's breach or default in the performance of any covenant under the Loan Agreement or other transaction documents, the occurrence of a material adverse effect, the Company making a false or misleading representation or

warranty in any material respect under the Loan Agreement, the Company's insolvency or bankruptcy, any attachment or judgment on the Company's assets in excess of approximately \$0.3 million, or the occurrence of any default under any agreement or obligation of the Company involving indebtedness in excess of approximately \$0.3 million. If an event of default occurs, SVB is entitled to take enforcement action, including acceleration of amounts due under the Loan Agreement.

The 2017 Term Loan is secured by a lien on substantially all of the assets of the Company, other than intellectual property, provided that such lien on substantially all assets includes any rights to payments and proceeds from the sale, licensing or disposition of intellectual property. The Company has also granted SVB a negative pledge with respect to its intellectual property.

The 2017 Term Loan does not include any financial covenants. The 2017 Term Loan requires a final payment fee of 5% on the aggregate principal amounts borrowed upon repayment at maturity, on a prepayment date, or upon default. The final payment fee totaling \$1.1 million is recorded as a loan discount. Under the 2017 Term Loan, the Company is not required to maintain a minimum cash balance. In addition, the 2017 Term Loan contains a subjective acceleration clause whereby in an event of default, an immediate acceleration of repayment occurs if there is a material impairment of the lenders' lien or the value of the collateral, a material adverse change in the business condition or operations, or a material uncertainty exists that any portion of the loan may not be repaid. To date, there have been no such events and the lender has not exercised its right under this clause.

The Company assessed all terms and features of the 2017 Term Loan in order to identify any potential embedded features that would require bifurcation. As part of this analysis, the Company assessed the economic characteristics and risks of the 2017 Term Loan, including any put and call features. The Company determined that all features of the 2017 Term Loan were clearly and closely associated with the debt host and did not require bifurcation as a derivative liability, or the fair value of the embedded feature was immaterial to the Company's consolidated financial statements. The Company reassesses the identified features on a quarterly basis to determine if they require bifurcation.

As of June 30, 2018 and December 31, 2017, the outstanding principal balance under the Term Loans was \$21.0 million.

Future minimum principal and interest payments on the 2017 Term Loan as of June 30, 2018 are as follows (in thousands):

2018 (Remainder)	\$	590
2019		4,638
2020		9,163
2021		8,692
2022		1,753
Total minimum debt payments	\$	24,836
Less: Amount representing interest		(2,786)
Less: Debt discount and deferred charges		(838)
Loan payable	\$	21,212

During the three months ended June 30, 2018 and 2017, the Company recognized \$0.4 million and \$0.3 million, respectively, of interest expense related to the Term Loans. During the six months ended June 30, 2018 and 2017, interest expense was \$0.7 million and \$0.6 million, respectively, related to the Term Loans.

10. Stockholders' Equity

2017 Shelf Registration Statement

On August 10, 2017, the Company filed a universal shelf registration statement on Form S-3 with the SEC to sell up to \$200 million of equity and/or debt securities and entered into a sales agreement with Jefferies LLC, as sales agent, pursuant to which the Company may, from time to time, issue and sell common stock with an aggregate value of up to \$50 million in an at-the-market, or ATM, offering. The shelf registration statement was declared effective by the SEC on August 28, 2017. As of June 30, 2018, no securities have been issued from this shelf registration statement.

PIPE Financing

On June 26, 2017, the Company entered into a securities purchase agreement (the "Institutional Purchase Agreement") with a select group of institutional investors (the "Institutional Investors") and a securities purchase agreement with Timothy Springer, Ph.D., a member of the board of directors (the "Springer Purchase Agreement") for a private placement of the Company's securities (the "2017 PIPE"). The closing of the 2017 PIPE occurred on June 27, 2017.

Pursuant to the Institutional Purchase Agreement, the Company agreed to sell an aggregate of 2,750,000 shares of its common stock, par value \$0.0001 per share, at a purchase price equal to \$16.00 per share. Pursuant to the Springer Purchase Agreement, the Company agreed to sell to Dr. Springer an aggregate of 338,791 shares of common stock at a purchase price equal to \$17.71 per share, which was equal to the most recent consolidated closing bid price on the Nasdaq Global Market on June 23, 2017,

and warrants to purchase up to 79,130 shares of common stock (“Warrant Shares”), exercisable at \$17.71 per Warrant Share, and with a term of five years. The purchase price for each warrant was equal to \$0.125 for each Warrant Share, consistent with Nasdaq Global Market requirements for an “at the market” offering. Under the terms of the Common Stock Purchase Warrant, the warrants can be settled in unregistered shares. The Warrant Shares qualify for equity classification. The fair value of the allocated proceeds was determined on the relative fair value basis.

After deducting for placement agent fees and offering expenses, the aggregate net proceeds from the 2017 PIPE was approximately \$47.1 million. The Company expects to use the proceeds from the 2017 PIPE towards working capital requirements and general corporate purposes.

On June 27, 2017, in connection with the 2017 PIPE, the Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the Institutional Investors and Dr. Springer (together, the “Investors”). Pursuant to the Registration Rights Agreement, the Company agreed to prepare and file a registration statement with the Securities and Exchange Commission (the “SEC”) within 20 days after the closing of the 2017 PIPE for purposes of registering the resale of the shares of common stock issued and sold in the 2017 PIPE (the “Shares”), the Warrant Shares, and any shares of common stock issued as a dividend or other distribution with respect to the Shares or Warrant Shares. The registration statement was declared effective by the SEC on July 21, 2017.

The Company agreed to indemnify the Investors, their officers, directors, members, employees and agents, successors and assigns under the registration statement from certain liabilities and to pay all fees and expenses (excluding any legal fees of the selling holder(s), and any underwriting discounts and selling commissions) incident to the Company’s obligations under the Registration Rights Agreement.

Common Stock

As of June 30, 2018, the Company has 200,000,000 shares of common stock authorized for issuance, \$0.0001 par value per share, with 22,396,183 shares issued and outstanding. The voting, dividend and liquidation rights of the common stockholders are subject to and qualified by the rights, powers and preferences of the preferred stock. The common stock has the following characteristics:

Voting

The common stockholders are entitled to one vote for each share of common stock held with respect to all matters voted on by the stockholders of the Company.

Dividends

The common stockholders are entitled to receive dividends, if and when declared by the Board of Directors. Through June 30, 2018, no dividends have been declared or paid on common stock.

Liquidation

Upon liquidation of the Company, the common stockholders are entitled to receive all assets of the Company available for distribution to such stockholders.

Reserved Shares

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

	June 30, 2018	December 31, 2017
Exercise of common warrants	176,432	176,432
Shares available for future stock incentive awards	1,473,827	1,035,043
Unvested restricted stock units	40,000	—
Outstanding common stock options	3,242,670	2,657,187
Total	<u>4,932,929</u>	<u>3,868,662</u>

11. Stock Incentive Plans

Stock Options

The Company maintains the 2008 Stock Incentive Plan (the “2008 Plan”) for employees, consultants, advisors, and directors. The 2008 Plan provided for the granting of incentive and non-qualified stock option and restricted stock awards as determined by the Board. At inception of the 2008 Plan, a total of 2,213,412 shares of common stock were authorized for grants under the 2008 Plan. The Company ceased granting awards under the 2008 Plan upon the effectiveness of the 2016 Plan (as defined below); zero shares remain available for future issuance under the 2008 Plan. Shares subject to awards that were granted under the 2008 Plan and that expire, lapse or terminate following the effectiveness of the 2016 Plan become available under the 2016

Plan as shares available for future grants. All unvested stock options granted under the 2008 Plan may be exercised into restricted stock subject to forfeiture upon termination prior to vesting.

The 2008 Plan provided that the exercise price of incentive stock options cannot be less than 100% of the fair market value of the Company's common stock on the grant date for participants who own 10% or less of the total combined voting power of the Company, and not less than 110% for participants who own more than 10% of the Company's voting power. Options and restricted stock awards granted under the 2008 Plan vest over periods as determined by the Board, which are generally four years and, for options, with terms that generally expire ten years from the grant date.

As of the effective date of the Company's Registration Statement on Form S-1 relating to the initial public offering of its common stock on June 21, 2016, the Company ceased granting awards under the 2008 Plan; however, awards issued under the 2008 Plan remain subject to the terms of the 2008 Plan and the applicable 2008 Plan agreement.

On June 7, 2016, the Company's stockholders approved the 2016 Incentive Award Plan (the "2016 Plan"), which became effective June 21, 2016. The 2016 Plan provides for the granting of incentive and non-qualified stock option, restricted stock and other stock and cash-based awards as determined by the Board. Shares subject to awards that are granted under the 2016 Plan and that expire, lapse or terminate are added back to the shares available for future grants under the 2016 Plan. At inception of the 2016 Plan, a total of 1,210,256 shares of common stock were authorized for future grant under the 2016 Plan. The number of shares of common stock that may be issued under the 2016 Plan automatically increases on the first day of each calendar year, beginning in 2017 and ending in and including 2026, by an amount equal to the lesser of: (i) 4% of the number of shares of the Company's common stock outstanding on the last day of the applicable preceding calendar year and (ii) such smaller number of shares as is determined by the Board. During the six months ended June 30, 2018 and 2017, the number of shares of common stock that may be issued under the 2016 Plan was increased by 893,730 shares and 737,550 shares, respectively. As of June 30, 2018, 915,781 shares remain available for future issuance under the 2016 Plan.

The 2016 Plan provides that the exercise price of incentive stock options cannot be less than 100% of the fair market value of the Company's common stock on the grant date for participants who own 10% or less of the total combined voting power of the Company, and not less than 110% for participants who own more than 10% of the Company's voting power. Options and restricted stock awards granted under the 2016 Plan vest over periods as determined by the Board, which are generally four years and, for options, with terms that generally expire ten years from the grant date.

The fair value of each option award was estimated on the grant date using Black-Scholes. Expected volatilities are based on historical volatilities from guideline companies because the Company's common stock has not traded for a period that is at least equal to the expected term of its stock option awards. The Company uses the "simplified" method to estimate the expected life of options granted and are expected to be outstanding. The risk-free interest rate used is the rate for a U.S. Treasury zero coupon issue with a remaining life consistent with the options expected life on the grant date. The Company has not paid and does not expect to pay in the foreseeable future, any cash dividends. Forfeitures are estimated at the time of grant and are adjusted, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company has estimated a forfeiture rate of 10% based on historical attrition trends. The Company records stock-based compensation expense only on awards that are expected to vest.

The estimated grant date fair values of employee stock option awards granted under the 2016 Plan were calculated using the Black-Scholes option pricing model, based on the following weighted-average assumptions:

	Six Months Ended June 30,	
	2018	2017
Risk-free interest rate	2.82%	1.88%
Dividend yield	—	—
Expected term	6.04	6.05
Expected volatility	85.45%	84.28%
Weighted-average fair value of common stock	\$ 12.37	\$ 16.89

The weighted average grant date fair value of stock options granted to employees during the six months ended June 30, 2018 and 2017 was \$9.02 and \$12.00, respectively. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2018 and 2017 was \$0.3 million and \$1.6 million, respectively.

As of June 30, 2018 and December 31, 2017, total unrecognized compensation expense related to unvested employee stock options was \$11.8 million and \$10.2 million, respectively, which is expected to be recognized over a weighted average period of 2.7 years and 2.9 years, respectively.

During the year ended December 31, 2017, the status of an executive changed from an employee to a consultant (non-employee). Stock-based compensation expense relating to the individual's stock option awards was recognized through the employee's termination date. In accordance with ASC 505-50, the consultant's 55,073 unvested stock option awards were

subsequently remeasured using the then-current fair value of the Company's common stock and updated assumption inputs in the Black-Scholes option pricing model. In connection with the Company's adoption of ASU 2018-07 during the second quarter of 2018, final remeasurement of the consultant's stock option awards was performed as of April 1, 2018. Stock-based compensation expense will be recognized over the consulting period until services are completed. The 55,073 stock option awards are presented in the employee awards stock option table below.

One of the Company's executive officers resigned effective December 31, 2017, and immediately entered into a consulting arrangement with the Company during the period January 1, 2018 to December 31, 2018. In connection with his resignation, (i) all of his unvested stock option awards (62,546 shares in aggregate) were forfeited and expired as of December 31, 2017; (ii) his right to exercise his vested, exercisable stock option awards (126,457 shares in aggregate) as of December 31, 2017 was extended to March 31, 2019, resulting in a modification; and (iii) during the first quarter of 2018, he was granted a stock option award to purchase 20,000 shares of the Company's common stock. In connection with the Company's adoption of ASU 2018-07 during the second quarter of 2018, final remeasurement of the consultant's stock option awards was performed as of April 1, 2018. Stock-based compensation expense will be recognized over the consulting period until services are completed. All granted stock awards are presented in the employee awards stock option table below.

The Company granted a stock option award covering 95,000 shares to a non-employee director during the six months ended June 30, 2018, with a weighted average grant date fair value of \$8.71. Prior to the adoption of ASU 2018-07 during the second quarter of 2018, the unvested options held by non-employees were revalued using the Company's estimate of fair value on each vesting and reporting date through the remaining vesting period. Subsequent to the adoption of ASU 2018-07, non-employee share-based payment awards are measured on the date of grant, similar to share-based payment awards granted to employees.

As of June 30, 2018 and December 31, 2017, total unrecognized compensation expense related to unvested non-employee stock options was \$1.0 million and \$0.6 million, respectively.

The following table summarizes the activity under the 2008 Plan and the 2016 Plan:

	Number of options	Weighted-average exercise price (\$)	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Employee Awards				
Outstanding at December 31, 2017	2,411,237	\$ 10.58	7.50	\$ 4,729
Granted	614,879	\$ 12.37		
Exercised	(46,343)	\$ 6.72		
Forfeited	(78,053)	\$ 16.61		
Outstanding at June 30, 2018	<u>2,901,720</u>	\$ 10.86	7.65	\$ 9,868
Vested at June 30, 2018	1,292,783	\$ 8.25	5.79	\$ 7,445
Vested and expected to vest at June 30, 2018	2,672,912	\$ 10.66	7.50	\$ 9,570
Non-Employee Awards				
Outstanding at December 31, 2017	245,950	\$ 4.32	5.10	\$ 1,351
Granted	95,000	\$ 12.02		
Exercised	—	\$ —		
Forfeited	—	\$ —		
Outstanding at June 30, 2018	<u>340,950</u>	\$ 6.46	6.09	\$ 2,314
Vested at June 30, 2018	217,114	\$ 3.96	4.20	\$ 2,017
Vested and expected to vest at June 30, 2018	340,950	\$ 6.46	6.09	\$ 2,314

Restricted Stock Units

During the three months ended June 30, 2018, the Company awarded 40,000 restricted stock units under the 2016 Plan to certain employees subject to the achievement of performance conditions ("performance-based restricted stock units"). These restricted stock units will vest in a single installment on the date the performance condition is achieved, on or prior to December 31, 2018. If the performance condition is not satisfied on or prior to December 31, 2018, the restricted stock units will be forfeited for no consideration.

For performance-based restricted stock units for which the performance criteria have not yet been achieved as of June 30, 2018, but the Company has concluded are probable of being achieved, the stock-based compensation amount that was recognized in

the quarter is not material. The restricted stock units granted during the three months ended June 30, 2018 have a weighted average fair value of \$12.75 per share based on the closing price of the Company's common stock on the date of grant. The restricted stock units granted during the three months ended June 30, 2018 were valued at approximately \$0.5 million on their grant date, and the Company is recognizing the compensation expense through December 31, 2018.

Approximately \$0.5 million of the fair value of restricted stock units remained unrecognized as of June 30, 2018 and will be recognized over a weighted average period of 0.5 years.

The following table summarizes the status of the Company's restricted stock units:

	Number of Shares (#)	Weighted Average Fair Value (\$)
Unvested at December 31, 2017	—	\$ —
Granted	40,000	12.75
Vested	—	—
Forfeited	—	—
Unvested at June 30, 2018	<u>40,000</u>	<u>\$ 12.75</u>

Employee Stock Purchase Plan

On June 7, 2016, the Company's stockholders approved the 2016 Employee Stock Purchase Plan (the "ESPP"), which became effective June 21, 2016. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986 with the purpose of providing employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions.

Under the ESPP, the Company has set two six-month offering periods during each calendar year, one beginning March 1st and the other beginning September 1st of each calendar year, during which employees may elect to have up to 25% of their eligible compensation deducted on each payday on an after-tax basis for use in purchasing the Company's common stock on the last trading day of each offering period, subject to limits imposed by the Internal Revenue Code. The purchase price of the shares may not be less than 85% of the fair market value on the first or last trading day of the offering period, whichever is lower. The first ESPP offer period began on March 1, 2017.

At inception of the ESPP, a total of 173,076 shares of common stock were authorized and reserved for future issuance under the ESPP. The number of shares of common stock that may be issued under the ESPP will automatically increase on the first day of each calendar year, beginning in 2017 and ending in and including 2026, by an amount equal to the lesser of: (i) 1% of the number of shares of the Company's common stock outstanding on the last day of the applicable preceding calendar year and (ii) such smaller number of shares as is determined by the Company's Board of Directors. During the six months ended June 30, 2018 and 2017, the number of shares of common stock that may be issued under the ESPP was increased by 223,432 shares and 184,387 shares, respectively. During the six months ended June 30, 2018, the Company issued 6,586 shares of common stock under the ESPP. As of June 30, 2018, 558,046 shares remain available for future issuance under the ESPP.

For each of the six months ended June 30, 2018 and 2017, the Company recognized less than \$0.1 million of stock-based compensation expense under the ESPP.

The Company recorded stock-based compensation expense related to stock option awards, restricted stock units and the ESPP in the following expense categories of its consolidated statements of operations and comprehensive loss (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Research and development	\$ 622	\$ 403	\$ 1,133	\$ 739
General and administrative	664	460	1,306	819
Total stock-based compensation expense	<u>\$ 1,286</u>	<u>\$ 863</u>	<u>\$ 2,439</u>	<u>\$ 1,558</u>

12. Revenue from Contracts with Customers

The Company adopted ASC 606 on January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC 605, Revenue Recognition (ASC 605), which is also referred to herein as "legacy GAAP" or the "previous guidance". The adoption of ASC 606 represents a change in accounting principle that will

more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures.

Financial Statement Impact of Adopting ASC 606

The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018, was recorded as an adjustment to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to the Company's accounts on the condensed consolidated balance sheet as of January 1, 2018 (in thousands):

Consolidated Balance Sheet	As Reported at	Adjustments	Balance at
	December 31, 2017	Due to ASU 2014-09	January 1, 2018
Assets			
Cash, cash equivalents, and restricted cash	\$ 70,698	\$ —	\$ 70,698
Short-term deposits and investments	25,940	—	25,940
Prepaid expenses and other current assets	2,042	231	2,273
Total current assets	98,680	231	98,911
Property and equipment, net	2,091	—	2,091
Restricted cash and other assets	329	2,367	2,696
Total assets	\$ 101,100	\$ 2,598	\$ 103,698
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 1,606	\$ —	\$ 1,606
Accrued expenses	8,580	—	8,580
Deferred revenue, current portion	787	—	787
Total current liabilities	10,973	—	10,973
Non-current liabilities:			
Deferred rent and lease incentive	151	—	151
Loan payable	21,042	—	21,042
Deferred revenue, net of current portion	15,919	(1,830)	14,089
Other long-term liabilities	1,201	—	1,201
Total liabilities	49,286	(1,830)	47,456
Stockholders' equity:			
Common stock	3	—	3
Additional paid-in capital	273,128	—	273,128
Accumulated deficit	(216,897)	4,428	(212,469)
Accumulated other comprehensive loss	(4,420)	—	(4,420)
Total stockholders' equity	51,814	4,428	56,242
Total liabilities and stockholders' equity	\$ 101,100	\$ 2,598	\$ 103,698

In connection with the adoption of ASC 606, the Company identified three collaboration/grant arrangements that required analysis to quantify the impact of adoption to its opening accumulated deficit balance as of January 1, 2018: Spark Therapeutics, Inc., Skolkovo Foundation and National Institutes of Health.

Spark Therapeutics, Inc.

Spark License Agreement

In December 2016, the Company entered into a License and Option Agreement ("Spark License Agreement") with Spark Therapeutics, Inc. ("Spark") pursuant to which the Company and Spark agreed to collaborate on the development of gene therapies for certain targets utilizing the SVP™ technology. The Spark License Agreement provides Spark with certain

exclusive, worldwide, royalty bearing licenses to the Company's intellectual property, allowing Spark to develop and commercialize gene therapies for an initial identified target.

In addition to an upfront cash payment of \$10.0 million under the Spark License Agreement, additional payments of an aggregate of \$5.0 million in two payments of \$2.5 million each were paid within twelve months of December 2, 2016 ("Contract Date"). The first of the two additional payments was scheduled to be made on or before May 31, 2017 (the "May 2017 License Payment") (see "Spark Letter Agreement" below) and the second was made on October 31, 2017. Spark may also exercise options to research, develop and commercialize gene therapies utilizing the SVP technology for up to four additional targets. The Company is eligible to receive a variable fee up to \$2.0 million for each additional target option elected, dependent on the incidence of the applicable indication. As per the agreement, the election period in which Spark can exercise additional targets is a term of three years from the Contract Date, or December 1, 2019.

Assuming successful development and commercialization, the Company could receive up to an additional \$65.0 million in development and regulatory milestone payments and \$365.0 million in commercialization milestone payments for each indication. If commercialized, the Company would be eligible to receive tiered royalties on global net sales at percentages ranging from mid-single to low-double digits, all of which apply on a target-by-target basis. Under the terms of the agreement, the Company will be eligible to receive these royalties commencing on the first commercial sale of the licensed product and terminating upon the later of (i) ten years after the first commercial sale, (ii) expiration of the last to expire valid claim on patents covering the jointly invented field specific improvements, or (iii) the expiration of regulatory exclusivity in the applicable country for the licensed product.

The Spark License Agreement may be terminated by Spark for convenience upon ninety days' notice. Either party may terminate the Spark License Agreement on a target-by-target basis for material breach with respect to such target.

In December 2016, the Company also entered into a Share Purchase Agreement (the "Spark Purchase Agreement") with Spark. Pursuant to the Spark Purchase Agreement, the Company sold 197,238 shares of the Company's common stock to Spark for gross proceeds of \$5.0 million, or \$25.35 per share of common stock, at an initial closing (the "Initial Closing"). The purchase price per share represents an amount equal to 115% of the average daily volume weighted average price ("VWAP") of the common stock during the thirty consecutive calendar days leading up to and ending on the day prior to the Contract Date. Under the Spark Purchase Agreement, Spark has agreed not to dispose of any of the Initial Closing Shares or any Acquisition Right Shares that it may acquire until January 1, 2018 and, thereafter, transfers will be contractually subject to volume limitations applicable to an "affiliate" under Rule 144 of the Securities Act. Closings under the Spark Purchase Agreement are subject to customary conditions.

Beyond the Initial Closing, the Spark Purchase Agreement contemplated potential future sales of shares by the Company to Spark as follows:

- **First Acquisition Right.** During the period beginning on May 1, 2017 and ending on June 1, 2017, Spark had the right (the "First Acquisition Right") to purchase a number of shares of common stock equal to an aggregate price of \$5.0 million. See "Spark Letter Agreement" below.
- **Second Acquisition Right.** During the period beginning on October 1, 2017 and ending on November 1, 2017, Spark had the right (the "Second Acquisition Right") to purchase a number of shares of common stock equal to an aggregate price of \$5.0 million. On October 31, 2017 Spark exercised this right and purchased 205,254 shares of common stock from the Company for \$5.0 million, or \$24.36 per share of common stock. The purchase price per share represents an amount equal to 115.0% of the average daily VWAP of the common stock during the thirty consecutive calendar days leading up to and ending on the day prior to the Second Acquisition Right notification date.

The First Acquisition Rights and Second Acquisition Rights are collectively referred to herein as the "Acquisition Rights". The aggregate number of shares that the Company may issue pursuant to the Stock Purchase Agreement may not exceed the lesser of (i) 2,758,112 shares and (ii) such number of shares that would require the Company to obtain prior shareholder approval under the Nasdaq Marketplace Rules.

In connection with the Spark License Agreement and Spark Purchase Agreement, the Company has made contractual payments defined in the MIT license agreement (Note 14) totaling \$2.2 million for the MIT sub-license provided to Spark, and \$0.4 million relative to the calculated premium paid by Spark for the equity investments made under the Spark Purchase Agreement.

Transition of Revenue Recognition from ASC Topic 605 to ASC Topic 606

The terms of the Spark Purchase Agreement and the Spark License Agreement were negotiated at the same time between the parties and the terms of the Spark Purchase Agreement are referenced in the Spark License Agreement in multiple sections. The pricing and terms of the agreements are unique and must be considered in contemplation with each other. There are provisions within the Spark License Agreement that link to the Spark Purchase Agreement related to provisions that constitute a material breach of the license agreement. Therefore, the Company concluded that the two agreements must be combined and evaluated

as a single agreement. While the Spark Purchase Agreement and the Spark License agreement are considered to be a single agreement, the Company determined that the purchase of common stock and future acquisition rights are not within the scope of ASC 606. The Company determined that the initial purchase of common stock combined with the embedded future stock Acquisition Rights had a fair value of \$2.7 million and this amount was recorded in equity as of the effective date. The remaining \$2.3 million of cash received in exchange for the stock and acquisition rights is included in allocable consideration, as this represents the premium paid by Spark on the purchase of common stock, and should be allocated to the remaining performance obligations.

The Company identified the following promises at the inception of the agreement: (1) certain exclusive, worldwide, royalty bearing licenses to the Company's intellectual property and a license to conduct certain research activities under the collaboration, or the License Obligation, (2) options to research, develop and commercialize gene therapies utilizing the SVP technology for up to four additional target therapy options, or the Option Obligation, (3) manufactured supply of pre-clinical and clinical SVP, or the Supply Obligation at a discount, and (4) option to purchase manufactured supply of commercial SVP, or the Commercial Supply Obligation at fair value. In consideration for these promises, the Company received an upfront payment of \$15.0 million. In addition, the Company is eligible to receive additional payments of up to \$35.0 million based on the achievement by Spark of future specified development milestones, up to \$30.0 million based on the achievement by Spark of future specified regulatory milestones, up to \$110.0 million based on the achievement by Spark of future specified commercial milestones, and up to \$255.0 million based on the achievement by Spark of future specified sales milestones. The Company will also be eligible to receive tiered royalty payments that reach low double-digits based on future net sales for the duration of the royalty term.

The Company determined that the License Obligation was not capable of being distinct from the Supply Obligation. This is because Spark cannot derive benefit from the license without the simultaneous transfer of the pre-clinical and clinical supply. Therefore, the License Obligation and Supply Obligation are combined as a single performance obligation (the "Combined License and Supply Obligation"). The Company also determined that the Option Obligation, which includes the related Supply Obligation, provides the customer with a material right and is considered a performance obligation in the arrangement since it was priced at an incremental discount. The Company determined that the optional Commercial Supply Obligation does not provide the customer with a material right and is not considered to be a performance obligation because Spark can derive benefit from the Combined License and Supply Obligation without the delivery of the Commercial Supply Obligation and is not at an incremental discount. Therefore, the Company determined that the Spark agreement contains five distinct performance obligations: the Combined License and Supply Obligation, and the four separate Option Obligations.

In determining the transaction price, the Company considered the future development milestones, regulatory milestones, commercial milestones, sales milestone, and sales royalties all represent variable consideration. Each of these variable consideration items was evaluated under the most likely amount method to determine whether such amounts were probable of occurrence, or whether such amounts should be constrained until they become probable. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of such milestones is outside the control of the Company. Separately, any consideration related to sales-based milestones as well as royalties on net sales upon commercialization by Spark, will be recognized when the related sales occur as they were determined to relate predominantly to the intellectual property granted to Spark and, therefore, have also been excluded from the transaction price in accordance with the royalty recognition constraint. As of the adoption date and as of June 30, 2018, all milestones were constrained. The Company will re-evaluate the transaction price in each reporting period, as uncertain events are resolved, or as other changes in circumstances occur.

As a result, the Company determined that the up-front payment of \$12.3 million (\$15.0 million, less fair value of the equity totaling \$2.7 million as discussed above) was included in the transaction price and was allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company allocated \$7.1 million to the Combined License and Supply Obligation and \$5.2 million to the discount on the Option Obligation (\$1.3 million for each option) using the relative standalone selling price method to each obligation. The standalone selling price for the Combined License and Supply Obligation was determined using a discounted cash flow model. The standalone selling price for the Option Obligation was determined based on the fair value of the license minus the strike price of the option (the probability of exercise was included in the valuation) as well as the estimated discount of the Supply Obligation.

The estimated proceeds to be received from the sale of the Supply Obligation was also included in the transaction price for the Combined License and Supply Obligation. The total consideration allocated to the Combined License and Supply Obligation will be recognized using the output method, based on the proportion of actual deliveries to the total expected deliveries over the initial term which is estimated to be approximately four years. The discount associated with the Option Obligation, along with the proceeds to be received upon exercise and estimated sale of the Supply Obligation, will be recognized when each of the options are exercised, over the related expected deliveries of its supply. If the options expire without exercise, the related deferred revenue associated with each option will be recognized upon expiration (December 1, 2019).

The Company estimated that revenue recognized under ASC 605 is consistent with the revenue recognized in accordance with ASC 606 from contract inception. However, upon adoption of ASC 606, the Company recognized other assets of \$2.6 million related to the incremental costs relating to sublicense fees, and a premium, paid to MIT that would not have been incurred if the contract with Spark had not been obtained.

During the three and six months ended June 30, 2018, there were no deliveries and thus no revenue was recognized. The Company recognized revenues of zero and less than \$0.1 million related to the Spark License Agreement during the three and six months ended June 30, 2017, respectively.

As of June 30, 2018, there was a contract liability of \$14.7 million representing deferred revenue associated with this agreement. A total of \$1.9 million is presented as current and \$12.8 million is presented as noncurrent in the accompanying consolidated balance sheet. As of December 31, 2017, there was \$14.7 million of deferred revenue related to this agreement. A total of \$0.8 million was presented as current and \$13.9 million was presented as noncurrent in the accompanying consolidated balance sheet.

Spark Letter Agreement

On June 6, 2017, the Company and Spark entered into a letter agreement (the "Letter Agreement"), pursuant to which the parties agreed that Spark would make the May 2017 License Payment by June 6, 2017. The May 2017 License Payment was received, and recorded as a liability as of June 30, 2017, of which some or all may potentially constitute the reimbursement described below. The parties also agreed that Spark would be deemed to have delivered notice on May 31, 2017 exercising its right to purchase the shares pursuant to the First Acquisition Right. The Letter Agreement further outlines a cost reimbursement arrangement, pursuant to which the Company agreed to reimburse Spark for all costs and expenses, including the cost of materials provided by the Company, associated with the preclinical research and toxicology studies being performed by Spark for any licensed products for a specified amount of time (the "Reimbursement Period"), up to an agreed upon cap of \$2.5 million.

Consistent with the First Acquisition Right, Spark purchased 324,362 shares of common stock pursuant to the Spark Purchase Agreement, as amended by the Letter Agreement, for an aggregate purchase price of \$5.0 million, or \$15.41 per share of common stock. The purchase price per share represents an amount equal to 115.0% of the average daily volume weighted average price ("VWAP") of the common stock during the thirty consecutive calendar days leading up to and ending on the day prior to the First Acquisition Right notification date. At the initial contract assessment, the Company allocated \$2.7 million to equity (representing the fair value of the initial purchase of common stock combined with the embedded future stock Acquisition Rights). Upon exercise of the First Acquisition Right, the Company recorded the purchase amount to stockholders' equity.

Under ASC 606, the Company determined that the Letter Agreement resulted in a modification to the original agreement. The amount received totaling \$2.5 million and the reimbursements pursuant to the Letter Agreement totaling \$2.5 million were both included in the transaction price, and a contract liability was recorded for the amount expected to be repaid. As repayments are made, the underlying contract liability will be reduced. To the extent that an amount is expected to be applied towards the clinical supply obligation, the analysis of variable consideration will be updated accordingly.

The Company utilized the practical expedient relating to contract modifications that occurred prior to January 1, 2018. The practical expedient allows the Company to reflect the aggregate effect of all modifications that occurred before January 1, 2018 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition.

On October 31, 2017, Spark paid the Company a \$2.5 million milestone payment pursuant to the Spark License Agreement, which was included in the transaction price and allocated to the performance obligations using the relative standalone selling price. In addition, Spark exercised the Second Acquisition Right set forth in Section 2.4 of the Spark Purchase Agreement and purchased 205,254 shares of common stock from the Company for \$5.0 million, or \$24.36 per share of common stock. The purchase price per share represents an amount equal to 115.0% of the average daily VWAP of the common stock during the thirty consecutive calendar days leading up to and ending on the day prior to the Second Acquisition Right notification date.

Skolkovo Foundation

The Company receives grant funding from the Russia-based Development Fund of New Technologies Development and Commercialization Center ("Skolkovo"). On November 28, 2014, the Company executed a grant awarded by Skolkovo for the development of a therapeutic vaccine using nanoparticles to treat chronic infection caused by human papillomavirus (HPV) and diseases associated with this infection. The grant covered the period from August 1, 2014 through July 21, 2017. The grant provided for up to \$2.7 million that covers 48.5% of the estimated total cost of the research plan with the remaining 51.5% of

estimated costs to be contributed by the Company. From grant inception through June 30, 2018, the Company received \$2.0 million from Skolkovo.

At any time during the term of the grant agreement, but not more than once per quarter, Skolkovo has the right to request information related to the project and to conduct an audit of the expenses incurred by the Company. In the event the project or the expenses do not meet predefined requirements, the Company may be required to reimburse the funds received up to three years after the completion of the project. As a result, in accordance with ASC 605, the Company determined that the grant funding was not fixed or determinable and the entire amount received through December 31, 2017 was recorded as deferred revenue in the consolidated balance sheet until the completion of the Skolkovo audit or the expiration of the audit term.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Skolkovo, is a customer. Furthermore, the Company determined that the agreement with Skolkovo has commercial substance, and that the grant should be accounted for as revenue. The Company identified the research and development services being provided to Skolkovo as the only performance obligation in the agreement. Based on the guidance in ASC 606, the Company concluded that the entire \$2.0 million of grant funds received from Skolkovo is variable consideration. Although the Company believes it has an enforceable right to the amounts received, there is risk that an audit could result in the Company needing to refund certain amounts back to Skolkovo, resulting in variability in the transaction price. The Company utilized the “expected value” approach in determining the amount that can be recognized. The Company estimated that it will be entitled to revenue of \$1.8 million from the Skolkovo grant, and recorded this amount as a cumulative-effect adjustment through accumulated deficit upon adoption of ASC 606. The remainder of \$0.2 million was recorded as a contract liability upon adoption of ASC 606.

During the three months ended June 30, 2018, the Company made a decision to cease work relating to the Skolkovo grant. As a result, Skolkovo performed a formal review of project expenses incurred by the Company. Skolkovo concluded that the Company should (i) return unused grant funds to Skolkovo in the amount of less than \$0.1 million and (ii) reimburse \$0.1 million of costs deemed to have been overspent relative to the cost share requirement stipulated in the grant.

As of June 30, 2018, a contract liability of \$0.1 million remains on the balance sheet and will not be recognized as revenue until the expiration of the three-year audit period.

National Institutes of Health

On May 14, 2014, the National Institute on Drug Abuse (“NIDA”), part of the National Institutes of Health (“NIH”), provided the Company with a Notice of Award (“NoA”), for a grant relating to the preclinical development and clinical proof of concept for a synthetic nanoparticle (the “Project”). The grant will help advance the Company’s development of the nanoparticle from a preclinical through early clinical stage and will provide support for one or more clinical trials. Under the terms of the grant, NIDA agreed to provide up to \$8.1 million in funding to be used to offset the qualifying expenses incurred by the Company. The grant was to be funded over the course of three years, according to budget forecasts prepared by the Company.

In accordance with ASC 605, revenue associated with this grant was recognized as the related research and development work was performed, and expenses incurred. Revenue under this grant arrangement was recognized using a proportional performance method. Amounts received prior to satisfying the ASC 605 revenue recognition criteria (if any) was recorded as deferred revenue on the balance sheet. Through December 31, 2017, the Company received and recognized under ASC 605 approximately \$7.2 million of grant revenue. The remaining \$0.9 million available under the grant requires a change to the overhead rate, which is subject to final reconciliation and approval from NIDA and, therefore, was not recognized under ASC 605.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, NIDA, is a customer. Furthermore, the Company determined that the agreement with NIDA has commercial substance, and that the grant should be accounted for as revenue. The Company identified the research and development services being provided to NIDA as the only performance obligation in the agreement.

Upon adoption of ASC 606, the remaining \$0.9 million was not recognized because the change to the overhead rate requires approval from NIDA, and therefore, represents a contract modification. Revenue will be recognized if and when the price change is approved, at which time it will be an enforceable right under contract. The Company expects approval in 2018.

Impact of New Revenue Guidance on Financial Statement Line Items

The following table compares the reported condensed consolidated balance sheet and statement of operations, as of and for the six months ended June 30, 2018, to the pro-forma amounts had the previous guidance been in effect (in thousands):

Consolidated Balance Sheet	As of June 30, 2018	
	As reported	Pro forma as if the previous accounting was in effect
Assets		
Cash, cash equivalents, and restricted cash	\$ 60,237	\$ 60,237
Short-term deposits and investments	5,991	5,991
Prepaid expenses and other current assets	2,607	2,145
Total current assets	68,835	68,373
Property and equipment, net	2,137	2,137
Restricted cash and other assets	2,465	329
Total assets	\$ 73,437	\$ 70,839
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,789	\$ 1,789
Accrued expenses	10,184	10,184
Deferred revenue, current portion	1,918	1,918
Total current liabilities	13,891	13,891
Non-current liabilities:		
Deferred rent and lease incentive	98	98
Loan payable	21,212	21,212
Deferred revenue, net of current portion	12,870	14,700
Other long-term liabilities	1,104	1,104
Total liabilities	49,175	51,005
Stockholders' equity:		
Common stock	3	3
Additional paid-in capital	275,888	275,888
Accumulated deficit	(247,153)	(251,581)
Accumulated other comprehensive loss	(4,476)	(4,476)
Total stockholders' equity	24,262	19,834
Total liabilities and stockholders' equity	\$ 73,437	\$ 70,839

Total reported assets were \$2.6 million more than the pro-forma balance sheet, which assumes the previous guidance remained in effect as of June 30, 2018. The higher reported assets were a result of the recognition of other assets of \$2.6 million relating to incremental costs of obtaining the contract with Spark.

Total reported liabilities were \$1.8 million less than the pro-forma balance sheet, which assumes the previous guidance remained in effect as of June 30, 2018. The lower reported liabilities were due to reductions recognized to deferred revenue balances, as follows: less than \$0.1 million relating to Spark, and \$1.8 million related to Skolkovo.

There was no difference in the amounts reported in the statement of operations under ASC 606 during the three and six months ended June 30, 2018, and the pro-forma statement of operations, which assumes the previous guidance remained in effect as of June 30, 2018.

Transaction Price Allocated to Future Performance Obligations

Remaining performance obligations represent the transaction price of contracts for which work has not been performed (or has been partially performed) and excludes unexercised contract options. As of June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$8.6 million. The Company expects to recognize revenue on approximately 17.8% of the remaining performance obligations over the next 12 months.

Contract Balances from Contracts with Customers

The following table presents changes in the Company's contract liabilities during the six months ended June 30, 2018 (in thousands):

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Six Months Ended June 30, 2018				
Contract liabilities:				
Deferred revenue	\$ 14,876	\$ —	\$ (88)	\$ 14,788
Other liabilities (i)	2,231	—	(105)	2,126
Total contract liabilities	\$ 17,107	\$ —	\$ (193)	\$ 16,914

(i) The current portion of other liabilities in the amount of \$1.0 million is presented in the accrued expenses line of the consolidated balance sheet. The noncurrent portion of other liabilities in the amount of \$1.1 million is presented in the other long-term liabilities line of the consolidated balance sheet.

During the six months ended June 30, 2018, the Company did not recognize revenues as a result of changes in the contract asset and the contract liability balances.

Deferred revenue

During the three months ended June 30, 2018, the Company made a decision to cease work relating to the Skolkovo grant. As a result, Skolkovo performed a formal review of project expenses incurred by the Company. Skolkovo concluded that the Company should return unused grant funds to Skolkovo, which resulted in a reduction to deferred revenue of less than \$0.1 million.

Other liabilities

In connection with its cost reimbursement arrangement with Spark, the Company received reimbursement invoices during the three months ended June 30, 2018 amounting to approximately \$0.1 million, which reduced the other liability balance to \$2.1 million as of June 30, 2018.

The timing of revenue recognition and cash collections results in contract liabilities on the consolidated balance sheets. When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met.

13. Related-Party Transactions

In connection with the 2017 PIPE, the Company sold to Timothy Springer, Ph.D., a member of its Board of Directors, an aggregate of 338,791 shares of common stock at a purchase price equal to \$17.71 per share, which was equal to the most recent consolidated closing bid price on the Nasdaq Global Market on June 23, 2017. In addition, the Company sold warrants to Dr. Springer to purchase up to 79,130 shares of common stock (“Warrant Shares”), exercisable at \$17.71 per Warrant Share, and with a term of five years. The purchase price for each warrant was equal to \$0.125 for each Warrant Share, consistent with Nasdaq Global Market requirements for an “at the market” offering.

The Company incurred expenses for consulting services provided by its founders totaling \$0.1 million during each of the three months ended June 30, 2018 and 2017, and \$0.1 million during each of the six months ended June 30, 2018 and 2017.

14. Technology License Agreements

Massachusetts Institute of Technology

On November 25, 2008, the Company entered into an Exclusive Patent License agreement with the Massachusetts Institute of Technology (“MIT”), which is referred to as the Exclusive Patent License. The Company received an exclusive royalty-bearing license to utilize patents held by MIT in exchange for upfront consideration and annual license maintenance fees. Such fees are expensed as incurred and have not been material to any period presented. In the event the Company sublicenses the MIT patents to a third party, it will be required to remit to MIT a percentage (ranging from 10% to 30%) of sublicense income. In addition, the Company is obligated to pay MIT a certain amount upon the achievement of defined clinical milestones, up to a total of \$1.5 million. On December 18, 2008, the Company entered into a patent-cross-license agreement with BIND Therapeutics, Inc. whereby each party receives a license for the use of the other patents in their respective fields of use. In exchange for this license, the Company paid a one-time expense in 2008.

As of December 31, 2017, and in connection with the execution of the Spark License Agreement, the Company has made contractual payments pursuant to the Exclusive Patent License totaling \$2.2 million for the sublicense granted to Spark, and \$0.4 million relative to the calculated premium paid by Spark for the equity investments made under the Spark Purchase Agreement. The Company made no additional payments during the six months ended June 30, 2018.

Shenyang Sunshine Pharmaceutical Co., Ltd

In May 2014, the Company entered into a license agreement with Shenyang Sunshine Pharmaceutical Co., Ltd. (“3SBio”), which is referred to as the 3SBio License. Pursuant to the 3SBio License, which was amended and restated in May 2017, the Company was granted an exclusive license to certain pepsitacase-related patents and related “know-how” owned or in-licensed by 3SBio for the worldwide (except for Greater China and Japan) development and commercialization of products based thereupon for human therapeutic, diagnostic and prophylactic use. The Company was also granted a worldwide (except for Greater China) exclusive license to develop, commercialize and manufacture or have manufactured products combining the Company’s proprietary SVP technology with pepsitacase or related compounds supplied by 3SBio (or otherwise supplied if the Company’s rights to manufacture are in effect) for human therapeutic, diagnostic and prophylactic use. The Company was also granted a co-exclusive license to manufacture and have manufactured pepsitacase and related compounds for preclinical and clinical use or, if the 3SBio License is terminated for 3SBio’s material breach, for any use under the 3SBio License. Otherwise, the Company is obligated to obtain all of its supply of such compounds for Phase 3 clinical trials and commercial use from 3SBio under the terms of supply agreements to be negotiated.

Pursuant to the 3SBio License, the Company is required to use commercially reasonable efforts to develop and commercialize a product containing pepsitacase or a related compound. If the Company does not commercialize any such product in a particular country in Asia, Africa or South America within 48 months after approval of any such product in the United States or a major European country, then 3SBio will have the right to do so, but only until the Company commercializes a product combining the Company’s SVP technology with any such compound in such country. The Company has paid to 3SBio an aggregate of \$1.0 million in upfront and milestone-based payments under the 3SBio License. An additional liability totaling \$2.0 million for milestone payments was expensed in 2016 and was included within accounts payable on the balance sheet as of December 31, 2016. The Company is required to make future payments to 3SBio contingent upon the occurrence of events related to the achievement of clinical and regulatory approval milestones of up to an aggregate of \$21.0 million for products containing the Company’s SVP technology, and up to an aggregate of \$41.5 million for products without the Company’s SVP technology. The Company is also required to pay 3SBio tiered royalties on annual worldwide net sales (on a country-by-country and product-by-product basis) related to the pepsitacase component of products at percentages ranging from the low-to-mid single digits for products containing the Company’s SVP technology, and a range of no more than ten percent points from the mid-single digits to low double-digits for products without the Company’s SVP technology. The Company will pay these royalties to 3SBio, subject to specified reductions, on a country-by-country and product-by-product basis until the later of (i) the date that all of the patent rights for that product have expired in that country, or (ii) a specified number of years from the first commercial sale of such product in such country.

The 3SBio License expires on the date of expiration of all of the Company's royalty payment obligations unless earlier terminated by either party for an uncured material default or for the other party's bankruptcy. Any such termination by 3SBio for material default may be on a country-by-country or product-by-product basis in certain circumstances. The Company may also terminate the 3SBio License on a country-by-country or product-by-product basis for any reason effective upon 60 days' prior written notice to 3SBio or, with respect to a given product, immediately upon written notice to 3SBio if the Company identifies a safety or efficacy concern related to such product.

Massachusetts Eye and Ear Infirmary and The Schepens Eye Research Institute, Inc.

In May 2016, the Company entered into a license agreement with the Massachusetts Eye and Ear Infirmary and The Schepens Eye Research Institute, Inc. (collectively, "MEE"), which is referred to as the MEE License. Under the MEE License, the Company was granted an exclusive commercial worldwide license, with the right to grant sublicenses through multiple tiers, to make, have made, use, offer to sell, sell and import certain products and to practice certain processes, the sale, use or practice of which are covered by patents and proprietary know-how owned or controlled by MEE, for use of Anc80 gene therapy vectors for gene augmentation therapies expressing certain target sequences.

MEE also granted the Company exclusive options to exclusively license certain of their intellectual property rights relating to several additional target sequences and variations thereof each linked to a specified disease. During a defined option period, the Company may exercise this right for up to a designated number of target sequences. If the Company exercises its options, under certain circumstances, the Company may substitute alternative target sequences for previously selected target sequences.

The Company agreed to use commercially reasonable efforts to develop and commercialize licensed products pursuant to a development plan, and to market and sell at least one product for each target sequence for which the Company exercised its option as soon as reasonably practicable. Subject to certain exceptions, following commercial launch, the Company must use commercially reasonable efforts to market, sell, and maintain public availability of licensed products in a certain number of specified major markets.

Pursuant to the MEE License, the Company agreed to pay MEE a license fee in the low six figures, annual license maintenance fees ranging from the mid-twenty thousands to mid-seventy thousands and an option maintenance fee in the low five figures for each exercisable option. The Company also agreed to reimburse MEE for a specified percentage of the past patent expenses for the patents licensed to the Company. The Company also agreed to pay development milestones on a licensed product-by-licensed product basis, totaling up to an aggregate of between \$4.2 million to \$37.0 million and sales milestones on a licensed product-by-licensed product basis, totaling up to an aggregate of between \$50.0 million to \$70.0 million; tiered royalties on a licensed product-by-licensed product and country-by-country basis equal to a percentage of net sales ranging from mid-single digits to mid-teens, subject to the prevalence of the targeted disease and certain reductions; and a percentage, in a range expected to be in the mid-teens depending on timing, of any sublicense income the Company receives from sublicensing its rights granted thereunder, subject to certain reductions and exclusions. Upon exercise of each option, the Company agreed to pay MEE an option exercise fee ranging from low-six figures to mid-six figures, depending on the prevalence of the targeted disease.

The MEE License will continue until the expiration of the last to expire of the patent rights licensed thereunder. The Company may terminate the MEE License in whole or in part upon prior written notice. MEE may terminate the MEE License on a target sequence-by-target sequence basis if the Company fails to make any scheduled payments in respect of such target sequence or if the Company materially breaches a diligence obligation in respect of such target sequence, in each case if the Company fails to cure within a specified time period. MEE may terminate the MEE License in its entirety if the Company materially breaches certain of its obligations related to diligence, representations and warranties, and maintenance of insurance; if the Company challenges the validity or enforceability of any patents licensed thereunder; if any of the Company's executive officers are convicted of a felony relating to manufacture, use, sale or importation of licensed products; or upon the Company's insolvency or bankruptcy.

As of June 30, 2016, the Company had paid a total of \$0.1 million in license fees due under the MEE License. No additional license fees are due under the MEE License as of June 30, 2018.

15. Income Taxes

The Company provides for income taxes under ASC 740, *Income Taxes* ("ASC 740"). Under ASC 740, the Company provides deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the Company's financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. For the three and six months ended June 30, 2018 and 2017, the Company did not record a current or deferred income tax expense or benefit.

The Company provided a full valuation allowance against its net deferred tax assets because the Company believes it is more likely than not that its deferred tax assets will not be realized. Realization of future tax benefits is dependent on many factors,

including the Company's ability to generate taxable income within the net operating loss carryforward period. The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets and concluded that it is more likely than not that the Company will not realize the benefit of its deferred tax assets. In 2014, the Company's Russian subsidiary was granted a 10 year tax holiday in Russia. The Company's foreign operations continue to benefit from the tax holiday, which is set to expire on December 31, 2023.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("Tax Reform Act"). The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system, expanding the tax base and imposing a tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company recognized the impact of the Tax Reform Act in these consolidated financial statements and related disclosures. Due to the complexities involved in accounting for the enactment of the Tax Reform Act, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allows a registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. In accordance with SAB 118, the Company recorded provisional amounts reflecting the impact of the Tax Reform Act in these consolidated financial statements and related disclosures. The impact of the remeasurement of the Company's U.S. deferred tax assets and liabilities to 21% resulted in the reduction of deferred tax assets of approximately \$23.4 million, which is offset by a full valuation allowance, thus there is no net effect. The Company recorded no tax expense related to the deemed repatriation tax because its foreign entity, Selecta (RUS) is a foreign disregarded entity, which is not subject to the repatriation tax.

The Company's preliminary estimate of the Tax Reform Act and the remeasurement of its deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the Tax Reform Act, changes to certain estimates and the filing of its tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Reform Act may require further adjustments and changes in the Company's estimates. The final determination of the Tax Reform Act and the remeasurement of the Company's deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the Tax Reform Act.

Utilization of the net operating loss and research and development credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership change limitations that have occurred previously, or that could occur in the future. These ownership changes may limit the amount of net operating loss and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

The Company applies ASC 740 to uncertain tax positions. As of the adoption date of January 1, 2010 and through June 30, 2018, the Company had no unrecognized tax benefits or related interest and penalties accrued.

The Company has not, as of yet, conducted a study of its research and development credit carryforwards. This study may result in an adjustment to the Company's research and development credit carryforwards; however, until a study is completed and any adjustment is known, no amounts are being presented as an uncertain tax position. A full valuation allowance has been provided against the Company's research and development credits and, if an adjustment is required, this adjustment would be offset by an adjustment to the valuation allowance. As a result, there would be no impact to the consolidated balance sheets, statements of operations and comprehensive loss, or cash flows if an adjustment was required.

Interest and penalty charges, if any, related to unrecognized tax benefits would be classified as income tax expense in the accompanying statement of operations and comprehensive loss. As of June 30, 2018, the Company had no accrued interest related to uncertain tax positions.

The statute of limitations for assessment by the Internal Revenue Service and Massachusetts tax authorities is open for tax years since inception. The Company files income tax returns in the United States and Massachusetts. There are currently no federal, state or foreign audits in progress.

16. Defined Contribution Plan

The Company maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers all employees who meet defined minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pretax basis. The 401(k) Plan provides for matching contributions on a portion of participant contributions pursuant to the 401(k) Plan's matching formula. All matching contributions vest ratably over 4 years and participant contributions vest immediately. Contributions by the Company totaled less than \$0.1 million

during each of the three months ended June 30, 2018 and 2017, respectively, and \$0.1 million during each of the six months ended June 30, 2018 and 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described in, or implied, by these forward-looking statements.

OVERVIEW

We are a clinical-stage biopharmaceutical company using our proprietary synthetic vaccine particle, or SVP, technology to discover and develop targeted therapies that are designed to modulate the immune system to effectively and safely treat rare and serious diseases. Many such diseases are treated with biologic therapies that are foreign to the patient's immune system and, therefore, elicit an undesired immune response.

Our proprietary tolerogenic SVP technology, SVP-Rapamycin, encapsulates an immunomodulator in biodegradable nanoparticles to mitigate the formation of anti-drug antibodies, or ADAs, and induce antigen-specific immune tolerance to life-sustaining biologic drugs. We believe our SVP-Rapamycin has potential to enhance the efficacy and safety of existing approved biologic drugs, improve product candidates under development and enable novel therapies. Our lead product candidate, SEL-212, is a combination of a therapeutic uricase enzyme and our SVP technology that is designed to be the first biologic treatment that durably controls uric acid while also dissolving harmful deposits of uric acid in patients with chronic severe gout, a debilitating rare disease with an unmet medical need. We have submitted to the FDA two investigational new drug, or IND, applications for SEL-212, both of which are active. Each IND lists us as the named sponsor and is indicated for the treatment of chronic gout in adult patients refractory to conventional therapy. SEL-212 is currently in a Phase 2 clinical program in multiple clinical sites in the United States. Based on our Phase 1/2 clinical data, we believe that SEL-212 has the potential to control serum uric acid levels and mitigate the formation of ADAs in response to the therapeutic enzyme. We are planning to conduct a head-to-head clinical trial of SEL-212 compared to the current FDA-approved uricase therapy, Krystexxa, in parallel with our Phase 3 program.

SEL-212 is designed as a monthly treatment for chronic severe gout consisting of SVP-Rapamycin co-administered with pegsiticase, our proprietary pegylated uricase. Our preclinical data indicate that SVP-Rapamycin, when co-administered with pegsiticase, induces antigen-specific immune tolerance to pegsiticase and substantially reduces the formation of associated ADAs. Our Phase 1 data shows that SVP-Rapamycin mitigated the formation of ADAs against pegsiticase after a single dose of SEL-212. We believe that SEL-212 has the potential to offer a uniquely effective treatment for patients with chronic severe gout, while also demonstrating the clinical effectiveness of our SVP technology. We expect our clinical and marketing strategy for SEL-212 to initially focus on the estimated 160,000 patients in the United States with chronic severe gout that are being treated by rheumatologists.

In addition to SEL-212, we have two other product candidates in clinical development: SEL-403 and SELA-070. We are developing SEL-403, which is a combination of LMB-100 and SVP-Rapamycin, for the treatment of mesothelioma. In May 2017, we in-licensed LMB-100 from the Center for Cancer Research at the National Cancer Institute, or NCI, part of the National Institutes of Health. In March 2018, we initiated a Phase I trial of SEL-403 in patients with malignant pleural or peritoneal mesothelioma who have undergone at least one regimen of chemotherapy under a CRADA at NCI. We are also developing SELA-070, a nicotine vaccine product candidate for smoking cessation and relapse prevention. In May 2017, we commenced dosing of SELA-070 in a Phase 1 clinical trial assessing safety, tolerability and pharmacodynamic profile.

We are also developing two gene therapy product candidates in preclinical development for rare inborn errors of metabolism. SEL-302, our lead gene therapy product candidate, is a potential treatment for methylmalonic acidemia, which can cause severe developmental defects and premature death as a result of an accumulation of toxic metabolites. Our second gene therapy product candidate, SEL-313, is intended to treat ornithine transcarbamylase deficiency.

We were incorporated in 2007 under the laws of the State of Delaware and our corporate headquarters is in Watertown, Massachusetts. Our operations to date have been limited to organizing and staffing our company, business planning, acquiring operating assets, raising capital, developing our technology, identifying potential nanoparticle immunomodulatory product candidates, research and development, undertaking preclinical studies and conducting clinical trials. To date, we have financed our operations primarily through our initial public offering, or IPO, of common stock in June 2016, private placements of our preferred stock, common stock and debt securities, funding received from research grants and collaboration arrangements and

our credit facility. We do not have any products approved for sale and have not generated any product sales. All of our revenue to date has been generated from research grants and contracts.

Since inception, we have incurred significant operating losses. We incurred net losses of \$34.7 million and \$31.1 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, we had an accumulated deficit of \$247.2 million. We expect to continue incurring significant expenses and operating losses for at least the next several years as we:

- conduct additional clinical trials for SEL-212 and SEL-403;
- continue the research and development of our other product candidates;
- seek to enhance our SVP technology and discover and develop additional product candidates;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- potentially establish a sales, marketing and distribution infrastructure and scale-up external manufacturing capabilities to commercialize any products for which we may obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio, including through licensing arrangements; and
- add clinical, scientific, operational, financial and management information systems and personnel, including personnel to support our product development and potential future commercialization efforts and to support our operations as a public company.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, license and collaboration agreements with partners, and research grants. We may be unable to raise capital when needed or on reasonable terms, if at all, which would force us to delay, limit, reduce or terminate our product development or future commercialization efforts. We will need to generate significant revenues to achieve profitability, and we may never do so.

The consolidated financial information presented below includes the accounts of Selecta Biosciences Inc. and our wholly owned subsidiaries, Selecta (RUS) LLC, a Russian limited liability company, or Selecta RUS, and Selecta Biosciences Security Corporation, a Massachusetts securities corporation. All intercompany accounts and transactions have been eliminated.

We expect that our existing cash, cash equivalents and short-term investments as of June 30, 2018, will enable us to fund our operating expenses and capital expenditure requirements through the end of the third quarter of 2019. The current operating plan accounts for funding in preparation for the planned Phase 3 clinical trial for SEL-212 and initial patient enrollment into a couple of Phase 3 clinical trial sites, but we will require an additional equity offering or other external sources of capital to expand enrollment in the Phase 3 trial and to conduct the planned head-to-head trial against Krystexxa. For additional information, see "Liquidity and Capital Resources."

FINANCIAL OPERATIONS OVERVIEW

Grant and collaboration revenue

To date, we have not generated any product sales. Our revenue consists of grant and collaboration revenue, which includes amounts recognized related to upfront and milestone payments for research and development funding under collaboration and license agreements. In addition, we earn revenue under the terms of government contracts or grants, which require the performance of certain research and development activities. We expect that any revenue we generate will fluctuate from quarter to quarter because of the timing and amount of fees, research and development reimbursements and other payments from collaborators. We do not expect to generate revenue from product sales for at least the next several years. If we or our collaborators fail to complete the development of our product candidates in a timely manner or fail to obtain regulatory approval as needed, our ability to generate future revenue will be harmed, and will affect the results of our operations and financial position. For a further description of the agreements underlying our collaboration and grant-based revenue, see Notes 2 and 12 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Research and development

Our research and development expenses consist of external research and development costs, which we track on a program-by-program basis and primarily include contract manufacturing organization, or CMO, related costs, fees paid to contract research organizations, or CROs, and internal research and development costs, which are primarily compensation expenses for our research and development employees, lab supplies, analytical testing, allocated overhead costs and other related expenses. Our research and development costs are often devoted to expanding our programs and are not necessarily allocable to a specific target.

We have incurred a total of \$175.9 million in research and development expenses from inception through June 30, 2018, with a majority of the expenses being spent on the development of SEL-212 and a prior nicotine vaccine, and the remainder being spent on our various discovery and preclinical stage product candidate programs and the general expansion of our technology.

As we expand the clinical development of SEL-212, we expect our research and development expenses to increase. In addition, as a result of the termination of the Sanofi Agreement, which was effective on May 8, 2017, we exercised our right to acquire the development programs under the Sanofi Agreement. The exercise itself did not require the payment of any consideration to Sanofi. We are solely responsible for performing and funding any development and clinical trial activities relating to further development of vaccine candidates that we choose to undertake after the termination date of the Sanofi Agreement.

We expense research and development costs as incurred. Conducting a significant amount of research and development is central to our business model. Product candidates in clinical development generally have higher development costs than those in earlier stages of development, primarily due to the size and duration of clinical trials. We plan to increase our research and development expenses for the foreseeable future as we seek to complete development of SEL-212, and to further advance our preclinical and earlier stage research and development projects. The successful development of our clinical and preclinical product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the development of SEL-212 or any of our preclinical programs or the period, if any, in which material net cash inflows from these product candidates may commence. Clinical development timelines, the probability of success and development costs can differ materially from our expectations. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those which we currently expect will be required for the completion of clinical development of a product candidate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time to complete any clinical development.

The following table sets forth the components of our research and development expenses during the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Research and development expenses (key projects and initiatives):				
SEL-212	\$ 7,090	\$ 4,265	\$ 11,892	\$ 9,261
SELA-070 (i)	1,050	—	1,099	522
Discovery and preclinical stage product candidate programs, collectively	858	877	1,190	1,210
Other internal research and development expenses	5,409	5,852	11,365	11,045
Total research and development expenses	\$ 14,407	\$ 10,994	\$ 25,546	\$ 22,038

(i) Beginning in the third quarter of 2017, we began presenting research and development costs incurred on SELA-070, our SVP-nicotine vaccine candidate. As a result, prior period amounts were broken out separately to conform to the current period presentation.

General and administrative

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation, related to our executive, finance, business development and support functions. Other general and administrative expenses include facility-related costs not otherwise allocated to research and development expenses, travel expenses for our general and administrative personnel and professional fees for auditing, tax and corporate legal services, including intellectual property-related legal services. We expect that our general and administrative expenses will increase in future periods, reflecting an expanding infrastructure and increased professional fees associated with being a public reporting company and maintaining and expanding our intellectual property portfolio.

Investment income

Investment income consists primarily of interest income earned on our cash and cash equivalents and short-term investments.

Interest expense

Interest expense consists of interest expense on amounts borrowed under our credit facilities.

Other income (expense)

Other income (expense) was de minimis for the three and six months ended June 30, 2018 and 2017.

Foreign currency transaction gain (loss)

The functional currency of our Russian subsidiary is the Russian ruble. In addition to holding cash denominated in Russian rubles, our Russian bank accounts also hold cash balances denominated in U.S. dollars to facilitate payments to be settled in

U.S. dollars or other currencies. At June 30, 2018 and December 31, 2017, we maintained cash of \$0.7 million and \$1.3 million, respectively, in Russian banks, of which \$0.7 million and \$1.2 million was denominated in U.S. dollars for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. The amounts denominated in U.S. dollars and used in transacting the day-to-day operations of our Russian subsidiary are subject to transaction gains and losses, which are reported as incurred.

Income taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("Tax Reform Act"). The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system, expanding the tax base and imposing a tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act permanently reduces the U.S. corporate federal income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. We recognized the impact of the Tax Reform Act in our consolidated financial statements and related disclosures. Due to the complexities involved in accounting for the enactment of the Tax Reform Act, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which allows a registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. In accordance with SAB 118, we recorded provisional amounts reflecting the impact of the Tax Reform Act in our consolidated financial statements and related disclosures. The impact of the remeasurement of our U.S. deferred tax assets and liabilities to 21% resulted in the reduction of deferred tax assets of approximately \$23.4 million, which is offset by a full valuation allowance, thus there is no net effect. We recorded no tax expense related to the deemed repatriation tax because our foreign entity, Selecta (RUS) is a foreign disregarded entity, which is not subject to the repatriation tax.

Our preliminary estimate of the Tax Reform Act and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the Tax Reform Act, changes to certain estimates and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Reform Act may require further adjustments and changes in our estimates. The final determination of the Tax Reform Act and the remeasurement of our deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the Tax Reform Act.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2018 and 2017

Revenue

The following is a comparison of revenue for the three months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,		Increase	
	2018	2017	(decrease)	
Grant revenue	\$ —	\$ 26	\$ (26)	(100)%
Collaboration revenue	—	—	—	—%
Total revenue	\$ —	\$ 26	\$ (26)	(100)%

During the three months ended June 30, 2018, the Company recognized no revenues as compared to an insignificant amount during the same period in 2017. The decrease in grant revenue was the result of the conclusion of the grant terms associated with certain of our other grant revenues. The Company recognized no collaboration revenue during the three months ended June 30, 2018 and 2017.

Research and development

The following is a comparison of research and development expenses for the three months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,		Increase	
	2018	2017	(decrease)	
Research and development	\$ 14,407	\$ 10,994	\$ 3,413	31%

During the three months ended June 30, 2018, our research and development expenses increased by \$3.4 million, or 31%, as compared to the same period in 2017, reflecting increases of \$2.8 million relating to our Phase 2 trial of SEL-212 and planning for the SEL-212 Phase 3 program, \$0.4 million of compensation costs related to headcount growth to support the clinical trial

programs and pipeline advancements and \$0.2 million of consulting costs, offset by a decrease \$0.5 million for licenses and permits.

General and administrative

The following is a comparison of general and administrative expenses for the three months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,		Increase	
	2018	2017	(decrease)	
General and administrative	\$ 4,362	\$ 4,903	\$ (541)	(11)%

During the three months ended June 30, 2018, our general and administrative expenses decreased by \$0.5 million, or 11%, as compared to the same period in 2017, primarily due to a \$0.6 million reduction in patent costs and a \$0.3 million reduction in contract license fees associated with collaborations, offset by increases of \$0.2 million and \$0.1 million in stock compensation expense and consulting fees, respectively.

Investment income

Investment income increased by \$0.1 million during the three months ended June 30, 2018 as compared to the same period in 2017. This increase was due to the investment portfolio composition and higher yield earned on the investments.

Foreign currency transaction gain (loss)

We recognized foreign currency gains of \$0.1 million during each of the three months ended June 30, 2018 and 2017, respectively, reflecting little fluctuation of the U.S. dollar to the Russian ruble from the beginning to the end of each period.

Interest expense

Interest expense was \$0.4 million and \$0.3 million for the three months ended June 30, 2018 and 2017, respectively, representing interest expense and amortization of the carrying costs of our credit facilities.

Other income (expense)

Other income (expense) was de minimis for the three months ended June 30, 2018 and 2017.

Comparison of the Six Months Ended June 30, 2018 and 2017

Revenue

The following is a comparison of revenue for the six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Six Months Ended June 30,		Increase	
	2018	2017	(decrease)	
Grant revenue	\$ —	\$ 148	\$ (148)	(100)%
Collaboration revenue	—	15	(15)	(100)%
Total revenue	\$ —	\$ 163	\$ (163)	(100)%

During the six months ended June 30, 2018, total revenue decreased by \$0.2 million, or 100%, as compared to the same period in 2017. The decrease in grant revenue was the result of the conclusion of the grant terms associated with certain of our other grant revenues. Unlike during the six months ended June 30, 2017, the Company recognized no collaboration revenue from Spark during the six months ended June 30, 2018.

Research and development

The following is a comparison of research and development expenses for the six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Six Months Ended June 30,		Increase	
	2018	2017	(decrease)	
Research and development	\$ 25,546	\$ 22,038	\$ 3,508	16%

During the six months ended June 30, 2018, our research and development expenses increased by \$3.5 million, or 16%, as compared to the same period in 2017, reflecting increases of \$2.6 million relating to our Phase 2 trial of SEL-212 and planning for the SEL-212 Phase 3 program, \$0.8 million of compensation costs related to headcount growth to support the clinical trial

programs and pipeline advancements and \$0.5 million of consulting costs, offset by a decrease of \$0.5 million for licenses and permits.

General and administrative

The following is a comparison of general and administrative expenses for the six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Six Months Ended June 30,		Increase (decrease)	
	2018	2017		
General and administrative	\$ 9,036	\$ 8,778	\$ 258	3%

During the six months ended June 30, 2018, our general and administrative expenses increased by \$0.3 million, or 3%, as compared to the same period in 2017, primarily due to increases of \$0.5 million in stock compensation expense, \$0.3 million from greater headcount and related salaries, and \$0.3 million in consulting fees, offset by a \$0.6 million reduction in patent costs and a \$0.3 million reduction in contract license fees associated with collaborations.

Investment income

Investment income increased by \$0.3 million during the six months ended June 30, 2018 as compared to the same period in 2017. This increase was due to the investment portfolio composition and higher yield earned on the investments.

Foreign currency transaction gain (loss)

We recognized foreign currency gains of \$0.1 million during the six months ended June 30, 2018, compared to a loss of \$0.1 million during the six months ended June 30, 2017, respectively, reflecting the fluctuation of the U.S. dollar to the Russian ruble from the beginning to the end of each period.

Interest expense

Interest expense was \$0.7 million and \$0.6 million for the six months ended June 30, 2018 and 2017, respectively, representing interest expense and amortization of the carrying costs of our credit facilities.

Other income (expense)

Other income (expense) was de minimis for the six months ended June 30, 2018 and 2017.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have incurred recurring net losses. We expect that we will continue to incur losses and that such losses will increase for the foreseeable future. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may raise through a combination of equity offerings, debt financings, third-party funding and other collaborations and strategic alliances.

From our inception through June 30, 2018, we have raised an aggregate of \$309.6 million to fund our operations, of which \$118.5 million was from the sale of preferred stock, \$9.9 million was from government grants, \$25.3 million was from borrowings under our credit facility, \$44.3 million was through our collaborations and license agreements, \$64.5 million in combined net proceeds was raised from our initial public offering in June 2016 and the underwriters' exercise in part of their option to purchase additional shares of our common stock in July 2016, and \$47.1 million in combined net proceeds was raised from our private placement of common stock in June 2017, or the 2017 PIPE.

On June 26, 2017, we entered into a Securities Purchase Agreement, or the Institutional Purchase Agreement, with the purchasers named therein, or the Institutional Investors, and a Securities Purchase Agreement, or the Springer Purchase Agreement, with Timothy Springer, Ph.D., a member of our board of directors. We closed the Institutional Purchase Agreement and the Springer Purchase Agreement on June 27, 2017, resulting in total aggregate gross proceeds to us of \$50.0 million.

On August 10, 2017, we entered into an open market sale agreement with Jefferies LLC, as sales agent, or the Sales Agreement, pursuant to which we may, from time to time, issue and sell common stock with an aggregate value of up to \$50.0 million in an "at-the market offering". To date, there have been no sales of common stock pursuant to the Sales Agreement.

As of June 30, 2018, our cash, cash equivalents, short-term deposits and short-term investments were \$66.2 million, of which \$0.7 million was held by our Russian subsidiary designated solely for use in its operations. Our Russian subsidiary cash is consolidated for financial reporting purposes.

In addition to our existing cash equivalents and short-term investments, we receive research and development funding pursuant to our research grants and collaboration agreements. Currently, funding from research grants and payments under our collaboration agreements represent our only source of committed external funds.

Indebtedness

On September 12, 2017, we entered into a term loan facility of up to \$21.0 million with Silicon Valley Bank, a California corporation, or SVB, the proceeds of which were used to repay our previously existing term loan facility with Oxford Finance LLC and Pacific Western Bank, as successor in interest to Square 1 Bank, and for general corporate and working capital purposes. The term loan facility is governed by a loan and security agreement, dated September 12, 2017, between us and SVB, which was funded in full on September 13, 2017. The term loan facility with SVB is secured by a lien on substantially all assets, other than intellectual property, provided that such lien on assets includes any rights to payments and proceeds from the sale, licensing or disposition of intellectual property. We also granted SVB a negative pledge with respect to our intellectual property.

The term loan facility contains customary covenants and representations, including but not limited to financial reporting obligations and limitations on dividends, indebtedness, collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. The term loan facility also contains other customary provisions, such as expense reimbursement, non-disclosure obligations as well as indemnification rights for the benefit of SVB.

The events of default under the term loan facility include, but are not limited to, our failure to make any payments of principal or interest under the term loan facility or other transaction documents, our breach or default in the performance of any covenant under the term loan facility or other transaction documents, the occurrence of a material adverse effect, making a false or misleading representation or warranty in any material respect under the term loan facility, our insolvency or bankruptcy, any attachment or judgment on our assets in excess of approximately \$0.3 million, or the occurrence of any default under any of our agreements or obligations involving indebtedness in excess of approximately \$0.3 million. If an event of default occurs, SVB is entitled to take enforcement action, including acceleration of amounts due under the term loan facility. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

Plan of operations and future funding requirements

As of the date of this Quarterly Report on Form 10-Q, we have not generated any product sales. We do not know when, or if, we will generate revenue from product sales. We will not generate significant revenue from product sales unless and until we obtain regulatory approval and commercialize one of our current or future product candidates. Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third-party clinical research and development services, laboratory and related supplies, clinical costs, legal and other regulatory expenses, and general overhead costs. Moreover, as a result of the termination of the Sanofi Agreement, which was effective on May 8, 2017, we exercised our right to acquire the development programs under the Sanofi Agreement. This exercise itself did not require the payment of any consideration to Sanofi. We are solely responsible for performing and funding any development and clinical trial activities relating to further development of vaccine candidates that we choose to undertake after the termination date of the agreement. We expect that we will continue to generate losses for the foreseeable future, and we expect the losses to increase as we continue the development of, and seek regulatory approvals for, our product candidates, and begin to commercialize any approved products. We are subject to risks in the development of our products, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. We expect that we will need substantial additional funding to support our continuing operations.

Based on the current operating plan, we expect that our cash, cash equivalents and short-term investments as of June 30, 2018, will fund our operating expenses and capital expenditure requirements through the end of the third quarter of 2019. The current operating plan accounts for funding in preparation for the planned Phase 3 clinical trial for SEL-212 and initial patient enrollment into a couple of Phase 3 clinical trial sites, but we will require an additional equity offering or other external sources of capital to expand enrollment in the Phase 3 trial and to conduct the planned head-to-head trial against Krystexxa. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress in these trials is uncertain. Because our product candidates are in various stages of clinical and preclinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability. Our future capital requirements will depend on many factors, including:

- the scope, progress, results and costs of our clinical trials of SEL-212 and SEL-403;
- the number of product candidates that we pursue;
- our collaboration agreements remaining in effect, our entering into additional collaboration agreements and our ability to achieve milestones under these agreements;
- the cost of manufacturing clinical supplies of our product candidates;
- our headcount growth and associated costs;

- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for our other product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs and timing of future commercialization activities, including manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, including entering into licensing or collaboration arrangements for product candidates.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, license and collaboration arrangements with partners, and research grants. Except for any obligations of our collaborators to reimburse us for research and development expenses or to make milestone payments under our agreements with them, we do not have any committed external source of liquidity. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through collaboration arrangements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Summary of Cash Flows

(In thousands)	Six Months Ended June 30,	
	2018	2017
Cash provided by (used in):		
Operating activities	\$ (30,382)	\$ (23,930)
Investing activities	19,630	(5,834)
Financing activities	362	53,654
Effect of exchange rate changes on cash	(71)	80
Net change in cash, cash equivalents, and restricted cash	<u>\$ (10,461)</u>	<u>\$ 23,970</u>

Operating activities

Net cash used in operating activities for the six months ended June 30, 2018 was \$30.4 million compared to \$23.9 million in the same period in 2017, an increase of \$6.5 million period over period. The increase in net cash used in operating activities is primarily due to (i) a \$3.6 million increase in recorded net loss associated with the increased research and development expenses as we continue to advance our clinical trials, (ii) a decrease of \$4.5 million to accrued expenses and other liabilities, and (iii) a decrease of \$1.7 million in prepaid expenses and other current assets. This was offset by changes in cash from operating activities due to an increase in accounts payable of \$2.4 million, and an increase in stock-based compensation expense of \$0.9 million.

Investing activities

Net cash provided by investing activities for the six months ended June 30, 2018 was \$19.6 million compared to net cash used in investing activities of \$5.8 million in the same period in 2017. The net cash provided by investing activities in the 2018 period was primarily due to receipts of \$34.0 million from maturities of investments, offset by \$13.9 million of purchases of short-term investments. The net cash used in investing activities in the 2017 period was primarily due to \$32.5 million of purchases of short-term investments, offset by receipts of \$27.1 million from maturities of investments.

Financing activities

Net cash provided by financing activities for the six months ended June 30, 2018 was \$0.4 million compared to net cash provided by financing activities of \$53.7 million in the same period in 2017. The net cash provided by financing activities in the 2018 period was due to \$0.1 million from the issuance of common stock under the ESPP and \$0.3 million from the exercise of employee stock options. The net cash provided by financing activities in the 2017 period was due to \$50.0 million of net

cash derived from the 2017 PIPE, \$5.0 million received in connection with the issuance of common stock to Spark for contractual equity acquisition rights and \$0.5 million from the exercise of employee stock options, offset by \$1.8 million of loan principle repayments.

Commitments and Contingencies

As of June 30, 2018, there were no significant changes to our principal contractual obligations and commitments as reported in our 2017 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements as defined in the rules and regulations of the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in our consolidated financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience, known trends and events, 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. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

During the three and six months ended June 30, 2018, with the exception of revenue recognition, there were no significant changes to our critical accounting policies as reported in our 2017 Annual Report on Form 10-K.

Revenue Recognition

We currently generate our revenue through grants, collaboration and license agreements with strategic collaborators for the development and commercialization of product candidates. Prior to January 1, 2018, we recognized revenue in accordance with ASC Topic 605, *Revenue Recognition* ("ASC 605"). Under ASC 605, we recognized revenue when all of the following criteria were met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

Under ASC 605, amounts received prior to satisfying the revenue recognition criteria were recognized as deferred revenue in our consolidated balance sheets. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date were classified as deferred revenue, current portion. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date were classified as deferred revenue, net of current portion.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 and its related amendments (collectively referred to as ASC 606) requires that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted ASC 606, *Revenue from Contracts with Customers*, on January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC 605, which is also referred to herein as "legacy GAAP" or the "previous guidance". Refer to Note 12 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for the impact of adoption of ASU 2014-09 on our consolidated financial position, results of operations, equity and cash flows as of the adoption date and for the three and six months ended June 30, 2018. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of our services and will provide financial statement readers with enhanced disclosures.

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, we perform the following five steps: (i) identify the

contract(s) with a customer; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy each performance obligation. We only apply the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations, and assess whether each promised good or service is distinct. If a promised good or service is not distinct, it is combined with other performance obligations. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. For example, certain performance obligations associated with Spark (see Note 12 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q) will be satisfied over time, and revenue will be recognized using the output method, based on the proportion of actual deliveries to the total expected deliveries over the initial term.

Collaboration and Grant Revenue

We currently generate our revenue through grants, collaboration and license agreements with strategic collaborators for the development and commercialization of product candidates. The grants, collaboration and license agreements are within the scope of ASC 606.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under the agreements, we perform the five steps above. As part of the accounting for the arrangement, we must develop assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. We use key assumptions to determine the stand-alone selling price, which may include market conditions, reimbursement rates for personnel costs, development timelines and probabilities of regulatory success.

We capitalize the incremental costs of obtaining a contract with a customer if we expect to recover those costs. Such incremental costs would not have been incurred if the contract with a customer had not been obtained.

Licenses of intellectual property: If the license to our intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, we recognize revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. If not distinct, the license is combined with other performance obligations in the contract. For licenses that are combined with other performance obligations, we assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue. We evaluate the measure of progress each reporting period and, if necessary, adjust the measure of performance and related revenue recognition. Optional licenses are evaluated to determine if they are issued at a discount, and therefore, represent material rights and accounted for as separate performance obligations.

Milestone Payments: At the inception of each arrangement that includes developmental and regulatory milestone payments, we evaluate whether the achievement of each milestone specifically relates to our efforts to satisfy a performance obligation or transfer a distinct good or service within a performance obligation. If the achievement of a milestone is considered a direct result of our efforts to satisfy a performance obligation or transfer a distinct good or service and the receipt of the payment is based upon the achievement of the milestone, the associated milestone value is allocated to that distinct good or service. If the milestone payment is not specifically related to our effort to satisfy a performance obligation or transfer a distinct good or service, the amount is allocated to all performance obligations using the relative standalone selling price method. We also evaluate the milestones to determine whether they are considered probable of being reached and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price to be allocated, otherwise, such amounts are constrained and excluded from the transaction price. At the end of each subsequent reporting period, we re-evaluate the probability of achievement of such development milestones and any related constraint, and if necessary, adjust our estimate of the transaction price. Any such adjustments to the transaction price are allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

Manufacturing Supply Services: Arrangements that include a promise for future supply of drug substance or drug product for either clinical development or commercial supply at the customer's discretion are evaluated to determine if they are distinct and optional. For optional services that are distinct, we assess if they are priced at a discount, and therefore, provide a material right to the licensee to be accounted for as separate performance obligations.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, we will recognize revenue at the later of (i) when

the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied) in accordance with the royalty recognition constraint.

Emerging growth company status

The Jumpstart Our Business Startups Act of 2012, or the JOBS Act, permits an “emerging growth company” such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates. As of June 30, 2018 and December 31, 2017, we had cash, cash equivalents, short-term deposits and short-term investments of \$66.2 million and \$96.6 million, respectively, consisting of non-interest and interest-bearing money market accounts, repurchase agreements, short-term investments of treasuries and government obligations. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term and the low risk profile of our money market accounts and investments, and our current plan to hold investments to maturity, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our cash equivalents or short-term investments.

In addition, we are subject to currency risk for balances held in Russian rubles in our foreign subsidiary. We hold portions of our funds in both U.S. dollars and Russian rubles. The exchange rate between the U.S. dollar and Russian ruble changes from period to period. At June 30, 2018, we held cash and cash equivalents totaling \$0.7 million in Russian banks to support our Russian subsidiary, all of which were denominated in U.S. dollars. We do not hedge against foreign currency risks. We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

Item 4. Controls and Procedures

Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2018.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not party to any material legal proceedings.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the risks described below, together with the other information included or incorporated by reference in this Quarterly Report on Form 10-Q. If any of the following risks occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected. In these circumstances, the market price of our common stock could decline. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

RISKS RELATED TO OUR FINANCIAL POSITION AND NEED FOR ADDITIONAL CAPITAL

We are a development-stage company and have incurred significant losses since our inception. We expect to incur losses for the foreseeable future and may never achieve or maintain profitability.

Since inception, we have incurred significant operating losses in every year. Our net loss was \$34.7 million for the six months ended June 30, 2018 and \$65.3 million and \$36.2 million for the years ended December 31, 2017 and 2016, respectively. As of June 30, 2018, we had an accumulated deficit of \$247.2 million. To date, we have financed our operations primarily through our initial public offering of our common stock, a private placement of our common stock, issuances of preferred stock, debt, research grants and research collaborations. We currently have no source of product revenue, and we do not expect to generate product revenue for the foreseeable future. All of our revenue to date has been collaboration and grant revenue. We have devoted substantially all of our financial resources and efforts to developing our SVP technology, identifying potential product candidates and conducting preclinical studies and our clinical trials. We are in the early stages of development of our product candidates, and we have not completed development of any SVP-enabled therapies. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We expect that our expenses will increase substantially as we:

- conduct additional clinical trials of SEL-212, our lead product candidate;
- conduct clinical trials for our other product candidates, including SEL-403;
- continue the research and development of our other product candidates;
- seek to enhance our SVP technology and discover and develop additional product candidates;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- potentially establish a sales, marketing and distribution infrastructure and scale up external manufacturing capabilities to commercialize any products for which we may obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio, including through licensing arrangements;
- add clinical, scientific, operational, financial and management information systems and personnel, including personnel to support our product development and potential future commercialization efforts and to support our operations as a public company; and
- experience any delays or encounter any issues with any of the above, including, but not limited to, failed studies, complex results, safety issues or other regulatory, manufacturing or scale-up challenges.

To become and remain profitable, we must succeed in developing and eventually commercializing products that generate significant revenue. This will require us to be successful in a range of challenging activities, including completing preclinical testing and clinical trials of our product candidates, discovering additional product candidates, obtaining regulatory approval and securing reimbursement for these product candidates, manufacturing, marketing and selling any products for which we may obtain regulatory approval, and establishing and managing our collaborations at various stages of a product candidate's development. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenues that are significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical and biological product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. If we are required by the U.S. Food and Drug Administration, or FDA, or other regulatory authorities to perform studies in

addition to those currently expected, or if there are any delays in completing our clinical trials or the development of any of our product candidates, our expenses could increase and revenue could be further delayed.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress our value and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or continue our operations.

We will need substantial additional funding in order to complete development of our product candidates and commercialize our products, if approved. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.

We expect our expenses to increase in connection with our ongoing activities, particularly as we conduct our clinical trials of SEL-212, SEL-403 and SELA-070, and continue research and development for our other product candidates. In addition, if we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Accordingly, we will need to obtain substantial additional funding to continue operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our clinical trials, our other research and development programs or any future commercialization efforts.

We believe that our existing cash, cash equivalents and short-term investments as of June 30, 2018, will enable us to fund our operating expenses and capital expenditure requirements through the end of the third quarter of 2019. The current operating plan accounts for funding in preparation for the planned Phase 3 clinical trial for SEL-212 and initial patient enrollment into a couple of Phase 3 clinical trial sites, but we will require an additional equity offering or other external sources of capital to expand enrollment in the Phase 3 trial and to conduct the planned head-to-head trial against Krystexxa. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the scope, progress, results and costs of our clinical trials of SEL-212 and SEL-403;
- the number of product candidates that we pursue;
- our collaboration agreements remaining in effect, our entering into additional collaboration agreements and our ability to achieve milestones under these agreements;
- the cost of manufacturing clinical supplies of our product candidates;
- our headcount growth and associated costs;
- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for our other product candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs and timing of future commercialization activities, including manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, including entering into licensing or collaboration arrangements for product candidates.

Any additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. Moreover, the terms of any financing may adversely affect the holdings or the rights of our stockholders, and the issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our shares to decline. The sale of additional equity or convertible securities would dilute all of our stockholders. The incurrence of indebtedness could result in increased fixed payment obligations and we may be required to agree to certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. We could also be required to seek funds through arrangements with collaborators or others at an earlier stage than otherwise would be desirable and we may be required to relinquish rights to some of our technologies or product candidates or otherwise agree to terms unfavorable to us, any of which may have a material adverse effect on our business, operating results and prospects.

If we are unable to obtain funding on a timely basis, we may be required to significantly curtail, delay or discontinue one or more of our research or development programs, including our clinical trial programs, or the commercialization of any product candidates, or be unable to sustain or expand our operations or otherwise capitalize on our business opportunities, as desired, which could materially affect our business, financial condition and results of operations.

Our limited operating history may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

We commenced active operations in 2007, and our operations to date have been limited to developing and researching our SVP technology and related products and programs, building our intellectual property portfolio, developing our supply chain, planning our business, raising capital and providing general and administrative support for these operations. Other than SEL-212, our lead product candidate, SEL-403, our product candidate utilizing LMB-100 in combination with SVP-Rapamycin, and SELA-070, our nicotine vaccine product candidate for smoking cessation and relapse prevention, our product candidates are still in preclinical development. While we have completed our Phase 1 clinical trial for SEL-212, we have not yet completed any other clinical trials for SEL-212 or any other product candidate. We initiated our Phase 2 clinical trial of SEL-212 in October 2016, but have not yet demonstrated our ability to successfully complete any Phase 3 or other pivotal clinical trials, obtain regulatory approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Additionally, we expect our financial condition and operating results to continue to fluctuate significantly from quarter-to-quarter and year-to-year due to a variety of factors, many of which are beyond our control. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

The terms of our credit facility place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.

On September 12, 2017, we entered into a term loan facility of up to \$21.0 million with Silicon Valley Bank, or SVB. The term loan facility is governed by a loan and security agreement, dated September 12, 2017, between us and SVB, which was funded in full on September 13, 2017. The term loan facility with SVB is secured by a lien on substantially all of our assets, other than intellectual property, provided that such lien on substantially all assets includes any rights to payments and proceeds from the sale, licensing or disposition of intellectual property. We also granted SVB a negative pledge with respect to our intellectual property.

The term loan facility contains customary covenants and representations, including but not limited to financial reporting obligations and limitations on dividends, indebtedness, collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. The term loan facility also contains other customary provisions, such as expense reimbursement, non-disclosure obligations as well as indemnification rights for the benefit of SVB. The events of default under the term loan facility include, but are not limited to, our failure to make any payments of principal or interest under the term loan facility or other transaction documents, our breach or default in the performance of any covenant under the term loan facility or other transaction documents, the occurrence of a material adverse effect, making a false or misleading representation or warranty in any material respect under the term loan facility, our insolvency or bankruptcy, any attachment or judgment on our assets of at least approximately \$0.3 million, or the occurrence of any default under any of our agreements or obligations involving indebtedness in excess of approximately \$0.3 million. If an event of default occurs, SVB is entitled to take enforcement action, including acceleration of amounts due under the term loan facility. If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

Our ability to use our net operating loss and research and development tax credit carryforwards to offset future taxable income may be subject to certain limitations.

We have net operating loss carryforwards, or NOLs, for federal and state income tax purposes that may be available to offset our future taxable income, if any. In general, under Sections 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to use its pre-change NOLs to offset future taxable income. If the U.S. Internal Revenue Service, or IRS, challenges our analysis that existing NOLs will not expire before utilization due to previous ownership changes, or if we undergo an ownership change in connection with or after a public offering, our ability to use our NOLs could be limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Sections 382 and 383 of the Code. Furthermore, our ability to use NOLs of companies that we may acquire in the future may be subject to limitations. As a result, we may not be able to use a material portion of the NOLs reflected on our balance sheet, even if we attain profitability.

RISKS RELATED TO THE DISCOVERY, DEVELOPMENT AND REGULATORY APPROVAL OF OUR PRODUCT CANDIDATES

Our product candidates are based on our SVP technology, which is an unproven approach designed to induce antigen-specific immune tolerance to biologic drugs or stimulate the immune system. We are very early in our clinical development efforts and may not be successful in our efforts to use our SVP technology to build a pipeline of product candidates and develop marketable drugs.

All of our product candidates are derived from our SVP technology, which is an unproven approach to inducing antigen-specific tolerance or stimulating the immune system. We are primarily using our SVP technology to improve and enable biologics that treat rare and serious diseases, with an initial focus on developing SEL-212 for the treatment of chronic severe gout. We are also leveraging our SVP platform to pursue programs in additional therapeutic areas such as oncology and gene therapy. For instance, in May 2017 we licensed LMB-100, a potent anti-bacterial toxin, and in March 2018 initiated a Phase 1 trial of our product candidate SEL-403 to evaluate LMB-100 in combination with our SVP technology in patients with malignant pleural or peritoneal mesothelioma who have undergone at least one regimen of chemotherapy. In addition, we are developing two gene therapy product candidates for rare inborn errors of metabolism. Our lead gene therapy program is a potential treatment for methylmalonic acidemia. This product candidate is known as SEL-302. Our second gene therapy product candidate, or SEL-313, is intended to treat ornithine transcarbamylase deficiency.

We are at an early stage of development and our technology has not yet led to, and may never lead to, approvable or marketable drugs. We may have problems identifying new product candidates and applying our technologies to these other areas. Even if we are successful in identifying new product candidates, they may not be suitable for clinical development, including as a result of harmful side effects, limited efficacy or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. The success of our product candidates will depend on several factors, including the following:

- completion of preclinical studies and clinical trials with positive results;
- receipt of marketing approvals from applicable regulatory authorities;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- making arrangements with third-party manufacturers for, or establishing, commercial manufacturing capabilities, or --establishing such capabilities ourselves;
- launching commercial sales of our products, if and when approved, whether alone or in collaboration with others;
- our existing collaboration agreements remaining in effect and our ability to enter into new collaborations throughout the development process as appropriate, from preclinical studies through to commercialization;
- acceptance of our products, if and when approved, by patients and the medical community;
- effectively competing with other therapies;
- obtaining and maintaining coverage and adequate reimbursement by third-party payors, including government payors, for our products, if approved;
- protecting our rights in our intellectual property portfolio;
- operating without infringing or violating the valid and enforceable patents or other intellectual property of third parties;
- maintaining an acceptable safety profile of our products following approval; and
- maintaining and growing an organization of scientists and business people who can develop and commercialize our product candidates and technology.

If we do not successfully develop and commercialize product candidates based upon our technological approach, we will not be able to obtain future revenues, which would result in significant harm to our financial position and adversely affect our stock price.

We have not received FDA approval for a therapeutic based on our SVP technology or for a biologic product manufactured in China and we know of only one company who has received FDA approval for a therapeutic based on a biologic sourced from China. In addition, we may use biologics other than pegsiticase with our SVP technology.

As a result, we cannot be certain that our approach, or our development of SEL-212, will lead to the development or approval of marketable products. In addition:

- due to the unproven nature of our SVP therapeutics, they may have different efficacy and safety rates in various indications;
- the FDA or other regulatory agencies may lack experience in evaluating the efficacy and safety of products based on SVP or a biologic sourced from China or other jurisdictions, which could result in a longer-than-expected regulatory review process, increase our expected development costs or delay or prevent commercialization of our product candidates; and
- in the event of a biologics license application, or BLA, for SEL-212 or another product and a pre-approval inspection by the FDA of the facilities of Shenyang Sunshine Pharmaceutical Co., Ltd., or 3SBio, or any other manufacturer of biologics we may use, the FDA may not approve the facility for production or may make observations that will take significant time for 3SBio or such other provider to address.

The occurrence of any of the foregoing, would effectively prevent or delay approval of our lead and other product candidates.

We are applying our SVP technology to antigen-specific immune tolerance for gene therapy involving gene augmentation, replacement or editing. Regulatory authorities in the United States and European Union have limited experience in reviewing and approving gene therapy products, which could affect the time and data required to obtain marketing authorization of any of our product candidates.

Our future success depends in part on our successful development of viable gene therapy product candidates utilizing SVP technology. We may experience problems or delays in developing such product candidates and any such problems or delays (i) may result in unanticipated costs and time to develop our product candidates and/or (ii) may not be resolved in a satisfactory manner.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive and may take many years. If additional clinical trials are required for certain jurisdictions, these trials can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved, and may ultimately be unsuccessful. Changes in marketing approval policies during the development period, changes in or the enactment or promulgation of additional statutes or regulations, respectively, or changes in the regulatory review process for each submitted product application, may cause delays in the review and approval of an application.

The regulatory approval process and clinical trial requirements for novel product candidates can be more expensive and take longer than for other, better known or more extensively studied product candidates. Sponsors of certain clinical studies of cells containing recombinant or synthetic nucleic acid molecules, including human gene transfer studies, must comply with the National Institutes of Health's, or NIH's, Guidelines for Research Involving Recombinant or Synthetic Nucleic Acid Molecules and must be authorized by both an applicable Institutional Review Board, or IRB, and an Institutional Biosafety Committee, which provides oversight of recombinant DNA research.

The NIH Guidelines set forth the principles and requirements for NIH and institutional oversight of research with recombinant or synthetic nucleic acid molecules, including the standards for investigators and institutions to follow to ensure the safe handling and containment of such molecules. In April 2016, modifications to the NIH Guidelines went into effect, pursuant to which only a subset of human gene transfer protocols are subject to review by the NIH Recombinant DNA Advisory Committee, or RAC, a federal advisory committee that provides recommendations regarding research involving recombinant or synthetic nucleic acid molecules. The RAC review proceedings are public, and reports are posted publicly to the website for the NIH's Office of Biotechnology Activities. Although compliance with the NIH Guidelines is mandatory for research conducted at or sponsored by institutions receiving NIH funding of recombinant or synthetic nucleic acid molecule research, many companies and other institutions not otherwise subject to the NIH Guidelines voluntarily follow them. Independent of RAC review, the NIH Guidelines also require all human gene transfer protocols subject to the NIH Guidelines to be registered with NIH, with limited exemptions. A study subject to the NIH Guidelines may not begin until an Institutional Biosafety Committee, or IBC, approves the protocol, and the IBC cannot approve the protocol until confirmation from the NIH that such registration is complete. In the event that RAC review is warranted, the protocol registration process cannot be completed until RAC review has taken place. Although the FDA decides whether individual gene therapy protocols may proceed, the RAC public review process, if undertaken, can delay the initiation of a clinical trial. Conversely, the FDA can delay or prevent the initiation of a clinical study even if the RAC has provided a favorable review if the study is not subject to in-depth, public RAC review.

In 2012, the European Medicines Agency approved a gene therapy product called Glybera, which became the first gene therapy product approved by regulatory authorities anywhere in the Western world. GlaxoSmithKline plc's Strimvelis and uniQure N.V.'s Glybera, are the only two gene therapy products for a genetic disease that have received marketing authorization from the European Commission, and to date only one gene therapy product, Luxturna, has been approved for use in the United States by the FDA. We cannot predict how long it will take or how much it will cost to complete clinical developments and obtain regulatory approvals for a gene therapy product candidate in either the United States or the European Union or how long it will take to commercialize a gene therapy product candidate, if and when approved. Regulatory requirements governing gene

therapy products have changed frequently and may continue to change in the future. Adverse developments in clinical trials of gene therapy products conducted by others may cause the FDA or other oversight bodies to modify the requirements for testing or approval of any of our product candidates. Similarly, the EMA may issue new guidelines concerning the development and marketing authorization for gene therapy medicinal products and require that we comply with these new guidelines.

As we advance any gene therapy product candidates, we will be required to consult with various regulatory authorities, and we must comply with applicable laws, rules, and regulations, which may change from time to time including during the course of development of our product candidates. If we fail to do so, we may be required to delay or discontinue development of certain of our product candidates. These additional processes may result in a review and approval process that is longer than we otherwise would have expected. Even if we comply with applicable laws, rules, and regulations, and even if we maintain close coordination with the applicable regulatory authorities with oversight over our product candidates, our development programs may fail to succeed. Regulatory authorities have substantial discretion in the approval process and may refuse to accept a marketing application as deficient or may decide that our data is insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate. Delay or failure to obtain, or unexpected costs in obtaining, the regulatory approval necessary to bring a potential product to market would materially and adversely affect our business, financial condition, results of operations and prospects.

Clinical drug development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Our lead product candidate, SEL-212, is currently being evaluated in a Phase 2 clinical program that we initiated in October 2016 and that we expect will conclude in 2018. In May 2017, we in-licensed LMB-100, a next-generation immunotoxin that completed a Phase 1 clinical program at the Center for Cancer Research at the National Cancer Institute, or NCI, part of the National Institutes of Health, for pancreatic cancer, mesothelioma and other cancers in 2017. For this product candidate, known as SEL-403, we plan to co-administer LMB-100 with SVP-Rapamycin. In March 2018, we initiated a Phase 1 trial of SEL-403 in patients with malignant pleural or peritoneal mesothelioma who have undergone at least one regimen of chemotherapy under a Cooperative Research and Development Agreement, or CRADA, at NCI. In May 2017, we commenced dosing for a Phase 1 clinical trial for SELA-070, a nicotine vaccine candidate in development for smoking cessation and relapse prevention, to assess its safety, tolerability and pharmacodynamic profile. Aside from these programs, our other product candidates are in preclinical development. It is impossible to predict when or if any of our product candidates will prove effective and safe in humans or will receive regulatory approval, and the risk of failure through the development process is high. Before obtaining marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Preclinical development is costly and inherently uncertain. For example, we have invested significant resources in our preclinical gene therapy program, which has demonstrated the potential for treatment of rare inborn errors of metabolism. Early preclinical results may not be predictive of future results, however, if our technology proves to be ineffective or unsafe as a result of, among other things, adverse side effects, pre-existing anti-drug antibodies that can neutralize the viral vector and block gene transfer, or cellular immune response to the transduced cells.

Clinical testing is expensive, difficult to design and implement, can take many years to complete and its outcome is inherently uncertain. A failed clinical trial can occur at any stage of testing. Moreover, the outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. For example, the clinical trial results to date from our Phase 2 trial of SEL-212 may not be predictive of future results as we continue to enroll patient cohorts receiving combination therapy for the entire treatment period. Moreover, we may not be able to complete, or may be required to deviate from, currently planned dosing levels in the Phase 2 trial, or may not be able to determine an appropriate dosing regimen for SEL-212 for the Phase 3 program, for a variety of reasons, including, but not limited to, feedback from the FDA.

Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in clinical trials after achieving positive results in preclinical development or early-stage clinical trials, and we cannot be certain that we will not face similar setbacks. These setbacks have been caused by, among other things, preclinical findings made while clinical trials were underway or safety or efficacy observations made in clinical trials, including adverse events. For example, multiple serious adverse events, or SAEs, have occurred in connection with SEL-212's Phase 1/2 clinical program and additional SAEs or similar events could occur during the course of our development of SEL-212 or other product candidates, which could be materially adverse to the success of these programs and delay or prevent our ability to obtain FDA approval. Moreover, preclinical and clinical data is often susceptible to varying interpretations and analyses, and many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials nonetheless failed to obtain FDA or other regulatory authority approval. If we fail to produce positive results in our clinical trials of our product candidates, the

development timeline and regulatory approval and commercialization prospects for our product candidates, and, correspondingly, our business and financial prospects, would be negatively impacted.

In addition, we cannot be certain as to what type and how many clinical trials the FDA will require us to conduct before we may successfully gain approval to market SEL-212 or any of our other product candidates in the United States or other countries. Prior to approving a new therapeutic product, the FDA generally requires that safety and efficacy be demonstrated in two adequate and well-controlled clinical trials. We expect to conduct more than one Phase 3 trial for SEL-212 in the refractory gout indication in order to gain approval. However, we may not receive FDA approval for our plan to provide six doses of the combination therapy of SEL-212 for the Phase 3 trial. Additional clinical trials could cause us to incur significant development costs, delay or prevent the commercialization of SEL-212 or otherwise adversely affect our business.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval for, or commercialize, our product candidates, including:

- clinical trials of our product candidates may produce unfavorable, incomplete or inconclusive results;
- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable terms with contract research organizations, or CROs, or clinical trial sites;
- we may be unable to recruit suitable patients to participate in a clinical trial, the number of patients required for clinical trials of our product candidates may be larger than we expect, enrollment in these clinical trials may be slower than we expect or participants may drop out of these clinical trials at a higher rate than we expect;
- the number of clinical trial sites required for clinical trials of our product candidates may be larger than we expect;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- we may have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks;
- investigators, regulators, data safety monitoring boards or institutional review boards may require that we or our investigators suspend or terminate clinical research, or we may decide to do so ourselves;
- investigators may deviate from the trial protocol, fail to conduct the trial in accordance with regulatory requirements or misreport study data;
- the cost of clinical trials of our product candidates may be greater than we expect or we may have insufficient resources to pursue or complete certain aspects of our clinical trial programs or to do so within the timeframe we planned;
- the supply or quality of raw materials or manufactured product candidates (whether provided by us or third parties) or other materials necessary to conduct clinical trials of our product candidates may be insufficient, inadequate or not available at an acceptable cost, or we may experience interruptions in supply;
- regulators may revise the requirements for approving our product candidates, or such requirements may not be as we expect;
- the FDA or comparable foreign regulatory authorities may disagree with our clinical trial design or our interpretation of data from preclinical studies and clinical trials, or may change the requirements for approval even after it has reviewed and commented on the design of our clinical trials; and
- regarding trials managed by our existing or any future collaborators, our collaborators may face any of the above issues, and may conduct clinical trials in ways they view as advantageous to them but potentially suboptimal for us.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, or if we are forced to delay or abandon certain clinical trials or other testing in order to conserve capital resources, we may:

- be delayed in obtaining marketing approval for our product candidates, if at all;
- lose the support of collaborators, requiring us to bear more of the burden of research and development;
- not obtain marketing approval at all;
- obtain marketing approval in some countries and not in others;

- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings;
- be subject to additional post-marketing testing requirements; or
- have a product removed from the market after obtaining marketing approval.

Our product development costs will increase if we experience delays in clinical testing or in obtaining marketing approvals. We do not know whether any of our preclinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, potentially impairing our ability to successfully commercialize our product candidates and harming our business and results of operations.

If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States. In addition, from time to time our competitors have ongoing clinical trials for product candidates that treat the same indications as our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' product candidates.

We are initially developing our lead product candidate, SEL-212, for the treatment of chronic severe gout, which affects approximately 160,000 patients in the United States. In addition, our SEL-403 product candidate, for the treatment of patients with malignant pleural or peritoneal mesothelioma who have undergone at least one regimen of chemotherapy, affects fewer than 1,550 patients in the United States. Accordingly, there is a limited number of patients who could enroll in our clinical studies.

In addition to the size of the patient population, patient enrollment is also affected by other factors including:

- the severity of the disease under investigation;
- the patient eligibility criteria for the study in question;
- the perceived risks and benefits of the product candidate under study;
- the availability of other treatments for the disease under investigation;
- the existence of competing clinical trials;
- our efforts to facilitate timely enrollment in clinical trials;
- investigators engagement with, or enthusiasm about, the trial;
- our payments for participating in clinical trials;
- the patient referral practices of physicians;
- the design of the trial;
- the ability to monitor patients adequately during and after treatment; and
- the proximity and availability of clinical trial sites for prospective patients.

Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays and could require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which could cause the value of our common stock to decline and limit our ability to obtain additional financing.

We may not be able to obtain orphan drug designation for our product candidates, and even if we do, we may be unable to maintain the benefits associated with orphan drug designation, including the potential for market exclusivity.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. We expect to seek orphan drug designation for several of our product candidates. Under the Orphan Drug Act of 1983, the FDA may designate a product as an orphan product if it is intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States, or a patient population of greater than 200,000 individuals in the United States, but for which there is no reasonable expectation that the cost of developing the drug or biologic will be recovered from sales in the United States.

In the United States, orphan designation entitles a party to financial incentives such as opportunities for grant funding towards clinical trial costs, tax advantages and user-fee waivers. In addition, if a product candidate that has orphan designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications, including a full BLA or full new drug application, or NDA, to market the same biologic or drug for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity or where the manufacturer is unable to assure sufficient product quantity.

The applicable exclusivity period is ten years in the European Union, but such exclusivity period can be reduced to six years if a product no longer meets the criteria for orphan designation or if the product is sufficiently profitable so that market exclusivity is no longer justified.

Even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs can be approved for the same condition. Even after an orphan drug is approved, the FDA can subsequently approve the same drug for the same condition if the FDA concludes that the later drug is clinically superior if it is shown to be safer, more effective or makes a major contribution to patient care.

Any breakthrough therapy designation that we may receive from the FDA for our product candidates may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood that our product candidates will receive marketing approval.

We may in the future seek breakthrough therapy designation for some of our product candidates. A breakthrough therapy is defined as a drug that is intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening disease or condition, and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints. For drugs that have been designated as breakthrough therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens. Drugs designated as breakthrough therapies by the FDA are also eligible for accelerated approval.

Designation as a breakthrough therapy is within the discretion of the FDA. Accordingly, even if we believe one of our product candidates meets the criteria for designation as a breakthrough therapy, the FDA may disagree and instead determine not to make such designation. The availability of breakthrough therapy designation was established recently with the passage of the Food and Drug Administration Safety and Innovation Act of 2012. We cannot be sure that any evaluation we may make of our product candidates as qualifying for breakthrough therapy designation will meet the FDA's expectations. In any event, the receipt of a breakthrough therapy designation for a product candidate may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualify as breakthrough therapies, the FDA may later decide that such product candidates no longer meet the conditions for qualification or decide that the time period for FDA review or approval will not be shortened.

Negative public opinion and increased regulatory scrutiny of gene therapy and genetic research may damage public perception of our product candidates or compromise our ability to conduct our business or obtain regulatory approvals for our product candidates.

Gene therapy remains a novel technology. Public perception may be influenced by claims that gene therapy is unsafe, and gene therapy may not gain the acceptance of the public or the medical community. In particular, our success will depend upon physicians specializing in the treatment of those diseases that our product candidates target and prescribing treatments that involve the use of our product candidates in lieu of, or in addition to, existing treatments they are already familiar with and for which greater clinical data may be available. More restrictive government regulations or negative public opinion would have a negative effect on our business or financial condition and may delay or impair the development and commercialization of our product candidates or demand for any products we may develop. Our product candidates, including our products that utilize viral delivery systems, could produce adverse events. Adverse events in our clinical trials or following approval of any of our product candidates, even if not ultimately attributable to our product candidates, could result in increased governmental regulation, unfavorable public perception, potential regulatory delays in the testing or approval of our product candidates, stricter labeling requirements for those product candidates that are approved and a decrease in demand for any such product candidates.

Our product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other

comparable foreign authorities. Further, therapies such as those we are developing involve unique side effects that could be exacerbated compared to side effects from other types of therapies with singular components. Results of our clinical trials could reveal a high and unacceptable severity and prevalence of side effects. In such an event, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. The drug-related side effects could affect patient enrollment in our clinical trials or the ability of any enrolled patients to complete such trials or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

Additionally, if one or more of our product candidates receives marketing approval, and we or others later identify undesirable side effects caused by such products, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- regulatory authorities may impose additional restrictions on the marketing of, or the manufacturing processes for, the particular product;
- we may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- we could be sued and held liable for harm caused to patients, or become subject to fines, injunctions or the imposition of civil or criminal penalties; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the particular product candidate, if approved, and could significantly harm our business, results of operations and prospects.

In addition, if our product candidates are associated with undesirable side effects in certain patient populations, such as pediatric patients or the elderly, we may need to abandon their development or limit development to more narrow uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective, any of which would harm our business.

RISKS RELATED TO OUR DEPENDENCE ON THIRD PARTIES AND MANUFACTURING

We rely on 3SBio in China as our primary supplier of pegsiticase and on other third parties for the manufacture of our product candidates for preclinical and clinical testing, and expect to continue to do so for the foreseeable future. Our reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or that such quantities may not be available at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We obtain the biologic pegsiticase, a component of SEL-212, our lead product candidate, primarily from 3SBio in China. Under our license agreement with 3SBio, we have limited rights to manufacture pegsiticase and, while we have entered into a contract with a back-up supplier located outside of China, we expect to continue to rely on 3SBio as the primary supplier of pegsiticase for the foreseeable future. In addition, to our knowledge only one company has received FDA approval for a therapeutic based on a biologic product manufactured in China.

Any disruption in production or inability of 3SBio in China to produce adequate quantities of pegsiticase to meet our needs, whether as a result of a natural disaster, failure to comply with regulatory requirements or other causes, could impair our ability to operate our business on a day-to-day basis and to continue our research and development of our future product candidates. Furthermore, since 3SBio is located in China, we are exposed to the possibility of product supply disruption and increased costs in the event of changes in the policies of the United States or Chinese governments, political unrest or unstable economic conditions in China. Any of these matters could materially and adversely affect our business and results of operations. Any issues related to the manufacturing lots or similar action regarding pegsiticase used in preclinical studies or clinical trials could delay the studies or trials or detract from the integrity of the trial data and its potential use in future regulatory filings. In addition, manufacturing interruptions or failure to comply or maintain compliance with regulatory requirements by 3SBio could significantly delay our clinical development of potential products and reduce third-party or clinical researcher interest and support of our proposed trials. These interruptions or failures could also impede commercialization of our future product candidates and impair our competitive position. Further, we may be exposed to fluctuations in the value of the local currency in China. Future appreciation of the local currency could increase our costs. In addition, our labor costs could continue to rise as wage rates increase due to increased demand for skilled laborers and the availability of skilled labor declines in China.

In addition to 3SBio, we rely, and expect to continue to rely, on other third parties for the manufacture of our product candidates for preclinical and clinical testing, as well as for commercial manufacture if any of our product candidates receive marketing approval. Our reliance on such third parties increases the risk that we will not have sufficient quantities of our

product candidates on a timely basis or at all, or that such quantities will be available at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts. For example, we rely on third parties for the manufacture of our gene therapy preclinical materials. Gene therapy is a relatively new area for commercial biopharmaceutical development and there are a limited number of contract manufacturing organizations, or CMOs, with adequate facilities and expertise in this area. As a result, we may be unable to successfully manufacture our gene therapy preclinical materials through a third party or scale up the manufacture of our gene therapy product candidates for clinical testing or commercialization, if at all.

We may be unable to establish any agreements with third-party manufacturers on acceptable terms or at all. Even if we are able to establish agreements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including the:

- inability, failure or unwillingness of third-party manufacturers to comply with regulatory requirements, maintain quality assurance, meet our needs, specifications or schedules or continue to supply products to us;
- reduced control we have over product development, including with respect to our lead product candidate, due to our reliance on such third-party manufacturers,
- breach of manufacturing agreements by the third-party manufacturers;
- misappropriation or disclosure of our proprietary information, including our trade secrets and know-how;
- relationships that the third-party manufacturer may have with others, some of which may be our competitors, and, if it does not successfully carry out its contractual duties, does not meet expectations, experiences work stoppages, or needs to be replaced, we may need to enter into alternative arrangements, which may not be available, desirable or cost-effective; and
- termination or nonrenewal of agreements by third-party manufacturers at times that are costly or inconvenient for us.

Third-party manufacturers may not be able to comply with current Good Manufacturing Practices, or cGMP, regulations or similar regulatory requirements outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocations, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products. If our CMOs or 3SBio are unable to comply with cGMP regulations or if the FDA does not approve their facilities upon a pre-approval inspection, our product candidate may not be approved or may be delayed in obtaining approval. In addition, there are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing our products. Therefore, our product candidates and any future products that we may develop may compete with other products for access to manufacturing facilities. Any failure to gain access to these limited manufacturing facilities could severely impact the clinical development, marketing approval and commercialization of our product candidates.

Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply or a second source for required raw materials used in the manufacture of our product candidates or for the manufacture of finished product. Moreover, we often rely on one CMO to produce multiple product components. For instance, one of our CMOs produces several polymers used in our SVP technology. If our current CMOs cannot perform as agreed, we may be required to replace such manufacturers and we may be unable to replace them on a timely basis or at all. Our current and expected future dependence upon others for the manufacture of our product candidates or products could delay, prevent or impair our development and commercialization efforts.

Our existing collaborations are important to our business, and future licenses may also be important to us. If we are unable to maintain any of these collaborations, or if these arrangements are not successful, our business could be adversely affected.

We have entered into collaborations with other parties, including pharmaceutical companies and universities, to develop products based on our SVP technology, and such collaborations and licensing arrangements currently represent a significant portion of our product pipeline. Certain of our collaborations also provide us with important funding for some of our development programs and we expect to receive additional funding under collaborations in the future. Our existing collaborations, and any future collaborations we enter into, may pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of any product candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on preclinical or

clinical trial results, changes in the collaborators' strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;

- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours, which may cause collaborators to cease to devote resources to the commercialization of our product candidates;
- a collaborator with marketing and distribution rights to one or more of our product candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such product or products;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- collaborations may be terminated for the convenience of the collaborator or for our failure to comply with our obligations under existing or future collaborations and, if terminated, we would potentially lose the right to pursue further development or commercialization of the applicable product candidates;
- collaborators may learn about our technology and use this knowledge to compete with us in the future;
- there may be conflicts between different collaborators that could negatively affect those collaborations and potentially others;
- the number and type of our collaborations could adversely affect our attractiveness to future collaborators or acquirers; and
- we currently have, and in the future may have, a limited number of collaborations and the loss of, or a disruption in our relationship with, any one or more of such collaborators may harm our business.

If our collaborations do not result in the successful development and commercialization of products or if one of our collaborators terminates its agreement with us, we may not receive any future research and development funding or milestone or royalty payments under such collaborations. For example, in November 2016, we received written notice from Sanofi that Sanofi had elected to terminate in its entirety the Sanofi Agreement related to the development of product candidates to treat peanut allergy and celiac disease, and as a result we will not receive any future payments related in the Sanofi Agreement. If we do not receive the funding we expect under these agreements, our continued development of our SVP technology and product candidates could be delayed and we may need additional resources to develop additional product candidates. All of the risks relating to product development, regulatory approval and commercialization described in this Quarterly Report on Form 10-Q also apply to the activities of our therapeutic program collaborators and there can be no assurance that our collaborations will produce positive results or successful products on a timely basis or at all.

Additionally, subject to its contractual obligations to us, if one of our collaborators is involved in a business combination or otherwise changes its business priorities, the collaborator might deemphasize or terminate the development or commercialization of any product candidate licensed to it by us. If one of our collaborators terminates its agreement with us, we may find it more difficult to attract new collaborators and the perception of our business in the business and financial communities, and our stock price, could be adversely affected. In addition, we have a limited number of collaborations and if our relationship with any one or more of such collaborators were to cease, our business would be harmed as a result.

We may in the future collaborate with additional pharmaceutical and biotechnology companies for development and potential commercialization of therapeutic products. We face significant competition in seeking appropriate collaborators. If we are unable to reach agreements with suitable collaborators on a timely basis, on acceptable terms, or at all, we may not be able to access specific antigens that would be suitable to development with our technology, have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to fund and undertake development or

commercialization activities on our own, we may need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. If we fail to enter into collaborations and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our product candidates or bring them to market or continue to develop our programs, and our business may be materially and adversely affected.

We rely, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including by failing to meet deadlines for the completion of such trials.

We expect to continue to rely on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators, to conduct and manage our clinical trials, including our Phase 2 clinical trial of SEL-212. We also expect to rely on other third parties to store and distribute drug supplies for our clinical trials.

Our reliance on these third parties for research and development activities will reduce our control over these activities but does not relieve us of our responsibilities. For example, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with regulatory standards, commonly referred to as good clinical practice, or GCP, regulations, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, safety and welfare of trial participants are protected. Other countries' regulatory agencies also have requirements for clinical trials. We also are required to register ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, *ClinicalTrials.gov*, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, do not meet expected deadlines, experience work stoppages, terminate their agreements with us or need to be replaced, or do not conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we may need to enter into new arrangements with alternative third parties, which could be difficult, costly or impossible, and our clinical trials may be extended, delayed or terminated, or may need to be repeated. If any of the foregoing occur, we may not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates or in commercializing our product candidates.

We have no experience manufacturing our product candidates at commercial scale, and if we decide to establish our own manufacturing facility, we cannot assure you that we can manufacture our product candidates in compliance with regulations at a cost or in quantities necessary to make them commercially viable.

We have a pilot manufacturing facility at our Watertown, Massachusetts location where we conduct process development, scale-up activities and the manufacture of SVP product candidates for preclinical use. We rely on the scale equipment at our CMOs for the manufacture of the clinical supply of all of our product candidates. If our facility, or our CMOs' facilities, were damaged or destroyed, or otherwise subject to disruption, it would require substantial lead-time to replace our manufacturing capabilities. In such event, we would be forced to identify and rely entirely on alternative third-party contract manufacturers for an indefinite period of time. Any disruptions or delays at our facility or its failure to meet regulatory compliance would impair our ability to develop and commercialize our product candidates, which would adversely affect our business and results of operations.

In addition, the FDA and other comparable foreign regulatory agencies must, pursuant to inspections that are conducted after submitting a BLA or relevant foreign marketing submission, confirm that the manufacturing processes for the product candidate meet cGMP regulations. We do not currently have any of our own manufacturing facilities that meet the FDA's cGMP requirements for the production of any product candidates used in humans, and rely on our CMOs for clinical production.

We may choose to establish a manufacturing facility for our product candidates for production at a commercial scale. However, we have no experience in commercial-scale manufacturing of our product candidates and this activity will require substantial additional funds and additional qualified employees. We may not be able to develop commercial-scale manufacturing facilities that are adequate to produce materials for additional later-stage clinical trials or commercial use.

The equipment and facilities employed in the manufacture of pharmaceuticals are subject to stringent qualification requirements by regulatory agencies, including validation of such facilities, equipment, systems, processes and analytics. We may be subject to lengthy delays and expense in conducting validation studies, if we can meet the requirements at all.

RISKS RELATED TO COMMERCIALIZATION OF OUR PRODUCT CANDIDATES AND OTHER LEGAL COMPLIANCE MATTERS

Even if any of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

If any of our product candidates receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of our product candidates, if any, will depend on a number of factors, including:

- their efficacy, safety and other potential advantages compared to alternative treatments;
- the clinical indications for which our product candidates are approved;
- our ability to offer them for sale at competitive prices;
- their convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- the availability of third-party coverage and adequate reimbursement for our product candidates;
- the prevalence and severity of their side effects and their overall safety profiles;
- any restrictions on the use of our product candidates together with other medications;
- interactions of our product candidates with other medicines patients are taking;
- our ability to create awareness with patients and physicians about the harmful effects of uric acid deposits;
- the timing of market introduction of any approved product candidates as well as competitive products and other therapies;
- inability of certain types of patients to take our product candidates;
- their ability to remain attractive in the event of changing treatment guidelines;
- adverse publicity about the product or favorable publicity about competitive products; and
- potential product liability claims.

We currently have no sales organization. If we are unable to establish effective sales, marketing and distribution capabilities, or enter into agreements with third parties with such capabilities, we may not be successful in commercializing our product candidates if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of pharmaceutical products. To achieve commercial success for any product candidate for which we obtain marketing approval, we will need to establish a sales and marketing organization or make arrangements with third parties to perform sales and marketing functions and we may not be successful in doing so.

In the future, we expect to build a focused sales and marketing infrastructure to market or co-promote our product candidates in the United States and potentially elsewhere, if and when they are approved. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Outside the United States, we may rely on third parties to sell, market and distribute our product candidates. We may not be successful in entering into arrangements with such third parties or may be unable to do so on terms that are favorable to us. In addition, our product revenue and our profitability, if any, may be lower if we rely on third parties for these functions than if we were to market, sell and distribute any products that we develop ourselves. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

We face substantial competition, including from biosimilars, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

The development and commercialization of new drug and biologic products and technologies is highly competitive and is characterized by rapid and substantial technological development and product innovations. We are aware of a number of large pharmaceutical and biotechnology companies, including Sanofi, Horizon Pharma plc, Pfizer Inc., and Merck & Co., Inc., as well as smaller, early-stage companies, that offer or are pursuing the development of pharmaceutical products or technologies that may address one or more indications that our product candidates target. We face competition with respect to our current

product candidates, and will face competition with respect to any product candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide.

Many of the companies against which we are competing or against which we may compete in the future have significantly greater financial resources, established presence in the market and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and reimbursement for product candidates and in marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors.

These third parties compete with us in recruiting and retaining qualified scientific, sales and marketing and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market, especially for any competitor developing a microbiome therapeutic that will likely share our same regulatory approval requirements. In addition, our ability to compete may be affected in many cases by insurers or other third-party payors seeking to encourage the use of generic or biosimilar products.

Even if we are able to commercialize any product candidates, the products may become subject to unfavorable pricing regulations or third-party coverage or reimbursement policies, any of which would harm our business.

Significant uncertainty exists as to the coverage and reimbursement status of any product candidates for which we obtain regulatory approval. Our ability to commercialize any product candidates successfully will depend, in part, on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels.

Obtaining and maintaining adequate reimbursement for our products may be difficult. We cannot be certain if and when we will obtain an adequate level of reimbursement for our products by third-party payors. Even if we do obtain adequate levels of reimbursement, third-party payors, such as government or private healthcare insurers, carefully review and increasingly question the coverage of, and challenge the prices charged for, products. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that pharmaceutical companies provide them with predetermined discounts from list prices and are challenging the prices charged for products. We may also be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of reimbursement relative to other therapies. If coverage and reimbursement are not available or reimbursement is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining reimbursement for newly approved products, and coverage may be more limited than the purposes for which the product is approved by the FDA or similar regulatory authorities outside of the United States. Moreover, eligibility for reimbursement does not imply that a product will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the product and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost products and may be incorporated into existing payments for other services. Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of products from countries where they may be sold at lower prices than in the United States. Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

The regulations that govern marketing approvals, pricing, coverage and reimbursement for new products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control, including possible price reductions, even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product,

possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval. There can be no assurance that our product candidates, if they are approved for sale in the United States or in other countries, will be considered medically necessary for a specific indication or cost-effective, or that coverage or an adequate level of reimbursement will be available.

Moreover, there has recently been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed bills designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products.

Product liability lawsuits against us could cause us to incur substantial liabilities and limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of our product candidates in clinical trials and will face an even greater risk if we commercially sell any products that we may develop. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- regulatory investigations, product recalls or withdrawals, or labeling, marketing or promotional restrictions;
- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- loss of clinical trial participants or increased difficulty in enrolling future participants;
- significant costs to defend the related litigation or to reach a settlement;
- substantial payments to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

We maintain general liability, product liability and umbrella liability insurance. Our existing insurance coverage may not fully cover potential liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials or if we commence commercialization of our product candidates. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

Failure to obtain marketing approval in international jurisdictions would prevent our product candidates from being marketed abroad.

Although we do not have any current plans to market and sell our products in other jurisdictions outside of the United States, we may decide to do so in the future and either we or our collaborators would need to obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval in foreign countries may differ substantially from that required to obtain FDA approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the product candidate be approved for reimbursement before the product candidate can be approved for sale in that country. We or our collaborators may not obtain approvals for our product candidates from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions, or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our product candidates in any market.

Our relationships with healthcare providers, customers and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, exclusion from government healthcare programs, contractual damages, reputational harm and diminished profits and future earnings.

Arrangements with physicians, others who may be in a position to generate business for us, and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that constrain the business or financial

arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under a federal healthcare program such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation; in addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;
- the federal false claims and civil monetary penalties laws, including the civil False Claims Act, which impose criminal and civil penalties against individuals or entities for knowingly presenting, or causing to be presented, to the federal government claims for payment that are false or fraudulent. Private individuals (e.g., whistleblowers) can bring these actions on behalf of the government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for, among other things, executing or attempting to execute a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and its implementing regulations, which also imposes obligations, including mandatory contractual terms, on certain types of people and entities with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Physician Payments Sunshine Act, which requires applicable manufacturers of certain products for which payment is available under a federal healthcare program to report annually to the government information related to certain payments or other “transfers of value” made to physicians and teaching hospitals, as well as ownership and investment interests held by the physicians and their immediate family members; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by third-party payors, including private insurers; requirements to comply with federal and pharmaceutical industry compliance guidelines, and; state data privacy and price transparency laws, many of which differ from each other in significant ways and often are broader than and not preempted by HIPAA or the Sunshine Act, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices, including our relationships with physicians and other healthcare providers, some of whom may recommend, purchase and/or prescribe our product candidates, if approved, may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental laws and regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, imprisonment, exclusion of products from government funded healthcare programs, such as Medicare and Medicaid, disgorgement, contractual damages, reputational harm, diminished profits and the curtailment or restructuring of our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any product candidates for which we obtain marketing approval.

For example, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the ACA, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for the healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

Among the provisions of the ACA of importance to our potential product candidates are the following:

- an annual, nondeductible fee payable by any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;
- extension of manufacturers' Medicaid rebate liability to individuals enrolled in Medicaid managed care organizations;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

Since its enactment, there have been judicial and Congressional challenges to certain aspects of the ACA. The Trump Administration and the U.S. Congress may take further action regarding the Affordable Care Act, including, but not limited to, repeal or replacement. Most recently, the Tax Cuts and Jobs Acts was enacted, which, among other things, removes penalties for not complying with the individual mandate to carry health insurance. We cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us.

We expect that the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price that we receive for any approved product. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our products.

Any product candidate for which we obtain marketing approval could be subject to post-marketing restrictions or withdrawal from the market, and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unexpected problems with our products, when and if any of them are approved.

Any product candidate for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to the continual requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, cGMP requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. We and our contract manufacturers will also be subject to continual review and periodic inspections to assess compliance with cGMP. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control.

Even if marketing approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, including the requirement to implement a risk evaluation and mitigation strategy, or REMS, which could include requirements for a medication guide, physician communication plans or additional elements to ensure safe use, such as restricted distribution methods, patient registries and other risk mitigation tools. If any of our product candidates receives marketing approval, the accompanying label may limit the approved use of our product, which could limit sales of the product.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of our approved products. The FDA closely regulates the post-approval marketing and promotion of drugs and biologics to ensure they are marketed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use, and if we market our products outside of their approved indications, we may be subject to enforcement action for off-label marketing. Violations of the FDA's restrictions relating to the promotion of prescription products may also lead to investigations alleging violations of federal and state health care fraud and abuse laws, as well as state consumer protection laws.

In addition, if a regulatory agency or we later discover previously unknown problems with our products, such as adverse events of unexpected severity or frequency or problems with manufacturers or manufacturing processes, the regulatory agency may impose restrictions on the products or us, including requiring withdrawal of the product from the market. Any failure to comply with applicable regulatory requirements may yield various results, including:

- litigation involving patients taking our products;

- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters;
- withdrawal of products from the market;
- suspension or termination of ongoing clinical trials;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;
- damage to relationships with existing and potential collaborators;
- unfavorable press coverage and damage to our reputation;
- refusal to permit the import or export of our products;
- product seizure or detention;
- injunctions; or
- imposition of civil or criminal penalties.

Noncompliance with other requirements in foreign jurisdictions regarding safety monitoring or pharmacovigilance can also result in significant financial penalties. Similarly, failure to comply with U.S. and foreign regulatory requirements regarding the development of products for pediatric populations and the protection of personal health information can also lead to significant penalties and sanctions.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response, and could generate negative publicity. Any failure to comply with ongoing regulatory requirements may significantly and adversely affect our ability to commercialize and generate revenues. If regulatory sanctions are applied or if regulatory approval is withheld or withdrawn, the value of our company and our operating results will be adversely affected.

The FDA's and other regulatory authorities' policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business, prospects, financial condition and results of operations.

We are subject to U.S. and certain foreign export and import controls, sanctions, embargoes, anti-corruption laws, and anti-money laundering laws and regulations. Compliance with these legal standards could impair our ability to compete in domestic and international markets. We can face criminal liability and other serious consequences for violations, which can harm our business.

We are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations, various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls, the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, and other state and national anti-bribery and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees, agents, contractors and other partners from authorizing, promising, offering or providing, directly or indirectly, improper payments or anything else of value to recipients in the public or private sector. We may engage third parties for clinical trials outside of the United States, to sell our product candidates abroad once we enter a commercialization phase, and/or to obtain necessary permits, licenses, patent registrations, and other regulatory approvals. We have direct or indirect interactions with officials and employees of government agencies or government-affiliated hospitals, universities and other organizations. We can be held liable for the corrupt or other illegal activities of our employees, agents, contractors and other partners, even if we do not explicitly authorize or have actual knowledge of such activities. Our violations of the laws and regulations described above may result in substantial civil and criminal fines and penalties, imprisonment, the

loss of export or import privileges, debarment, tax reassessments, breach of contract and fraud litigation, reputational harm and other consequences.

Governments outside the United States tend to impose strict price controls, which may adversely affect our revenues, if any.

In some countries, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. In addition, there can be considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political, economic and regulatory developments may further complicate pricing negotiations, and pricing negotiations may continue after coverage and reimbursement have been obtained. Reference pricing used by various countries and parallel distribution or arbitrage between low-priced and high-priced countries, can further reduce prices. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies, which is time-consuming and costly. If coverage and reimbursement of our product candidates are unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed, possibly materially.

If we or our contract manufacturers or other third parties fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We and our contract manufacturers and other third parties with whom we do business are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including biological materials and chemicals, such as trichloroethylene. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. The failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

If we are unable to adequately protect our proprietary technology, or obtain and maintain issued patents that are sufficient to protect our product candidates, others could compete against us more directly, which would negatively impact our business.

Our success depends in large part on our ability to obtain and maintain patent and other intellectual property protection in the United States and other countries with respect to our proprietary technology and products. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our novel technologies and product candidates. We also rely on trade secrets to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

The patent prosecution process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost, in a timely manner or in all jurisdictions. Prosecution of our patent portfolio is at a very early stage, and we are just beginning to reach the statutory deadlines for deciding whether and where to initiate prosecution in specific foreign jurisdictions by filing national stage applications based on our Patent Cooperation Treaty, or PCT, applications. As those deadlines come due, we will have to decide whether and where to pursue patent protection for the various inventions claimed in our patent portfolio, and we will only have the opportunity to obtain patents in those jurisdictions where we pursue protection. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. It is possible that defects of form in the preparation or filing of our patents or patent applications may exist, or may arise in the future, such as, with respect to proper priority claims, inventorship, claim scope or patent term adjustments. If there are material defects in the form or preparation of our patents or patent applications, such patents or applications may be invalid and unenforceable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business. We also cannot guarantee that any of our patent searches or analyses, including but not limited to the identification of relevant patents, the scope of patent claims or the expiration of

relevant patents, are complete and thorough, nor can we be certain that we have identified each and every patent and pending application in the United States and abroad that is relevant to or necessary for the commercialization of our product candidates in any jurisdiction.

In some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents covering technology that we license from third parties. We may also require the cooperation of our licensors to enforce any licensed patent rights, and such cooperation may not be provided. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. Moreover, we have obligations under our licenses, and any failure to satisfy those obligations could give our licensor the right to terminate the license. Termination of a necessary license could have a material adverse impact on our business.

We cannot provide any assurances that the issued patents we currently own, or any future patents, include claims with a scope sufficient to protect our product candidates or otherwise provide any competitive advantage. Further, it is possible that a patent claim may provide coverage for some but not all parts of a product candidate or third-party product. These and other factors may provide opportunities for our competitors to design around our patents, should they issue.

Moreover, other parties may have developed technologies that may be related or competitive to our approach, and may have filed or may file patent applications, and may have received or may receive patents that may overlap or conflict with our patent applications, either by claiming similar methods or by claiming subject matter that could dominate our patent position. In addition, given the early stage of prosecution of our portfolio, it may be some time before we understand how patent offices react to our patent claims and whether they identify prior art of relevance that we have not already considered.

Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in any owned patents or pending patent applications, or that we were the first to file for patent protection of such inventions, nor can we know whether those from whom we may license patents were the first to make the inventions claimed or were the first to file. For these and other reasons, the issuance, scope, validity, enforceability and commercial value of our patent rights are subject to a level of uncertainty. Our pending and future patent applications may not result in patents being issued that protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

We may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office, or USPTO, or become involved in opposition, derivation, reexamination, inter partes review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize product candidates without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Furthermore, an adverse decision in an interference proceeding can result in a third party receiving the patent right sought by us, which in turn could affect our ability to develop, market or otherwise commercialize our product candidates. The issuance, scope, validity, enforceability and commercial value of our patents are subject to a level of uncertainty.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. Due to legal standards relating to patentability, validity, enforceability and claim scope of patents covering biotechnological and pharmaceutical inventions, our ability to obtain, maintain and enforce patents is uncertain and involves complex legal and factual questions. Even if issued, a patent's validity, inventorship, ownership or enforceability is not conclusive. Accordingly, rights under any existing patent or any patents we might obtain or license may not cover our product candidates, or may not provide us with sufficient protection for our product candidates to afford a commercial advantage against competitive products or processes, including those from branded and generic pharmaceutical companies.

In addition to the protection afforded by patents, we rely on trade secret protection and confidentiality agreements to protect proprietary know-how, information, or technology that is not covered by our patents. Although our agreements require all of our employees to assign their inventions to us, and we require all of our employees, consultants, advisors and any other third parties who have access to our trade secrets, proprietary know-how and other confidential information and technology to enter into appropriate confidentiality agreements, we cannot be certain that our trade secrets, proprietary know-how, and other confidential information and technology will not be subject to unauthorized disclosure or that our competitors will not otherwise gain access to or independently develop substantially equivalent trade secrets, proprietary know-how, and other information and technology. Furthermore, the laws of some foreign countries do not protect proprietary rights to the same

extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property globally. If we are unable to prevent unauthorized disclosure of our intellectual property related to our product candidates and technology to third parties, we may not be able to establish or maintain a competitive advantage in our market, which could adversely affect our business and operations.

Any litigation to enforce or defend our patent rights, even if we were to prevail, could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded if we were to prevail may not be commercially meaningful. Even if we are successful, domestic or foreign litigation, or USPTO or foreign patent office proceedings, may result in substantial costs and distraction to our management. We may not be able, alone or with our licensors or potential collaborators, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or other proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation or other proceedings. In addition, during the course of this kind of litigation or proceedings, there could be public announcements of the results of hearings, motions or other interim proceedings or developments or public access to related documents. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

If we are unable to protect the confidentiality of our trade secrets and know-how, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also seek to enter into confidentiality and invention or patent assignment agreements with our employees, advisors and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Our trade secrets may also be obtained by third parties by other means, such as breaches of our physical or computer security systems. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. Moreover, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to, or independently developed by, a competitor, our competitive position would be harmed.

Changes in U.S. patent law could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

As is the case with other biotechnology companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biotechnology industry involves both technological and legal complexity, and is therefore costly, time-consuming and inherently uncertain. In addition, recent patent reform legislation could further increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The USPTO recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, in particular the first to file provisions, became effective on March 16, 2013. A third party that files a patent application in the USPTO after that date but before us could therefore be awarded a patent covering an invention of ours even if we had made the invention before it was made by the third party. This requires us to be cognizant of the time from invention to filing of a patent application. Thus, for our U.S. patent applications containing a priority claim after March 16, 2013, there is a greater level of uncertainty in the patent law. Moreover, some of the patent applications in our portfolio will be subject to examination under the pre-Leahy-Smith Act law and regulations, while other patents applications in our portfolio will be subject to examination under the law and regulations, as amended by the Leahy-Smith Act. This introduces additional complexities into the prosecution and management of our portfolio.

In addition, the Leahy-Smith Act limits where a patentee may file a patent infringement suit and provides opportunities for third parties to challenge any issued patent in the USPTO. These provisions apply to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in U.S. federal court necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a federal court action.

Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims because it may be easier for them to do so relative to challenging the patent in a federal court action. It is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

In addition, recent U.S. Supreme Court rulings have narrowed the scope of patent protection available in certain circumstances and weakened the rights of patent owners in certain situations. From time to time, the U.S. Supreme Court, other federal courts, the U.S. Congress or the USPTO may change the standards of patentability, and any such changes could have a negative impact on our business.

Depending on these and other decisions by the U.S. Congress, the federal courts and the USPTO, the laws and regulations governing patents could change or be interpreted in unpredictable ways that would weaken our ability to obtain new patents or to enforce any patents that may issue to us in the future. In addition, these events may adversely affect our ability to defend any patents that may issue in procedures in the USPTO or in courts.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability, and the ability of our collaborators, to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. There is considerable intellectual property litigation in the biotechnology and pharmaceutical industries. While no such litigation has been brought against us and we have not been held by any court to have infringed a third party's intellectual property rights, we cannot guarantee that our technology, product candidates or use of our product candidates do not infringe third-party patents.

We are aware of numerous patents and pending applications owned by third parties, and we monitor patents and patent applications in the fields in which we are developing product candidates, both in the United States and elsewhere. However, we may have failed to identify relevant third-party patents or applications. For example, applications filed before November 29, 2000 and certain applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Moreover, it is difficult for industry participants, including us, to identify all third-party patent rights that may be relevant to our product candidates and technologies because patent searching is imperfect due to differences in terminology among patents, incomplete databases and the difficulty in assessing the meaning of patent claims. We may fail to identify relevant patents or patent applications or may identify pending patent applications of potential interest but incorrectly predict the likelihood that such patent applications may issue with claims of relevance to our technology. In addition, we may be unaware of one or more issued patents that would be infringed by the manufacture, sale or use of a current or future product candidate, or we may incorrectly conclude that a third-party patent is invalid, unenforceable or not infringed by our activities. Additionally, pending patent applications that have been published can, subject to certain limitations, be later amended in a manner that could cover our technologies, our product candidates or the use of our product candidates.

The biotechnology and pharmaceutical industries are characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may allege that our product candidates or the use of our technologies infringes patent claims or other intellectual property rights held by them or that we are employing their proprietary technology without authorization. We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our product candidates and technology, including interference or derivation proceedings before the USPTO and similar bodies in other countries. Third parties may assert infringement claims against us based on existing intellectual property rights and intellectual property rights that may be granted in the future.

Patent and other types of intellectual property litigation can involve complex factual and legal questions, and their outcome is uncertain. If we are found, or believe there is a risk we may be found, to infringe a third party's intellectual property rights, we could be required or may choose to obtain a license from such third party to continue developing and marketing our product candidates and technology. However, we may not be able to obtain any such license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

Even if we are successful in such proceedings, we may incur substantial costs and divert management time and attention in pursuing these proceedings, which could have a material adverse effect on us. Patent litigation is costly and time-consuming. We may not have sufficient resources to bring these actions to a successful conclusion. There could be public announcements

of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

Any of these risks coming to fruition could harm our business.

Issued patents covering our product candidates could be found invalid or unenforceable or could be interpreted narrowly if challenged in court.

Competitors may infringe our intellectual property, including our patents or the patents of our licensors. As a result, we may be required to file infringement claims to stop third-party infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. If we initiated legal proceedings against a third party to enforce a patent, if and when issued, covering one of our product candidates, the defendant could counterclaim that the patent covering our product candidate is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge include alleged failures to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement, or failure to claim patent-eligible subject matter. Grounds for unenforceability assertions include allegations that someone connected with the prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. Third parties may also raise similar claims before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include re-examination, post-grant review, inter partes review, interference proceedings and equivalent proceedings in foreign jurisdictions, such as opposition proceedings. Such proceedings could result in revocation or amendment of our patents in such a way that they no longer cover our product candidates or competitive products. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to validity, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our product candidates. Moreover, even if not found invalid or unenforceable, the claims of our patents could be construed narrowly or in a manner that does not cover the allegedly infringing technology in question. Such a loss of patent protection would have a material adverse impact on our business.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent and, in some jurisdictions, during the pendency of a patent application. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction.

Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market, which would have an adverse effect on our business.

If we fail to comply with our obligations in our intellectual property licenses and funding arrangements with third parties, we could lose rights that are important to our business.

We are party to multiple license agreements that impose, and we may enter into additional licensing and funding arrangements with third parties that may impose, diligence, development and commercialization timelines, milestone payment, royalty, insurance and other obligations on us. Under our existing licensing agreements, we are obligated to pay royalties on net product sales of product candidates or related technologies to the extent they are covered by the agreement. Our results of operations will be affected by the level of royalty payments that we are required to pay to third parties. We cannot precisely predict the amount, if any, of royalties that we will be required to pay to third parties in the future. Any disagreements with the counterparty over the amount of royalties owed could lead to litigation, which is costly. In addition, if we fail to comply with our obligations under current or future license agreements, our counterparties may have the right to terminate these agreements, in which event we might not be able to develop, manufacture or market any product candidate that is covered by these agreements, or may face other penalties under the agreements. Such an occurrence could materially adversely affect the value of product candidates being developed using rights licensed to us under any such agreement. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements with less favorable terms, or cause us to lose our rights under these agreements, including our rights to important intellectual property or technology. Furthermore, our counterparties may allege that we are operating outside the scope of the licenses granted and terminate our license or otherwise require us to alter development, manufacturing or marketing activities.

We may not be successful in obtaining or maintaining necessary rights to our product candidates through acquisitions and in-licenses.

We currently have rights to certain intellectual property, through licenses from third parties and under patents and patent applications that we own, to develop our product candidates. Because we may find that our programs require the use of proprietary rights held by third parties, the growth of our business may depend in part on our ability to acquire, in-license or use these proprietary rights. We may be unable to acquire or in-license compositions, methods of use, processes or other third-party intellectual property rights from third parties that we identify as necessary for our product candidates. The licensing and acquisition of third-party intellectual property rights is a competitive area, and a number of more established companies are also pursuing strategies to license or acquire third-party intellectual property rights that we may consider attractive. These established companies may have a competitive advantage over us due to their size, financial resources and greater clinical development and commercialization capabilities. In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. We also may be unable to license or acquire third-party intellectual property rights on terms that would allow us to make an appropriate return on our investment.

If we are unable to successfully obtain rights to required third-party intellectual property rights or maintain the existing intellectual property rights we have, we may have to abandon development of that program and our business and financial condition could suffer.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may also engage advisors and consultants who are concurrently employed at universities or other organizations or who perform services for other entities. Although we try to ensure that our employees, advisors and consultants do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, advisors or consultants have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such party's former or current employer or in violation of an agreement with another party. Although we have no knowledge of any such claims being alleged to date, if such claims were to arise, litigation may be necessary to defend against any such claims.

In addition, while it is our policy to require our employees, consultants, advisors and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Our and their assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property. Similarly, we may be subject to claims that an employee, advisor or consultant performed work for us that conflicts with that person's obligations to a third party, such as an employer, and thus, that the third party has an ownership interest in the intellectual property arising out of work performed for us. Litigation may be necessary to defend against these claims. Although we have no knowledge of any such claims being alleged to date, if such claims were to arise, litigation may be necessary to defend against any such claims.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build name recognition among potential collaborators or customers in our markets of interest. At times, competitors may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. Over the long term, if we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. Our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources, and could adversely impact our financial condition or results of operations.

We will not seek to protect our intellectual property rights in all jurisdictions throughout the world and we may not be able to adequately enforce our intellectual property rights even in the jurisdictions where we seek protection.

Filing, prosecuting and defending patents on product candidates in all countries and jurisdictions throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States could be less extensive than in the United States, assuming that rights are obtained in the United States and assuming that rights are pursued outside the United States. In this regard, in addition to the United States, we also seek to protect our intellectual property rights in other countries, including Russia. The statutory deadlines for pursuing patent protection in individual foreign jurisdictions are based on the priority date of each of our patent applications. For all of the patent families in our portfolio, including the families that may provide coverage for our lead product candidate, the relevant statutory deadlines have not yet expired. Therefore, for each of the patent families that we believe provide coverage for our lead product candidate, we will need to decide whether and where to pursue additional protection outside the United States or Russia. In addition, the laws of some foreign countries, do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, for our existing patent rights outside the United States and any foreign patent rights we may decide to pursue in the future, we may not be able to obtain relevant claims and/or we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions.

Competitors may use our technologies in jurisdictions where we do not pursue and obtain patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as in the United States. These products may compete with our product candidates and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing. Even if we pursue and obtain issued patents in particular jurisdictions, our patent claims or other intellectual property rights may not be effective or sufficient to prevent third parties from so competing.

If we do not obtain additional protection under the Hatch-Waxman Act and similar foreign legislation extending the terms of our patents for our product candidates, our business may be harmed.

Depending upon the timing, duration and specifics of FDA regulatory approval for our product candidates, one or more of our U.S. patents may be eligible for limited patent term restoration under the Hatch-Waxman Act. The Hatch-Waxman Act permits a patent restoration term of up to five years as compensation for patent term lost during product development and the FDA regulatory review process. Patent term restorations, however, are limited to a maximum of five years and cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval by the FDA.

The application for patent term extension is subject to approval by the USPTO, in conjunction with the FDA. It takes at least six months to obtain approval of the application for patent term extension. We may not be granted an extension because of, for example, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than we request. If we are unable to obtain patent term extension or restoration or the term of any such extension is less than we request, the period during which we will have the right to exclusively market our product will be shortened, our competitors may obtain earlier approval of competing products and our ability to generate revenues could be materially adversely affected.

RISKS RELATED TO OUR OPERATIONS

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on Werner Cautreels, Ph.D., our President and Chief Executive Officer, as well as the other members of our management, scientific and clinical team. Although we have entered into employment agreements or offer letters with Dr. Cautreels and certain of our executive officers, each of them may terminate their employment with us at any time. We do not maintain “key person” insurance for any of our executives or other employees.

In January 2018, Dr. Cautreels announced his intention to retire effective December 31, 2018. In June 2018, Earl Sands, M.D., our Chief Medical Officer, announced his intention to retire effective January 1, 2019. Recruiting and retaining a new President and Chief Executive Officer and a new Chief Medical Officer will be critical to our success. We anticipate that we will experience a transitional period until our new Chief Executive Officer and Chief Medical Officer are hired and then fully integrated into their new roles, respectively. Any delay or failure to recruit Dr. Cautreels’ or Dr. Sands’ successor may adversely affect our business and financial results. We cannot predict how long it will take to hire a new Chief Executive Officer or Chief Medical Officer and if we are not able to appoint a new Chief Executive Officer or Chief Medical Officer in a timely manner, or we are forced to operate with a transitional leadership team, our business, financial condition, and results of operations could be materially and adversely affected. Moreover, we cannot provide any assurance that the transition in leadership will not result in a disruption that adversely impacts our business and employee morale.

Recruiting and retaining qualified scientific, clinical, manufacturing, technology and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended

period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize product candidates. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

We expect to expand our development and regulatory capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of lead discovery and product development, regulatory affairs, clinical affairs and manufacturing and, if any of our product candidates receives marketing approval, sales, marketing and distribution. To manage our expected future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such expected growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel in a timely manner, if at all. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage or financially support growth could delay the execution of our business plans or disrupt our operations.

We have incurred increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, and particularly after we are no longer an emerging growth company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Global Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and made some activities more time-consuming and costly.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. If we are unable to maintain effective internal control over financial reporting, we may not have adequate, accurate or timely financial information, and we may be unable to meet our reporting obligations as a public company or comply with the requirements of the SEC or Section 404. This could result in a restatement of our financial statements, the imposition of sanctions, including the inability of registered broker dealers to make a market in our common stock, or investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements or by disclosure of an accounting, reporting or control issue could adversely affect the trading price of our securities and our business. Material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

A variety of risks associated with operating in Russia and internationally could adversely affect our business.

In addition to our U.S. operations, we have operations in Russia through our wholly owned subsidiary, Selecta RUS, and may expand international operations in the future, including by conducting clinical trials of our product candidates in countries outside the United States, including Belgium. We may face risks associated with our operations in Russia, or with any international operations, including possible unfavorable regulatory, pricing and reimbursement, legal, political, tax and labor conditions, which could harm our business. We may also rely on collaborators to commercialize any approved product candidates outside of the United States. Doing business in Russia and internationally involves a number of risks, including but not limited to:

- multiple, conflicting and changing laws and regulations, such as privacy regulations, tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;

- failure by us to obtain and maintain regulatory approvals for the use of our product candidates in various countries;
- additional potentially relevant third-party patent rights;
- complexities and difficulties in obtaining protection of and enforcing our intellectual property rights;
- difficulties in staffing and managing foreign operations;
- complexities associated with managing multiple-payor reimbursement regimes, government payors or patient self-pay systems;
- limits on our ability to penetrate international markets;
- financial risks, such as longer payment cycles, difficulty collecting accounts receivable, the impact of local and regional financial crises on demand and payment for our product candidates and exposure to foreign currency exchange rate fluctuations, which could result in increased operating expenses and reduced revenues;
- natural disasters, political and economic instability, including wars, events of terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions and economic weakness, including inflation;
- changes in diplomatic and trade relationships;
- challenges in enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States;
- certain expenses including, among others, expenses for travel, translation and insurance;
- legal risks, including use of the legal system by the government to benefit itself or affiliated entities at our expense, including expropriation of property; and
- regulatory and compliance risks that relate to maintaining accurate information and control over sales and activities that may fall within the purview of the FCPA its books and records provisions, or its anti-bribery provisions.

Any of these factors could significantly harm our future international expansion and operations and, consequently, our results of operations.

Sanctions relating to Russia, and Russia's response to those sanctions, could adversely affect our business.

In response to the events in Crimea and other factors, the United States and the European Union have imposed sanctions on certain individuals, companies and financial institutions in Russia and additional sanctions could be forthcoming. In response, Russia has imposed entry bans on certain U.S. lawmakers and officials, and Russia has also announced that it is prepared to take additional retaliatory action in response to further Russia-related sanctions imposed by the United States in August 2017. If the United States and European Union were to impose additional sanctions on Russian businesses, or if Russia were to take retaliatory action against U.S. companies operating in Russia, our research and development activities with respect to our program for HPV-associated cancers currently conducted by Selecta RUS, or any other research and development activities with respect to our other immune stimulation programs conducted by Selecta RUS in the future, could be adversely affected.

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems and those of our current and future contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we are not aware of any such material system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our development programs and our business operations. For example, the loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Likewise, we rely on third parties to manufacture our product candidates and conduct clinical trials, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development and commercialization of our product candidates could be delayed.

Acquisitions or joint ventures could disrupt our business, cause dilution to our stockholders and otherwise harm our business.

We may acquire other businesses, product candidates or technologies as well as pursue strategic alliances, joint ventures, technology licenses or investments in complementary businesses. We have not made any acquisitions to date, and our ability to do so successfully is unproven. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with future customers or with current or future distributors or suppliers as a result of such a transaction;
- unexpected liabilities related to acquired companies;
- difficulties integrating acquired personnel, technologies and operations into our existing business;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- increases in our expenses and reductions in our cash available for operations and other uses;
- possible write-offs or impairment charges relating to acquired businesses; and
- inability to develop a sales force for any additional product candidates.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Also, the expected benefit of any acquisition may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future joint ventures or acquisitions, or the effect that any such transactions might have on our operating results.

RISKS RELATED TO OUR COMMON STOCK

The market price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for purchasers of our common stock.

The trading price of our common stock is likely to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. The stock market in general and the market for smaller biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, you may not be able to sell your common stock at or above the price at which you purchased. The market price for our common stock may be influenced by many factors, including:

- the success of competitive products or technologies;
- results or progress, or changes in approach or timelines, of clinical trials of our product candidates or those of our competitors;
- failure or discontinuation of any of our development programs;
- commencement of, termination of, or any development related to any collaboration or licensing arrangement;
- regulatory or legal developments in the United States and other countries;
- development of new product candidates that may address our markets and make our product candidates less attractive;
- changes in physician, hospital or healthcare provider practices that may make our product candidates less useful;
- announcements by us, our partners or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- announcement or market expectation of additional financing efforts;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- failure to meet or exceed financial estimates, projections or development timelines of the investment community or that we provide to the public;
- the results of our efforts to discover, develop, acquire or in-license additional product candidates or products;
- actual or expected changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;

- sale of common stock by us or our stockholders in the future as well as the overall trading volume of our common stock;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this “Risk factors” section.

Our executive officers, directors and principal stockholders, if they choose to act together, will continue to have the ability to control or significantly influence all matters submitted to stockholders for approval.

Our executive officers, directors and stockholders who own more than 5% of our outstanding common stock and their respective affiliates, in the aggregate, hold shares representing approximately 33.4% of our outstanding voting stock as of June 30, 2018. As a result, if these stockholders choose to act together, they would be able to control or significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, would control or significantly influence the election of directors, the composition of our management and approval of any merger, consolidation or sale of all or substantially all of our assets.

A significant portion of our total outstanding shares are eligible to be sold into the market, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. Holders of an aggregate of approximately 2.6 million shares of our common stock as of June 30, 2018 have rights, subject to specified conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders, until such shares can otherwise be sold without restriction under Rule 144 or until the rights terminate pursuant to the terms of the investors’ rights agreement between us and such holders. We have also registered and intend to continue to register all shares of common stock that we may issue under our equity compensation plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates. In addition, on June 27, 2017, we issued and sold in a private placement 3,088,791 shares of our common stock and a warrant to purchase 79,130 shares of our common stock. Pursuant to a registration rights agreement entered into with the investors in the private placement, we filed a Registration Statement on Form S-3 to register the shares of common stock sold in the private placement and the shares of common stock issuable upon exercise of the warrant. As a result, these shares can be freely sold in the public market.

We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and may remain an emerging growth company until the last day of the fiscal year following the fifth anniversary of the closing of the initial public offering of our common stock. However, if certain events occur prior to the end of such five-year period, including if we become a “large accelerated filer,” our annual gross revenues exceed \$1.07 billion or we issue more than \$1.07 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We cannot predict whether investors will find our common stock less attractive if we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be reduced or more volatile. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our preclinical studies, clinical trial programs and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Provisions in our restated certificate of incorporation and restated bylaws and under Delaware law could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and our restated bylaws, which became effective upon the closing of the initial public offering of our common stock may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Furthermore, our restated certificate of incorporation specifies that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving claims brought against us by stockholders. We believe this provision benefits us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, the provision may have the effect of discouraging lawsuits against our directors, officers, employees and agents as it may limit any stockholder's ability to bring a claim in a judicial forum that such stockholder finds favorable for disputes with us or our directors, officers, employees or agents. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our restated certificate of incorporation to be applicable or unenforceable in such action.

We could be subject to securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biopharmaceutical companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Comprehensive tax reform bills could adversely affect our business and financial condition.

The U.S. government recently enacted comprehensive federal income tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected. This Quarterly Report on Form 10-Q does not discuss any such tax legislation or the manner in which it might affect holders of our common stock. We urge our stockholders to consult with their legal and tax advisors with respect to any such legislation and the potential tax consequences of investing in our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On August 8, 2018, we announced that we are actively preparing to start a head-to-head clinical trial of SEL-212 compared to the current FDA-approved uricase therapy, Krystexxa, which will be designed to have the potential to demonstrate superiority. We plan to initiate this trial in parallel with the Phase 3 program and expect to report clinical data at both the three-month and six-month time points in 2019, but we will require an additional equity offering or other external sources of capital to conduct the planned head-to-head trial against Krystexxa.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
3.1	Restated Certificate of Incorporation of Selecta Biosciences, Inc.	8-K	001-37798	3.1	6/29/2016
3.2	Amended and Restated By-laws of Selecta Biosciences, Inc.	8-K	001-37798	3.2	6/29/2016
10.1#	Amended and Restated Employment Agreement, dated June 14, 2018, between Selecta Biosciences, Inc. and Earl Sands, M.D.	8-K	001-37798	10.1	6/14/2018
10.2#	Consulting Agreement, dated May 30, 2018, between Selecta Biosciences, Inc. and Omid Farokhzad, M.D.				*
10.3#	Non-Employee Director Compensation Program				*
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer				*
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer				*
32.1	Section 1350 Certification of Chief Executive Officer				**
32.2	Section 1350 Certification of Chief Financial Officer				**
101.INS	XBRL Instance Document				*
101.SCH	XBRL Taxonomy Extension Schema Document				*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				*

* Filed herewith.

** Furnished herewith.

Indicates management contract or compensatory plan.

SELECTA BIOSCIENCES, INC.

CONSULTING AGREEMENT

(Omid Farokhzad, M.D.)

This Consulting Agreement dated as of May 30, 2018 (this "Agreement"), is made by and between Selecta Biosciences, Inc., a Delaware corporation (the "Company"), and Omid Farokhzad, M.D. (the "Consultant").

WHEREAS, the Company desires to engage the Consultant to perform consulting services on behalf of the Company and the Consultant desires to perform such services on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the promises and the mutual covenants set forth herein the parties hereby agree as follows:

1. Consulting Services.

(a) The Company hereby retains the Consultant and the Consultant hereby agrees to perform such consulting and advisory services as the Company may request and as set forth in Schedule A (the "Consulting Services").

(b) The Consultant agrees to make himself available to render the Consulting Services, at such times and locations as may be mutually agreed, from time to time as requested by the Company. Except as provided in Schedule A, the Consultant may deliver the Consulting Services over the telephone, in person or by written correspondence.

(c) The Consultant agrees to devote his best efforts to performing the Consulting Services. The Consultant shall comply with all rules, procedures and standards promulgated from time to time by the Company with regard to the Consultant's access to and use of the Company's property, information, equipment and facilities.

2. Compensation. The Company shall pay the Consultant a consulting fee as provided in Schedule A. The Company will reimburse the Consultant for such reasonable business expenses as are incurred by the Consultant in the performance of Consulting Services for the Company.

3. Independent Contractor. In furnishing the Consulting Services, the Consultant understands that he will at all times be acting as an independent contractor of the Company and, as such, will not be an employee of the Company and will not by reason of this Agreement or by reason of his Consulting Services to the Company be entitled to participate in or to receive any benefit or right under any of the Company's employee benefit or welfare plans. The Consultant also will be responsible for paying all withholding and other taxes required by law to be paid as and when the same become due and payable. Consultant shall not enter into any agreements or incur any obligations on behalf of the Company.

4. Term. The term of this Agreement will begin on April 1, 2018 and will end on March 31, 2019; provided, however, that the term may be extended by mutual agreement of the Company and the Consultant. The Company may terminate this Agreement at any time for any reason, without cause and without prior notice.

5. Exceptions to this Agreement.

(a) Certain Other Contracts. The Company acknowledges that (I) the Consultant is the Chief Executive Officer of Seer Biosciences (“Seer”), (II) the Consultant is an unpaid member of the faculty of Harvard Medical School (“HMS”) and Brigham & Women’s Hospital (“BWH”) (HMS, BWH and Seer referred to herein as the “Institutions”), and (III) the Consultant is now or may become a party to agreements with the Institutions and other third parties relating to the disclosure of information, the ownership of inventions, restrictions against competition and/or similar matters. The Consultant represents and agrees that the execution, delivery and performance of this Agreement does not and will not conflict with any other agreement, policy or rule applicable to the Consultant. The Consultant will not (i) disclose to the Company any information that he is required to keep secret pursuant to an existing confidentiality agreement with the Institutions or any other third party, (ii) use the funding, resources, facilities or inventions of the Institutions or any other third party to perform the Consulting Services, or (iii) perform the Consulting Services in any manner that would give the Institutions or any other third party rights to any intellectual property created in connection with such services.

(b) Prior Inventions. The Consultant has informed the Company, in writing, of any and all Inventions in Field of Interest, which he claims as his own or otherwise intends to exclude from this Agreement because it was developed by him prior to the date of this Agreement. The Consultant acknowledges that after execution of this Agreement he shall have no right to exclude any Inventions (as defined in Section 7) from this Agreement.

6. Confidential Information. While providing the Consulting Services to the Company and thereafter, the Consultant shall not, directly or indirectly, use any Confidential Information (as defined below) other than pursuant to his provision of the Consulting Services by and for the benefit of the Company, or disclose to anyone outside of the Company any such Confidential Information. The term “Confidential Information” as used throughout this Agreement shall mean all trade secrets, proprietary information and other data or information (and any tangible evidence, record or representation thereof), written or oral, whether prepared, conceived or developed by a consultant or employee of the Company (including the Consultant) or received by the Company from an outside source, which is in the possession of the Company (whether or not the property of the Company) and which is maintained in secrecy or confidence by the Company. Without limiting the generality of the foregoing, Confidential Information shall include:

(a) any idea, improvement, invention, innovation, development, concept, technical data, design, formula, device, pattern, sequence, method, process, composition of matter, computer program or software, source code, object code, algorithm, model, diagram, flow chart, product specification or design, plan for a new or revised product, sample,

compilation of information, or work in process, or parts thereof, and any and all revisions and improvements relating to any of the foregoing (in each case whether or not reduced to tangible form); and

(b) the name of any customer, supplier, employee, prospective customer, sales agent, supplier or consultant, any sales plan, marketing material, plan or survey, business plan or opportunity, product or development plan or specification, business proposal, financial record, or business record or other record or information relating to the present or proposed business of the Company.

Notwithstanding the foregoing, the term Confidential Information shall not apply to information which the Company has voluntarily disclosed to the public without restriction or which has otherwise lawfully entered the public domain.

The Consultant acknowledges that the Company from time to time has in its possession information (including product and development plans and specifications) which represent information which is claimed by others to be proprietary and which the Company has agreed to keep confidential. The Consultant agrees that all such information shall be Confidential Information for purposes of this Agreement.

The Consultant agrees that all originals and all copies of materials containing, representing, evidencing, recording, or constituting any Confidential Information, however and whenever produced (whether by the Consultant or others), shall be the sole property of the Company.

7. Inventions.

(a) Certain Inventions Made by Others. Subject to the Consultant's obligations to the Institutions and other third parties, during the Term of this Agreement, the Consultant will use his best efforts (i) to disclose to the President of the Company, on a confidential basis, technology and product opportunities which come to the attention of the Consultant in the Field of Interest (as defined in Section 13(j)), and (ii) any invention, improvement, discovery, process, formula or method or other intellectual property relating to or useful in, the Field of Interest, whether or not patentable or copyrightable, and whether or not discovered or developed by Consultant.

(b) Inventions Made by the Consultant. Subject to the Consultant's obligations to the Institutions, Consultant agrees that all Confidential Information and all other discoveries, inventions, ideas, concepts, trademarks, service marks, logos, processes, products, formulas, computer programs or software, source codes, object codes, algorithms, machines, apparatuses, items of manufacture or composition of matter, or any new uses therefor or improvements thereon, or any new designs or modifications or configurations of any kind, or works of authorship of any kind, including, without limitation, compilations and derivative works, whether or not patentable or copyrightable, conceived, developed, reduced to practice or otherwise made by the Consultant during the Term of this Agreement, either alone or with others, and directly related to or arising out of: (i) the Field of Interest; (ii) the Consulting Services; or

(iii) Confidential Information of the Company, whether or not conceived, developed, reduced to practice or made on the Company's premises (collectively, "Company Inventions"), and any and all services and products which embody, emulate or employ any such Company Invention or Confidential Information shall be the sole property of the Company and all copyrights, patents, patent rights, trademarks and reproduction rights to, and other proprietary rights in, each such Company Invention or Confidential Information, whether or not patentable or copyrightable, shall belong exclusively to the Company. The Consultant agrees that all such Company Inventions shall constitute works made for hire under the copyright laws of the United States and hereby assigns and, to the extent any such assignment cannot be made at the present time, agrees to assign, to the Company any and all copyrights, patents and other proprietary rights he may have in any such Company Invention, together with the right to file and/or own wholly without restrictions applications for United States and foreign patents, trademark registration and copyright registration and any patent, or trademark or copyright registration issuing thereon.

8. Consultant's Obligation to Keep Records. Consultant shall make and maintain adequate and current written records of all Company Inventions, and shall disclose all Company Inventions promptly, fully and in writing to the Company immediately upon development of the same and at any time upon request.

9. Consultant's Obligation to Cooperate. The Consultant will, at any time during or after the term of this Agreement, upon request of the Company, execute all documents and perform all lawful acts which the Company considers necessary or advisable to secure its rights hereunder and to carry out the intent of this Agreement. Without limiting the generality of the foregoing, the Consultant will assist the Company in any reasonable manner to obtain for its own benefit patents or copyrights in any and all countries with respect to all Company Inventions assigned pursuant to Section 7, and the Consultant will execute, when requested, patent and other applications and assignments thereof to the Company, or Persons (as defined in Section 13(j)) designated by it, and any other lawful documents deemed necessary by the Company to carry out the purposes of this Agreement, and the Consultant will further assist the Company in every way to enforce any patents and copyrights obtained, including testifying in any suit or proceeding involving any of said patents or copyrights or executing any documents deemed necessary by the Company, all without further consideration than provided for herein. It is understood that reasonable out-of-pocket expenses of the Consultant's assistance incurred at the request of the Company under this Section will be reimbursed by the Company.

10. Noncompetition. Subject to written waivers that may be provided by the Company upon request, which shall not be unreasonably withheld, the Consultant agrees that during the term of this Agreement and for a period of twelve months after the termination of this Agreement (the "Restricted Period"), the Consultant shall not directly or indirectly (i) provide any services in the Field of Interest to any Person other than the Company, (ii) become an owner, partner, shareholder, consultant, agent, employee or co-venturer of any Person that has committed, or intends to commit, significant resources to the Field of Interest. Notwithstanding the foregoing, the Consultant may purchase as a passive investment up to one percent (1%) of any class or series of outstanding voting securities of any Person that has committed significant

resources to the Field of Interest if such class or series is listed on a national or regional securities exchange or publicly traded in the “over-the-counter” market.

11. Nonsolicitation. During the Restricted Period, the Consultant shall not (i) solicit, encourage, or take any other action which is intended to induce any employee of, or consultant to, the Company (or any other Person who may have been employed by, or may have been a consultant to, the Company during the Term) to terminate his or her employment or relationship with the Company in order to become employed by or otherwise perform services for any other Person or (ii) solicit, endeavor to entice away from the Company or otherwise interfere with the relationship of the Company with any Person who is, or was within the then-most recent 12 month period, a client or customer of the Company.

12. Return of Property. Upon termination of the Consultant’s engagement with the Company, or at any other time upon request of the Company, the Consultant shall return promptly any and all Confidential Information, including customer or prospective customer lists, other customer or prospective customer information or related materials, computer programs, software, electronic data, specifications, drawings, blueprints, medical devices, samples, reproductions, sketches, notes, notebooks, memoranda, reports, records, proposals, business plans, or copies of them, other documents or materials, tools, equipment, or other property belonging to the Company or its customers which the Consultant may then possess or have under his control. The Consultant further agrees that upon termination of his engagement he shall not take with him any documents or data in any form or of any description containing or pertaining to Confidential Information or any Company Inventions.

13. Miscellaneous.

(a) Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties with respect to the Consulting Services and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to such Consulting Services.

(b) Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder, except as otherwise expressly provided herein and shall not be assignable by operation of law or otherwise.

(c) Amendments and Supplements. This Agreement may not be altered, changed or amended, except by an instrument in writing signed by the parties hereto.

(d) No Waiver. The terms and conditions of this Agreement may be waived only by a written instrument signed by the party waiving compliance. The failure of any party hereto to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of such party thereafter to enforce each and every such

provision. No waiver of any breach of or non-compliance with this Agreement shall be held to be a waiver of any other or subsequent breach or non-compliance.

(e) Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts, without regard to its principles of conflicts of laws.

(f) Notice. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered by hand, sent by facsimile transmission with confirmation of receipt, sent via a reputable overnight courier service with confirmation of receipt requested, or mailed by registered or certified mail (postage prepaid and return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice), and shall be deemed given on the date on which delivered by hand or otherwise on the date of receipt as confirmed:

To the Company:

Selecta Biosciences, Inc.
480 Arsenal Way
Watertown, MA 02472
Attention: General Counsel

To the Consultant:

Omid Farokhzad, M.D.
15 Laura Road
Waban, MA 02468

(g) Remedies. The Consultant recognizes that money damages alone would not adequately compensate the Company in the event of breach by the Consultant of this Agreement, and the Consultant therefore agrees that, in addition to all other remedies available to the Company at law, in equity or otherwise, the Company shall be entitled to injunctive relief for the enforcement hereof. All rights and remedies hereunder are cumulative and are in addition to and not exclusive of any other rights and remedies available at law, in equity, by agreement or otherwise.

(h) Survival; Validity. Notwithstanding the termination of the Consultant's relationship with the Company (whether pursuant to Section 4 or otherwise), the Consultant's covenants and obligations set forth in Sections 6, 7, 9, 10, 11 and 12 shall remain in effect and be fully enforceable in accordance with the provisions thereof. In the event that any provision of this Agreement shall be determined to be unenforceable by reason of its extension for too great a period of time or over too large a geographic area or over too great a range of activities, it shall be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable. If, after application of the preceding sentence, any provision of this Agreement shall be determined to be invalid, illegal or otherwise unenforceable by a court of competent jurisdiction, the validity, legality and enforceability of the other

provisions of this Agreement shall not be affected thereby. Except as otherwise provided in this Section 13(h), any invalid, illegal or unenforceable provision of this Agreement shall be severable, and after any such severance, all other provisions hereof shall remain in full force and effect.

(i) Construction. A reference to a Section or a Schedule shall mean a Section in or Schedule to this Agreement unless otherwise expressly stated. The titles and headings herein are for reference purposes only and shall not in any manner limit the construction of this Agreement which shall be considered as a whole. The words “include,” “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation.” Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of names and pronouns shall include the plural and vice-versa.

(j) Certain Definitions.

“Field of Interest” shall mean immunomodulatory nanoparticles and tolerogenic dendritic cells for prophylactic and therapeutic applications.

“Person” shall mean an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization.

(k) Counterparts. This Agreement may be executed in one or more counterparts, all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties have caused this Consulting Agreement to be executed as an agreement under seal as of the date first written above.

SELECTA BIOSCIENCES, INC.

By: /s/ Werner Cautreels _____
Name: Werner Cautreels, Ph.D.
Title: President and Chief Executive Officer

CONSULTANT:

Omid Farokhzad, M.D. /s/ Omid Farokhzad _____

Schedule A

1. Description of Consulting Services.

The Consultant shall provide such consulting services as the Company's management team or Board of Directors (the "Board") reasonably requests in connection with the Company's business.

2. Compensation.

The Company shall grant the Consultant an option to purchase 95,000 shares of the Company's common stock (the "Option"), subject to approval by the Company's Board of Directors. The Option shall be subject to the terms and conditions of the 2016 Incentive Award Plan (the "2016 Plan") and a stock option agreement in substantially the form attached to this Schedule A.

SELECTA BIOSCIENCES, INC.

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

Non-employee members of the board of directors (the “**Board**”) of Selecta Biosciences, Inc. (the “**Company**”) shall receive cash and equity compensation as set forth in this Non-Employee Director Compensation Program (this “**Program**”), as amended by the Board effective June 15, 2018 (the “**Effective Date**”). The cash and equity compensation described in this Program shall be paid or be made, as applicable, automatically and without further action of the Board, to each member of the Board who is not an employee of the Company or any parent or subsidiary of the Company (each, a “**Non-Employee Director**”) who is entitled to receive such cash or equity compensation, unless such Non-Employee Director declines the receipt of such cash or equity compensation by written notice to the Company. This Program shall remain in effect until it is revised or rescinded by further action of the Board. This Program may be amended, modified or terminated by the Board at any time in its sole discretion. The terms and conditions of this Program shall supersede any prior cash and/or equity compensation arrangements for service as a member of the Board between the Company and any of its Non-Employee Directors. No Non-Employee Director shall have any rights hereunder, except with respect to stock options granted pursuant to the Program. This Program shall become effective on the Effective Date.

I. CASH COMPENSATION

A. Annual Retainers. Each Non-Employee Director shall receive an annual retainer of \$40,000 for service on the Board.

B. Additional Annual Retainers. In addition, each Non-Employee Director shall receive the following annual retainers:

1. *Chairperson of the Board or Lead Independent Director*. A Non-Employee Director serving as Chairperson of the Board shall receive an additional annual retainer of \$30,000 for such service, and a Non-Employee Director serving as Lead Independent Director shall receive an additional annual retainer of \$20,000 for such service.

2. *Audit Committee*. A Non-Employee Director serving as Chairperson of the Audit Committee shall receive an additional annual retainer of \$15,000 for such service. A Non-Employee Director serving as a member other than the Chairperson of the Audit Committee shall receive an additional annual retainer of \$7,500 for such service.

3. *Compensation Committee*. A Non-Employee Director serving as Chairperson of the Compensation Committee shall receive an additional annual retainer of \$12,000 for such service. A Non-Employee Director serving as a member other than the Chairperson of the Compensation Committee shall receive an additional annual retainer of \$6,000 for such service.

4. *Nominating and Corporate Governance Committee*. A Non-Employee Director serving as Chairperson of the Nominating and Corporate Governance Committee shall receive an additional annual retainer of \$8,000 for such service. A Non-Employee Director

serving as a member other than the Chairperson of the Nominating and Corporate Governance Committee shall receive an additional annual retainer of \$4,000 for such service.

5. *Science Committee.* A Non-Employee Director serving as Chairperson of the Science Committee shall receive an additional annual retainer of \$8,000 for such service. A Non-Employee Director serving as a member other than the Chairperson of the Science Committee shall receive an additional annual retainer of \$4,000 for such service.

C. Payment of Retainers. The annual retainers described in Sections I(A) and I(B) shall be earned on a quarterly basis based on a calendar quarter and shall be paid in cash by the Company in arrears not later than the fifteenth day following the end of each calendar quarter. In the event a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable positions described in Section I(B), for an entire calendar quarter, the retainer paid to such Non-Employee Director shall be prorated for the portion of such calendar quarter actually served as a Non-Employee Director, or in such position, as applicable.

II. EQUITY COMPENSATION

Non-Employee Directors shall be granted the equity awards described below. The awards described below shall be granted under and shall be subject to the terms and provisions of the Company's 2016 Incentive Award Plan or any other applicable Company equity incentive plan then-maintained by the Company (the "**Equity Plan**") and shall be granted subject to award agreements, including attached exhibits, in substantially the form previously approved by the Board. All applicable terms of the Equity Plan apply to this Program as if fully set forth herein, and all grants of stock options hereby are subject in all respects to the terms of the Equity Plan and the applicable award agreement. For the avoidance of doubt, the share numbers in Sections II(A) and II(B) shall be subject to adjustment as provided in the Equity Plan, including without limitation with respect to any stock dividend, stock split, reverse stock split or other similar event affecting the Company's common stock that is effected prior to the Effective Date.

A. Initial Awards. Each Non-Employee Director who is initially elected or appointed to the Board after the Effective Date shall receive an option to purchase 20,000 shares of the Company's common stock on the date of such initial election or appointment. The awards described in this Section II(A) shall be referred to as "**Initial Awards**." No Non-Employee Director shall be granted more than one Initial Award.

B. Subsequent Awards. A Non-Employee Director who (i) has been serving as a Non-Employee Director on the Board for at least six months as of the date of any annual meeting of the Company's stockholders after the Effective Date and (ii) will continue to serve as a Non-Employee Director immediately following such meeting, shall be automatically granted an option to purchase 10,000 shares of the Company's common stock on the date of such annual meeting, provided, however that if such Non-Employee Director will serve as Chairperson of the Board as of immediately following the date of such annual meeting, such Non-Employee Director shall receive an option to purchase 15,404 shares of the Company's common stock on the date of such annual meeting. The awards described in this Section II(B) shall be referred to as "**Subsequent Awards**." For the avoidance of doubt, a Non-Employee Director elected for the first time to the

Board at an annual meeting of the Company's stockholders shall only receive an Initial Award in connection with such election, and shall not receive any Subsequent Award on the date of such meeting as well.

C. Termination of Employment of Employee Directors. Members of the Board who are employees of the Company or any parent or subsidiary of the Company who subsequently terminate their employment with the Company and any parent or subsidiary of the Company and remain on the Board will not receive an Initial Award pursuant to Section II(A) above, but to the extent that they are otherwise entitled, will receive, after termination from employment with the Company and any parent or subsidiary of the Company, Subsequent Awards as described in Section II(B) above.

E. Terms of Awards Granted to Non-Employee Directors

1. *Exercise Price.* The per share exercise price of each option granted to a Non-Employee Director shall equal the Fair Market Value (as defined in the Equity Plan) of a share of common stock on the date the option is granted.

2. *Vesting.* Each Initial Award shall vest and become exercisable in thirty-six (36) substantially equal monthly installments following the date of grant, such that the Initial Award shall be fully vested on the third anniversary of the date of grant, subject to the Non-Employee Director continuing in service as a Non-Employee Director through each such vesting date. Each Subsequent Award shall vest and become exercisable on the earlier of the first anniversary of the date of grant or the day immediately prior to the date of the next annual meeting of the Company's stockholders occurring after the date of grant, in either case subject to the Non-Employee Director continuing in service on the Board as a Non-Employee Director through each such vesting date. Unless the Board otherwise determines, any portion of an Initial Award or Subsequent Award which is unvested or unexercisable at the time of a Non-Employee Director's termination of service on the Board as a Non-Employee Director shall be immediately forfeited upon such termination of service and shall not thereafter become vested and exercisable. All of a Non-Employee Director's Initial Awards and Subsequent Awards shall vest in full immediately prior to the occurrence of a Change in Control (as defined in the Equity Plan), to the extent outstanding at such time.

3. *Term.* The maximum term of each stock option granted to a Non-Employee Director hereunder shall be ten (10) years from the date the option is granted.

III. COMPENSATION LIMITS

Notwithstanding anything to the contrary in this Program, all compensation payable under this Program will be subject to any limits on the maximum amount of Non-Employee Director compensation set forth in the Equity Plan, as in effect from time to time.

* * * * *

CERTIFICATIONS

I, Werner Cautreels, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Selecta Biosciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2018

/s/ Werner Cautreels, Ph.D.

Werner Cautreels, Ph.D.

President and Chief Executive Officer, and Director

CERTIFICATIONS

I, John Leaman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Selecta Biosciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2018

/s/ John Leaman, M.D.

John Leaman, M.D.
*Chief Financial Officer, Head of Corporate
Strategy and Treasurer*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Werner Cautreels, President and Chief Executive Officer of Selecta Biosciences, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2018

/s/ Werner Cautreels, Ph.D.

Werner Cautreels, Ph.D.

President and Chief Executive Officer, and Director

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Leaman, Chief Financial Officer of Selecta Biosciences, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2018

/s/ John Leaman, M.D.

John Leaman, M.D.
*Chief Financial Officer, Head of Corporate Strategy and
Treasurer*