APPLIED GENETIC TECHNOLOGIES CORP

FORM 10-Q
(Quarterly Report)

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Address	14193 NW 119TH TERRACE
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Telephone	386-462-2204
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Industry	Biotechnology & Medical Research
Sector	Healthcare
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

OR

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

Commission File Number: 001-36370

APPLIED GENETIC TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**59-3553710**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

14193 NW 119 th Terrace
Suite 10
Alachua, Florida 32615
(Address of Principal Executive Offices, Including Zip Code)

(386) 462-2204
(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	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 ☒

The number of shares of the registrant's common stock outstanding as of February 3, 2018 was 18,104,901.

APPLIED GENETIC TECHNOLOGIES CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2017

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APPLIED GENETIC TECHNOLOGIES CORPORATION
CONDENSED BALANCE SHEETS
(Unaudited)

In thousands, except per share data	December 31, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,345	$ 30,706
Investments	49,312	95,994
Grants receivable	203	174
Prepaid and other current assets	4,012	3,361
Total current assets	123,872	130,235
Investments, net of current portion	—	11,749
Property and equipment, net	3,235	2,661
Investment in Bionic Sight	2,000	2,000
Other assets	2,226	1,278
Total assets	$ 131,333	$147,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,036	$ 998
Accrued and other liabilities	6,116	6,162
Deferred revenue	11,945	20,996
Total current liabilities	19,097	28,156
Deferred revenue, net of current portion	—	4,438
Other liabilities	653	—
Total liabilities	19,750	32,594
Stockholders' equity:		
Common stock—par value $.001 per share; shares authorized: 150,000 at December 31, 2017 and June 30, 2017; shares issued and outstanding: 18,105 and 18,088 at December 31, 2017 and June 30, 2017, respectively.	18	18
Additional paid-in capital	207,778	204,937
Accumulated deficit	(96,213)	(89,626)
Total stockholders' equity	111,583	115,329
Total liabilities and stockholders' equity	$ 131,333	$147,923

The accompanying notes are an integral part of the financial statements.

APPLIED GENETIC TECHNOLOGIES CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

In thousands, except per share amounts	For the Three Months Ended December 31, 2017	For the Three Months Ended December 31, 2016 (as adjusted)	For the Six Months Ended December 31, 2017	For the Six Months Ended December 31, 2016 (as adjusted)
Revenue:				
Collaboration revenue	$ 4,831	$ 10,890	$15,139	$ 22,662
Grant and other revenue	21	43	28	77
Total revenue	4,852	10,933	15,167	22,739
Operating expenses:				
Research and development	7,726	6,041	16,002	11,612
General and administrative and other	3,368	2,740	7,074	5,586
Total operating expenses	11,094	8,781	23,076	17,198
Income (loss) from operations	(6,242)	2,152	(7,909)	5,541
Other income:				
Investment income, net	271	227	541	463
Other expense	(10)	—	(10)	—
Total other income, net	261	227	531	463
Income (loss) before provision for income taxes	(5,981)	2,379	(7,378)	6,004
Provision (benefit) for income taxes	(791)	600	(791)	1,200
Net income (loss)	$ (5,190)	$ 1,779	$ (6,587)	$ 4,804
Weighted Average Shares Outstanding				
Weighted average shares outstanding—basic	18,094	18,067	18,091	18,061
Weighted average shares outstanding—diluted	18,094	18,393	18,091	18,430
Net income (loss) per common share				
Net income (loss) per share, basic	$ (0.29)	$ 0.10	$ (0.36)	$ 0.27
Net income (loss) per share, diluted	$ (0.29)	$ 0.10	$ (0.36)	$ 0.26

The accompanying notes are an integral part of the financial statements.

APPLIED GENETIC TECHNOLOGIES CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

In thousands	For the Six Months Ended December 31, 2017	2016 (as adjusted)
Cash flows from operating activities		
Net income (loss)	$ (6,587)	$ 4,804
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Share-based compensation expense	2,800	2,912
Depreciation and amortization	544	434
Investment premium accretion	143	216
Changes in operating assets and liabilities:		
Grants receivable	(29)	876
Prepaid and other assets	(1,747)	556
Deferred revenues	(13,489)	(22,528)
Accounts payable	38	(614)
Accrued and other liabilities	(173)	556
Net cash (used in) operating activities	(18,500)	(12,788)
Cash flows from investing activities		
Purchase of property and equipment	(134)	(563)
Purchase of and capitalized costs related to intangible assets	—	(92)
Maturity of investments	58,288	64,269
Purchase of investments	—	(37,219)
Net cash provided by investing activities	58,154	26,395
Cash flows from financing activities		
Proceeds from exercise of common stock options	3	24
Payments made toward capital lease obligations	(18)	—
Net cash (used in) provided by financing activities	(15)	24
Net change in cash and cash equivalents	39,639	13,631
Cash and cash equivalents, beginning of period	30,706	28,868
Cash and cash equivalents, end of period	$ 70,345	$ 42,499
Supplemental disclosure of non cash financing activities		
Capital lease obligation related to the purchase of equipment	209	—
Lease incentive obligation related to the purchase of leasehold improvements	627	—
Issuance of restricted stock for no consideration	38	—

The accompanying notes are an integral part of the financial statements.

APPLIED GENETIC TECHNOLOGIES CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and Operations:

Applied Genetic Technologies Corporation (the "Company" or "AGTC") was incorporated as a Florida corporation on January 19, 1999 and reincorporated as a Delaware corporation on October 24, 2003. The Company is a clinical-stage biotechnology company that uses a proprietary gene therapy platform to develop transformational genetic therapies for patients suffering from rare and debilitating diseases.

In July 2015, the Company entered into a collaboration agreement (the "Collaboration Agreement") with Biogen MA, Inc., a wholly owned subsidiary of Biogen Inc. ("Biogen"), pursuant to which the Company and Biogen will collaborate to develop, seek regulatory approval for and commercialize gene therapy products to treat X-linked retinoschisis ("XLRS"), X-linked retinitis pigmentosa ("XLRP"), and discovery programs targeting three indications based on the Company's adeno-associated virus vector technologies. The Collaboration Agreement became effective in August 2015. The Collaboration Agreement and other transactions with Biogen are discussed further in Note 6 to these financial statements.

The Company has devoted substantially all of its efforts to research and development, including clinical trials. The Company has not completed the development of any products. The Company has generated revenue from collaboration agreements, sponsored research payments and grants, but has not generated product revenue to date and is subject to a number of risks similar to those of other early stage companies in the biotechnology industry, including dependence on key individuals, the difficulties inherent in the development of commercially viable products, the need to obtain additional capital necessary to fund the development of its products, development by the Company or its competitors of technological innovations, risks of failure of clinical studies, protection of proprietary technology, compliance with government regulations and ability to transition to large-scale production of products. As of December 31, 2017, the Company had an accumulated deficit of $97.0 million. While the Company expects to continue to generate some revenue from partnering, including under the collaboration with Biogen, the Company expects to incur losses for the foreseeable future. The Company has funded its operations to date primarily through public offerings of its common stock, private placements of its preferred stock, and collaborations. At December 31, 2017, the Company had cash and cash equivalents and investments of $119.7 million.

2. Summary of Significant Accounting Policies:

Basis of presentation

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and, in the opinion of management, include all adjustments necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for each periods presented.

The adjustments referred to above are of a normal and recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to U.S. Securities and Exchange Commission ("SEC") rules and regulations for interim reporting.

Certain amounts reported previously have been reclassified to conform to the current period presentation, with no effect on stockholders' equity or net income (loss) as previously presented. See Note 7 for a discussion on a revision of prior financial results presented related to the recording of our income tax provision for fiscal year 2017.

The Condensed Balance Sheet as of June 30, 2017 was derived from audited financial statements, but does not include all disclosures required by GAAP. These Unaudited Condensed Financial Statements should be read in conjunction with the audited financial statements included in the Company's 2017 Annual Report on Form 10-K, as amended, ("June 30, 2017 Form 10-K"). Results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of the results to be expected for the full year or any other interim period.

Segment reporting

Operating segments are identified as components of an enterprise about which separate discrete financia information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. To date, we have viewed our operations and managed our business as one segment.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash consists of funds held in bank accounts. Cash equivalents consist of short-term, highly liquid investments with original maturities of 90 days or less at the time of purchase and generally include money market accounts.

Investments

The Company's investments consist of certificates of deposit and debt securities classified as held-to maturity. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Interest on securities classified as held-to-maturity is included in investment income.

The Company uses the specific identification method to determine the cost basis of securities sold.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer and the Company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment income (expense) and a new cost basis in the investment is established.

Fair value of financial instruments

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* , establishes a hierarchy of inputs used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of financial instruments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described below:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Valuations based on quoted prices for similar assets or liabilities in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations that require inputs that reflect the Company's own assumptions that are both significant to the fair value measurement and unobservable.

To the extent that 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.

Revenue recognition

The Company has primarily generated revenue through collaboration agreements, sponsored research arrangements with nonprofit organizations for the development and commercialization of product candidates and revenues from federal research and development grant programs. The Company recognizes revenue when amounts are realized or realizable and earned. Revenue is considered realizable and earned when the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price is fixed or determinable; and (iv) collection of the amounts due are reasonably assured.

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in the Company's balance sheets. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as current liabilities. The Company recognizes revenue for reimbursements of research and development costs under collaboration agreements as the services are performed. The Company records these reimbursements as revenue and not as a reduction of research and development expenses, as the Company has the risks and rewards as the principal in the research and development activities.

The Company evaluates the terms of sponsored research agreement grants and federal grants to assess the Company's obligations and if the Company's obligations are satisfied by the passage of time, revenue is recognized on a straight-line basis. In situations where the performance of the Company's obligations has been satisfied when the grant is received, revenue is recognized upon receipt of the grant. Certain grants contain refund provisions. The Company reviews those refund provisions to determine the likelihood of repayment. If the likelihood of repayment of the grant is determined to be remote, the grant is recognized as revenue. If the probability of repayment is determined to be more than remote, the Company records the grant as a deferred revenue liability, until such time that the grant requirements have been satisfied.

Collaboration revenue

On July 1, 2015, the Company entered into a Collaboration Agreement with Biogen. This collaboration is discussed further in Note 6 of notes to the financial statements. The terms of the Collaboration Agreement and other potential collaboration or commercialization agreements the Company may enter into generally contain multiple elements, or deliverables, which may include, among others, (i) licenses, or options to obtain licenses, to its technology, and (ii) research and development activities to be performed on behalf of the collaborative partner. Payments made under such arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; milestone payments; and royalties on future product sales.

Multiple element arrangements are analyzed to determine whether the deliverables within the agreement can be separated or whether they must be accounted for as a single unit of accounting. Deliverables under an agreement are required to be accounted for as separate units of accounting provided that (i) a delivered item has value to the customer on a stand-alone basis; and (ii) if the agreement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. The allocation of consideration amongst the deliverables under the agreement is derived using a "best estimate of selling price" if vendor specific objective evidence and third-party evidence of fair value is not available. If the delivered element does not have stand-alone value or if the fair value of any of the undelivered elements cannot be determined, the arrangement is then accounted for as a single unit of accounting, and the Company recognizes the consideration received under the arrangement as revenue on a straight-line basis over the estimated period of performance.

The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence, or VSOE, of selling price, if available, third-party evidence, or TPE, of selling price if VSOE is not available, or best estimate of selling price, or BESP, if neither VSOE nor TPE are available. Determining the best estimate of selling price for a deliverable requires significant judgment. The Company uses BESP to estimate the selling price related to licenses to its proprietary technology, since it often does not have VSOE or TPE of selling price for these deliverables. In those circumstances where it utilizes BESP to determine the estimated selling price of a license to our proprietary technology, the Company considers market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed models that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the license. In validating its best estimate of selling price, the Company evaluates whether changes in the key assumptions used to determine the best estimate of selling price will have a significant effect on the allocation of arrangement consideration among multiple deliverables.

If the delivered element does not have stand-alone value, the arrangement is then accounted for as a single unit of accounting and the Company recognizes the consideration received under the arrangement as revenue on a straight-line basis over its estimated period of performance. The Company's anticipated periods of performance, typically the terms of its research and development obligations, are subject to estimates by management and may change over the course of the collaboration agreement. Such changes could have a material impact on the amount of revenue recorded in future periods.

Milestone revenue

The Company applies the milestone method of accounting to recognize revenue from milestone payments when earned, as evidenced by written acknowledgement from the collaborator or other persuasive evidence that the milestone has been achieved and the payment is non-refundable, provided that the milestone event is substantive. A milestone event is defined as an event (i) that can only be achieved based in whole or in part on either the Company's performance or on the occurrence of a specific outcome resulting from the Company's performance; (ii) for which there is substantive uncertainty at the inception of the arrangement that the event will be achieved; and (iii) that would result in additional payments being due to the Company. Events for which the occurrence is either contingent solely upon the passage of time or the result of a counterparty's performance are not considered to be milestone events. A milestone event is substantive if all of the following conditions are met: (i) the consideration is commensurate with either the Company's performance to achieve the milestone, or the enhancement of the value to the delivered item(s) as a result of a specific outcome resulting from the Company's performance to achieve the milestone; (ii) the consideration relates solely to past performance; and (iii) the consideration is reasonable relative to all the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

The Company assesses whether a milestone is substantive at the inception of the arrangement. If a milestone is deemed non-substantive, the Company accounts for that milestone payment in accordance with the multiple element arrangements guidance and recognizes revenue consistent with the related units of accounting for the arrangement over the related performance period.

No milestone revenues were recognized during the three and six month periods ended December 31, 2017 and December 31, 2016.

Income taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%. We have recorded an income tax benefit of $791,000 relating to our alternative minimum tax credit carryforward, which becomes refundable under the new law.

For the three and six months ended December 31, 2016, the Company recorded an income tax provision of $0.6 million and $1.2 million respectively, related to the Company's federal alternative minimum taxable income ("AMTI") and state income tax in multiple states where the Company is doing business. The Company calculates its AMTI using the alternative minimum tax ("AMT") system. The Company's federal income tax liability is the greater of the tax computed using the regular tax system or the tax under the AMT system. Corporations are exempt from AMT for all prior years in which their annual gross receipts for the 3-year period ending before the current tax year did not exceed $7.5 million. As of June 30, 2017, the Company no longer qualifies for the small company exclusion. The AMT system limits the use of net operating losses used by taxpayers to offset taxable income.

As required by U.S. GAAP, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. The Company is subject to examination of its income tax returns in the federal and state income tax jurisdictions in which it operates.

The Company's net deferred tax asset decreased by $7.5 million, primarily due to a remeasurement of deferred tax assets and liabilities to the revised statutory tax rate under the new law. The net deferred tax asset is completely offset by valuation allowances established because realization of the deferred tax benefits are not considered more likely than not as of December 31, 2017.

For the six months ended December 31, 2016, the Company's $1.2 million of tax expense included an uncertain tax position liability of $0.4 million related to uncertainty in how states may tax income from the Biogen Collaboration Agreement. The full amount of the uncertain tax position reflected on the balance sheet within accrued expenses and other liabilities as of December 31, 2017 is approximately $1 million. This collaboration agreement is described in more detail in Note 6 of the notes to the financial statements.

Research and development

Research and development costs include costs incurred in identifying, developing and testing product candidates and generally comprise compensation and related benefits and non-cash share-based compensation to research related employees; laboratory costs; animal and laboratory maintenance and supplies; rent; utilities; clinical and pre-clinical expenses; and payments for sponsored research, scientific and regulatory consulting fees and testing.

As part of the process of preparing its financial statements, the Company is required to estimate its accrued expenses. This process involves reviewing quotations and contracts, identifying services that have been performed on its behalf and estimating the level of service performed and the associated cost incurred for services for which the Company has not yet been invoiced or otherwise notified of the actual cost. The majority of the Company's service providers invoice the Company monthly in arrears for services performed or when contractual milestones are met. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known to it at that time. The significant estimates in the Company's accrued research and development expenses are related to expenses incurred with respect to academic research centers, contract research organizations, and other vendors in connection with research and development activities for which it has not yet been invoiced.

There may be instances in which the Company's service providers require advance payments at the inception of a contract or in which payments made to these vendors will exceed the level of services provided, resulting in a prepayment of the research and development expense. Such prepayments are charged to research and development expense as and when the service is provided or when a specific milestone outlined in the contract is reached.

Prepayments related to research and development activities were $1.6 million and $1.5 million at December 31, 2017 and June 30, 2017, respectively, and are included within the prepaid and other current assets line item on the unaudited condensed balance sheets.

Share-based compensation

The Company accounts for share-based awards issued to employees in accordance with ASC Topic 718, *Compensation—Stock Compensation* and generally recognizes share-based compensation expense on a straight-line basis over the periods during which the employees are required to provide service in exchange for the award. In addition, the Company issues stock options and restricted shares of common stock to non-employees in exchange for consulting services and accounts for these in accordance with the provisions of ASC Subtopic 505-50, *Equity-Based Payments to Non-employees* ("ASC 505-50"). Under ASC 505-50, share-based awards to non-employees are subject to periodic fair value re-measurement over their vesting terms.

For purposes of calculating stock-based compensation, the Company estimates the fair value of stock options using a Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected volatility is primarily based on the historical volatility of peer company data while the expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of the Company's stock options. The dividend yield assumption is based on the Company's history and expectation of no dividend payouts. If factors change and the Company employs different assumptions, stock-based compensation expense may differ significantly from what has been recorded in the past. If there is a difference between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, specifically with respect to anticipated forfeitures, the Company may change the input factors used in determining stock-based compensation costs for future grants. These changes, if any, may materially impact the Company's results of operations in the period such changes are made.

Net income (loss) per share

Basic net earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average shares outstanding during the period, without consideration for common stock equivalents. Diluted net earnings (loss) per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock method. For purposes of the diluted net earnings (loss) per share calculation, stock options and warrants are considered to be common stock equivalents. The dilutive impact of stock options and warrants for the three and six month periods ended December 31, 2017 totaled 0.2 million shares, compared to 0.3 million and 0.4 million shares for the three and six month periods ended December 31, 2016. The dilutive impact of stock options and warrants have been excluded from the calculation of diluted net loss per share for the for the three and six months ended December 31, 2017, as their effect would be anti-dilutive. Therefore, for the three and six months ended December 31, 2017, basic and diluted net loss per share are the same.

Comprehensive income or loss

Comprehensive income or loss consists of net income or loss and changes in equity during a period from transactions and other equity and circumstances generated from non-owner sources. The Company's net income or loss equals comprehensive income or loss for all periods presented.

New accounting pronouncements

In May 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-09, *Scope of Modification Accounting* , which amends ASC Topic 718, *Compensation—Stock Compensation* . The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply

modification accounting in Topic 718. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* , which amends Accounting Standards Codification ("ASC") Topic 718, *Compensation—Stock Compensation* . The amendments simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. The Company has adopted this standard for its 2018 fiscal year and it did not have a material effect on its balance sheets, results of operations or cash flows.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases under GAAP. The standard requires, in most instances, a lessee to recognize on its balance sheet a liability to make lease payments (the lease liability) and also a right-of-use asset representing its right to use the underlying asset for the lease term. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those periods, using a modified retrospective approach and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this standard on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* , which replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. Since its issuance, the FASB has amended several aspects of the new guidance, including provisions that address revenue recognition associated with the licensing of intellectual property. In July 2015, the FASB delayed the effective date of this guidance by one year. The guidance is now effective for public companies for annual periods beginning after December 15, 2017 as well as interim periods within those annual periods using either the full retrospective approach or modified retrospective approach. The Company is working through an adoption plan which will include a review of collaboration agreements, applying the five-step model of the new standard and comparing the results to the Company's current accounting. As part of this, the Company is evaluating the method of adoption and assessing changes that might be necessary to its processes, internal controls and address changes in financial reporting. Effective July 1, 2018, the Company will be revising its revenue recognition accounting policy and expanding revenue disclosures to reflect the requirements of the amended revenue recognition guidance. Because of the nature of the work that remains, at this time the Company is unable to reasonably estimate the impact of adoption on its consolidated financial statements.

3. Share-based Compensation Plans:

The Company uses stock options and awards of restricted stock to provide long-term incentives for its employees, non-employee directors and certain consultants. The Company has two equity compensation plans under which awards are currently authorized for issuance, the 2013 Employee Stock Purchase Plan and the 2013 Equity and Incentive Plan. No awards have been issued to date under the 2013 Employee Stock Purchase Plan and all of the 128,571 shares previously authorized under this plan remain available for issuance. A summary of the stock option activity for the six months ended December 31, 2017 and 2016 is as follows:

	For the Six Months Ended December 31,			
	2017		2016	
(In thousands, except per share amounts)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at June 30,	2,714	$ 12.96	2,037	$ 13.71
Granted	746	4.83	658	11.85
Exercised	(7)	0.35	(21)	1.16
Forfeited	(309)	9.76	(31)	17.80
Expired	(15)	15.35	(3)	22.64
Outstanding at December 31,	3,129	$ 11.35	2,640	$ 13.28
Exercisable at December 31,	1,694		1,267	
Weighted average fair value of options granted during the period	$ 3.49		$ 8.12	

For the three and six months ended December 31, 2017, share-based compensation expense related to stock options awarded to employees, non-employee directors and consultants amounted to approximately $1.3 million and $2.8 million, respectively, compared to $1.3 million and $2.9 million, respectively, for the three and six months ended December 31, 2016.

As of December 31, 2017, there was $9.1 million of unrecognized compensation expense related to non-vested stock options. During the six months ended December 31, 2017, 746,468 stock options were granted to the Company's employees and non-employee directors under the 2013 Equity and Incentive Plan. The fair value of each option granted is estimated on the grant date using the Black-Scholes stock option pricing model. The following assumptions were made in estimating fair value:

Assumption	Six months ended December 31, 2017
Dividend yield	0.00%
Expected term	6.25 years
Risk-free interest rate	1.83-2.21%
Expected Volatility	83.53%

4. Investments:

Cash in excess of immediate requirements is invested in accordance with the Company's investment policy that primarily seeks to maintain adequate liquidity and preserve capital.

The following table summarizes the Company's investments by category as of December 31, 2017 and June 30, 2017:

In thousands	December 31, 2017	June 30, 2017
Investments—Current:		
Certificates of deposit	$ 2,820	$ 3,500
Debt securities—held-to-maturity	46,492	92,494
Total investments—current	$ 49,312	$95,994
Investments—Noncurrent:		
Certificates of deposit	$ —	$ 2,111
Debt securities—held-to-maturity	—	9,638
Total investments—non-current	$ —	$11,749

A summary of the Company's debt securities classified as held-to-maturity is as follows:

	At December 31, 2017			
In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments—Current:				
U.S. government and agency obligations	$ 44,448	$ —	$ (86)	44,362
Corporate obligations	2,044	—	(7)	2,037
Total investments—current	$ 46,492	$ —	$ (93)	$46,399

	At June 30, 2017			
In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments—Current:				
U.S. government and agency obligations	$ 92,494	$ —	$ (147)	$92,347
Corporate obligations	—	—	—	—
	$ 92,494	$ —	$ (147)	$92,347
Investments—Noncurrent:				
U.S. government and agency obligations	$ 7,552	$ —	$ (52)	$ 7,500
Corporate obligations	2,086	—	(12)	2,074
	$ 9,638	$ —	$ (64)	$ 9,574

The amortized cost and fair value of held-to-maturity debt securities as of December 31, 2017, by contractual maturity, were as follows:

In thousands	Amortized Cost	Fair Value
Due in one year or less	$ 46,492	$46,399
	$ 46,492	$46,399

The Company believes that the unrealized losses disclosed above were primarily driven by interest rate changes rather than by unfavorable changes in the credit ratings associated with these securities and as a result, the Company continues to expect to collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment. Therefore, the Company believes these losses to be temporary. As of December 31, 2017, the Company did not have the intent to sell any of the securities that were in an unrealized loss position at that date.

5. Fair Value of Financial Instruments and Investments:

Certain assets and liabilities are measured at fair value in the Company's financial statements or have fair values disclosed in the notes to the financial statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the table below.

Cash and Cash Equivalents. The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months.

Certificates of Deposit. The Company's certificates of deposit are placed through an account registry service. The fair value measurement of the Company's certificates of deposit is considered Level 2 of the fair value hierarchy as the inputs are based on quoted prices for identical assets in markets that are not active. The carrying amounts of the Company's certificates of deposit reported in the unaudited condensed balance sheets approximate fair value.

Debt securities—held-to-maturity. The Company's investments in debt securities classified as held-to-maturity generally include U.S. Treasury Securities, government agency obligations, and corporate obligations. U.S. Treasury Securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury Securities are considered Level 1 of the fair value hierarchy. The fair values of U.S. government agency obligations and corporate obligations are generally determined using recently executed transactions, broker quotes, market price quotations where these are available or other observable market inputs for the same or similar securities. As such, the Company classifies its investments in U.S. government agency obligations and corporate obligations within Level 2 of the hierarchy.

The following fair value hierarchy table presents information about each major category of the Company's financial assets and liabilities measured at fair value on a recurring basis:

In thousands	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value	Total Carrying Value
December 31, 2017					
Cash and cash equivalents	$ 70,345	$ —	$ —	$ 70,345	$ 70,345
Certificates of deposit	—	2,820	—	2,820	2,820
Held-to-maturity investments:					
Corporate obligations	—	2,037	—	2,037	2,044
U.S. government and agency obligations	37,470	6,892	—	44,362	44,448
Total assets	$107,815	$ 11,749	$ —	$119,564	$119,657
June 30, 2017					
Cash and cash equivalents	$ 30,706	$ —	$ —	$ 30,706	$ 30,706
Certificates of deposit	—	5,611	—	5,611	5,611
Held-to-maturity investments:					
Corporate obligations	—	2,074	—	2,074	2,086
U.S. government and agency obligations	79,476	20,372	—	99,848	100,046
Total assets	$110,182	$ 28,057	$ —	$138,239	$138,449

6. Collaboration Agreements

Biogen

On July 1, 2015, the Company entered into a Collaboration Agreement with Biogen, pursuant to which the Company and Biogen will collaborate to develop, seek regulatory approval for and commercialize gene therapy products to treat XLRS, XLRP, and discovery programs targeting three indications based on the Company's adeno-associated virus vector technologies. The Collaboration Agreement became effective on August 14, 2015.

Under the Collaboration Agreement, the Company will conduct all development activities through regulatory approval in the United States for the XLRS program (with activities through Phase 1/2 completion being pre-funded under the agreement and any further activities subject to incremental consideration), and all development activities through the completion of the first in human clinical trial for the XLRP program (with activities through filing the IND being pre-funded under the agreement and any further activities subject to incremental consideration). In addition, the Collaboration Agreement provides for discovery programs targeting three indications whereby the Company will conduct discovery, research and development activities for those additional drug candidates through the stage of clinical candidate designation, after which, Biogen may exercise an option to continue to develop, seek regulatory approval for and commercialize the designated clinical candidate. In February 2016, the Company announced Biogen's selection of adrenoleukodystrophy as the non-ophthalmic indication of the discovery programs. Under the terms of the Collaboration Agreement, the Company, in part through its participation in joint committees with Biogen, will participate in overseeing the development and commercialization of these specific programs.

The Company has granted to Biogen with respect to the XLRS and XLRP programs, and upon exercise of the option for the applicable discovery program, an exclusive, royalty-bearing license, with the right to grant sublicenses, to use adeno-associated virus vector technology and other technology controlled by the Company for the licensed products or discovery programs developed under the Collaboration Agreement. Biogen and the Company have also granted each other worldwide licenses, with the right to grant sublicenses, of their respective interests in other intellectual property developed under the collaboration outside of the licensed products or discovery programs.

Activities under the Collaboration Agreement were evaluated under ASC 605-25, *Revenue Recognition—Multiple Element Arrangements* , as amended by ASU 2009-13, *Revenue Recognition* ("ASC 605-25"), to determine if they represented a multiple element revenue arrangement. The Collaboration Agreement includes the following significant deliverables:

(1) for each of the XLRS and XLRP programs, exclusive, royalty-bearing licenses, with the right to grant sublicenses, to use adeno-associated virus vector technology and other technology controlled by the Company for the purpose of researching, developing, manufacturing and commercializing licensed products developed under the arrangement (the "License Deliverables");

(2) for each of the discovery programs, exercisable options to obtain exclusive licenses to develop, seek regulatory approval for and commercialize any of the designated clinical candidates under such discovery programs (the "Option Deliverables"); and

(3) the performance obligations to conduct research and development activities through (a) regulatory approval in the United States, in the case of the XLRS program; (b) completion of the first in human clinical trial, in the case of the XLRP program; and (c) the stage of clinical candidate designation, in the case of each of the discovery programs (the "R&D Activity Deliverables").

The R&D Activity Deliverables for each program are further segmented by those that are "Pre-Funded Activities" and those that are "Post-Funding Development Activities". Pre-Funded Activities are those R&D activities for which the Company has primary responsibility and the consideration to be received under the agreement was received at the inception of the arrangement. Post-Funding Development Activities (referred to as "development services" throughout these financial statements) are those activities that may occur after the Pre-Funded Activities and for which the Company is entitled to additional compensation under the agreement from Biogen. Post Funding Development activities have commenced on the XLRP program and revenue is being generated. Biogen has final decision-making authority for all matters related to the conduct of the Post-Funding Development Activities. Because Biogen is not contractually obligated to continue the programs beyond the Pre-Funded Activities, and due to the uncertain outcome of the discovery, research and development activities, the Post-Funding Development Activities are not considered deliverables at the inception of the arrangement and the associated fees and milestones are not included in the allocable arrangement consideration. The Company has determined that the additional fees it could receive under the arrangement for Post-Funding Development Activities are not priced at a significant and incremental discount.

The Company determined that both the License Deliverables and Option Deliverables do not have stand-alone value and do not meet the criteria to be accounted for as separate units of accounting under ASC 605-25. The factors considered by the Company in making this determination included, among other things, the unique and specialized nature of its proprietary technology and intellectual property, and the development stages of each of the XLRS, XLRP and the discovery programs targeting three indications. Accordingly, the License Deliverables under each of the XLRS and XLRP programs and the Option Deliverables under each of the discovery programs have been combined with the initial, Pre-Funded Activities deliverables associated with each related program and as a result, the Company's separate units of accounting under its collaboration with Biogen, comprise the XLRS program, the XLRP program, and each of the discovery programs.

Under the Collaboration Agreement, the Company received a non-refundable upfront payment of $94.0 million in August 2015 which it recorded as deferred revenue. This upfront payment of $94.0 million was allocated among the separate units of accounting discussed above using the relative selling price method. In addition to the Collaboration Agreement, on July 1, 2015, the Company also entered into an equity agreement with Biogen. Under the terms of this equity agreement, Biogen purchased 1,453,957 shares of the Company's common stock, at a purchase price equal to $20.63 per share, for an aggregate cash purchase price of $30.0 million which the Company also received in August 2015. The shares issued to Biogen represented approximately 8.1% of the Company's outstanding common stock on a post-issuance basis, calculated on the number of shares that were outstanding at June 30, 2015, and constitute restricted securities that may not be resold by Biogen other than in a transaction registered under, or pursuant to an exemption from the registration requirements of, the Securities Act of 1933, as amended.

Accounting standards for multiple element arrangements contain a presumption that separate contracts negotiated or entered into at or near to the same time with the same entity were likely negotiated as a package and should be evaluated as a single agreement. The Company determined that the price of $20.63 paid by Biogen included a premium of $7.45 per share over the fair value of the Company's stock price, calculated based upon the stock price on the date of close of the agreement and adjusted for lack of marketability due to restrictions. Accordingly, the total premium of $10.8 million was also recorded as deferred revenue and, together with the $94.0 million, allocated to the separate units of accounting identified above using the relative selling price method as discussed in Note 2 to these financial statements. The Company will record revenue based on the revenue recognition criteria applicable to each separate unit of accounting. For amounts received up-front and initially deferred, the Company will recognize the deferred revenue on a straight-line basis over the estimated service periods in which it is required to perform the research and development activities associated with each unit of accounting. At the inception of the Collaboration Agreement, the Company initially estimated the service periods to range between 2 and 3 years. However, due to certain delays which have extended our estimated period of performance, the estimated service periods are currently anticipated to be between 2 and 4 years from inception of the Collaboration Agreement.

The Company recognized collaboration revenue of $4.8 million and $10.9 million during the three months ended December 31, 2017 and 2016, respectively, and $15.1 million and $22.7 million during the six months ended December 31, 2017 and 2016, respectively, from its collaboration with Biogen. Below is a summary of the components of the collaboration revenue:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
	(dollars in thousands)			
Amortization of non-refundable upfront fees	$3,735	$10,803	$13,489	$22,528
Development services	1,096	87	1,650	134
Total collaboration revenue	$4,831	$10,890	$15,167	$22,662

As a result of the upfront payment of $94.0 million made by Biogen and the achievement of a $5.0 million milestone in fiscal year 2016 upon dosing the first XLRS patient, the Company became liable to various research partner institutions for sub-license and other payments under existing agreements with such institutions. These agreements obligate the Company to pay to each research partner institution a portion of certain proceeds received from collaboration and other arrangements, including any milestone payments received under such arrangements. Accordingly, the Company recorded total collaboration costs of approximately $12.0 million associated with such obligations, including $636,000 of expense that was settled during that period by the issuance of 40,000 shares of the Company's common stock to a research partner institution, pursuant to the terms of the existing agreement with that institution. The remainder of these sub-license and milestone fees were fully paid in cash during the fiscal year ended June 30, 2016.

The Company is also eligible to receive payments of up to $467.5 million based on the successful achievement of future milestones under its XLRS and XLRP programs. For XLRS, the Company is eligible to receive up to: (i) $40 million in milestone payments based upon the successful achievement of clinical milestones (relating to dosing in specified trials), (ii) $155 million in milestone payments based upon the achievement of regulatory approvals and first commercial sale in specified territories and (iii) $65 million in milestone payments based upon the achievement of worldwide sales targets. For XLRP, the Company is eligible to receive up to: (i) $42.5 million in milestone payments based upon successful achievement of clinical milestones (relating to dosing in specified trials), (ii) $102.5 million in milestone payments based upon the achievement of regulatory approvals and first commercial sale in specified territories and (iii) $62.5 million in milestone payments based upon the achievement of worldwide sales targets. In addition, the Company is eligible to receive payments of up to $592.5 million based on the exercise of the option for and the successful achievement of future milestones under its discovery programs. Each discovery program is categorized as Category A, Category B or Category C depending on the nature of the indication it seeks to address. For Category A, the Company is eligible to receive payments of up to: (i) $20 million based upon the successful achievement of clinical milestones (relating to dosing in specified trials) and (ii) $70 million in milestone payments based upon the achievement of regulatory approvals and first commercial sale in specified territories. For Category B, the Company is eligible to receive payments of up to: (i) $27.5 million based upon the successful achievement of clinical milestones (relating to dosing in specified trials) and (ii) $105 million in milestone payments based upon the achievement of regulatory approvals and first commercial sale in specified territories. For Category C, the Company is eligible to receive payments of up to: (i) $40 million based upon the successful achievement of clinical milestones (relating to dosing in specified trials) and (ii) $140 million in milestone payments based upon the achievement of regulatory approvals and first commercial sale in specified territories. Under certain limited circumstances, if there are discovery products from more than one discovery program in any of Category A, Category B or Category C, then the milestone payments under the applicable category shall be payable for the applicable discovery product from each such discovery program to achieve the specified milestones.

Biogen will also pay revenue-based royalties for each licensed product at tiered rates ranging from high single digit to mid-teen percentages of annual net sales of the XLRS or XLRP products and at rates ranging from mid-single digit to low-teen percentages of annual net sales for the discovery products. The Company has elected to apply the guidance in ASC 605-28 to the milestones. These milestones, if achieved, are substantive as they relate solely to past performance, are commensurate with estimated enhancement of value associated with the achievement of each milestone as a result of the Company's performance and are reasonable when compared to other consideration amounts payable under the Collaboration Agreement; however, there can be no assurance that the Company will achieve the milestones or that the Company will receive the related revenue. Due to the uncertainty surrounding the achievement of the future milestones, such payments were not considered fixed or determinable at the inception of the Collaboration Agreement and accordingly, will not be recognized as revenue unless and until they become earned. The Company is not able to reasonably predict if and when the remaining milestones will be achieved.

Bionic Sight

On February 2, 2017, the Company entered into a strategic research and development collaboration agreement with Bionic Sight, LLC ("Bionic Sight"), to develop therapies for patients with visual deficits and blindness due to retinal disease. Through the AGTC-Bionic Sight collaboration, the companies seek to develop a new optogenetic therapy that leverages AGTC's deep experience in gene therapy and ophthalmology and Bionic Sight's innovative neuro-prosthetic device and algorithm for retinal coding.

Under the agreement, AGTC made an initial $2.0 million payment to Bionic Sight for an equity interest in that company. This initial investment represents an approximate 5% equity interest in Bionic Sight. In addition to the initial investment, AGTC will contribute to ongoing research and development support costs through additional payments or other in-kind contributions (AGTC Ongoing R&D Support). The AGTC Ongoing R&D Support payments and in-kind contributions will be made over time, up to the date that Bionic Sight has received both IND clearance from the FDA and receipt of written approval from an internal review board to conduct clinical trials from at least one clinical site for that product (the "IND Trigger".)

If the IND Trigger is attained, AGTC will receive additional equity, based on the valuation in place at the beginning of the agreement, for the AGTC Ongoing R&D Support payments and in-kind contributions, and will be obligated to

purchase additional equity in Bionic Sight for $4.0 million, at a pre-determined valuation. Due to the uncertainty of achieving the IND Trigger, the Company is expensing the AGTC Ongoing R&D Support payments and in-kind contributions made under the collaboration agreement. Such amounts are included as a component of research and development expenses in the Company's financial statements.

The Company recorded its initial $2.0 million investment in Bionic Sight using the equity method of accounting for investments, which is recorded as its own line item on the Company's balance sheets. The ongoing research and development costs and contributions will be recorded as a periodic cost until such time when or if the IND Trigger is achieved.

The collaboration agreement grants to AGTC, subject to achievement by Bionic Sight of certain development milestones, an option to exclusively negotiate for a limited period of time to acquire (i) a majority equity interest in Bionic Sight, (ii) the Bionic Sight assets to which the collaboration agreement relates, or (iii) an exclusive license with respect to the product to which the collaboration agreement relates.

7. Revision of Prior Period Financial Statements

In the fourth quarter of fiscal 2017, we became aware of an immaterial error regarding the calculation of our income tax provision for the first quarter of fiscal 2017. An assessment concluded that the error was not material to any prior period financial statements. As such, in accordance with ASC 250 (SAB No. 108, Considering Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), the prior period financial statements have been revised (the "Revision") in the applicable financial statements. Periods not presented herein will be revised, as applicable, in future filings. Although management has determined that the error was not material to prior periods, the financial statements for the six months ended December 31, 2016, included herein, have been revised to correct for the impact of this item. Unless otherwise indicated, the financial information as of and for the six months ended December 31, 2016 presented in this Quarterly Report on Form 10-Q reflects this revision.

The following table summarize the effect of the Revision on the statements of operations for the six months ended December 31, 2016:

	For the six months ended December 31, 2016		
In thousands	2016	Adjustment	2016
Income before provision for income taxes	$6,004		6,004
Provision for Income Taxes	298	902	1,200
Net income	$5,706		4,804
Net earnings per share, basic	$ 0.32		0.27
Net earnings per share, diluted	$ 0.31		0.26

The following table summarize the effect of the Revision on the statements of cash for the six months ended December 31, 2016:

	For the six months ended December 31, 2016		
In thousands	2016	Adjustment	2016
Net income	$ 5,706	(902)	4,804
Changes in operating assets and liabilities			
Accrued and other liabilities	(346)	902	556
Net cash (used in) operating activities	(12,788)		(12,788)

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

The following discussion and analysis provides an overview of our financial condition as of December 31, 2017, and results of operations for the three and six months ended December 31, 2017 and 2016. This discussion should be read in conjunction with the accompanying Unaudited Condensed Financial Statements and accompanying notes, as well as our Annual Report on Form 10-K for the year ended June 30, 2017, as amended, ("June 2017 Form 10-K"). In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, assumptions and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report as well as those set forth in Part I, Item 1A, "Risk Factors" of the June 2017 Form 10-K. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies and operations, financing plans, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's plans, estimates, assumptions and beliefs only as of the date of this report. Except as required by law, we assume no obligation to update these forward-looking statements publicly or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

As used herein, except as otherwise indicated by context, references to "we," "us," "our," or the "Company" refer to Applied Genetic Technologies Corporation.

Overview

We are a clinical-stage biotechnology company that uses a proprietary gene therapy platform to develop transformational genetic therapies for patients suffering from rare and debilitating diseases. Our initial focus is in the field of ophthalmology, where we have active clinical programs in X-linked retinoschisis (XLRS), achromatopsia (ACHM) and X-linked retinitis pigmentosa (XLRP), and a preclinical program in optogenetics. In addition to ophthalmology, we have recently initiated preclinical programs in adrenoleukodystrophy (ALD) and otology. With a number of important clinical milestones on the horizon, we believe we are well positioned to advance multiple programs towards pivotal studies. In addition to our product pipeline, we have also developed broad technological capabilities through our collaborations with 4D Molecular Therapeutics (4DMT), Synpromics Limited (Synpromics), and the University of Florida, which provide us with expertise in vector design and manufacturing as well as synthetic promoter development and optimization. Finally, our partnership with Biogen, which includes our clinical XLRS and XLRP programs, our discovery program in ALD and two ophthalmology programs, validates our approach and technology.

Since our inception in 1999, we have devoted substantially all of our resources to development efforts relating to our proof-of-concept programs in ophthalmology and alpha-1 antitrypsin deficiency, or AAT deficiency, an inherited orphan lung disease, including activities to manufacture product in compliance with good manufacturing practices, preparing to conduct and conducting clinical trials of our product candidates, providing general and administrative support for these operations and protecting our intellectual property. We do not have any products approved for sale and have not generated any revenue from product sales. To date, we have funded our operations primarily through the private placement of preferred stock, common stock, convertible notes and warrants to purchase preferred stock, through our public offerings consummated in April 2014 and July/August 2014, and through development services, upfront and milestone payments from our partners. We have also been the recipient, either independently or with our collaborators, of grant funding administered through federal, state, and local governments and agencies, including the United States Food and Drug Administration, or FDA, and by patient advocacy groups such as The Foundation Fighting Blindness, or FFB, and the Alpha-1 Foundation.

Although we recorded income from operations of $1.9 million for the year ended June 30, 2017 due in part to the amortization of revenue associated with our collaboration agreement with Biogen, we have incurred losses from operations in each other year since inception. Our net income for the fiscal year ended June 30, 2017 was $0.4 million, compared to net losses of $1.4 million and $24.3 million for each of the fiscal years ended June 30, 2016 and 2015, respectively. Substantially all our net losses resulted from costs incurred in connection with our research and development programs and from general and administrative costs associated with our operations. We expect to continue to incur significant operating expenses for at least the next several years and anticipate that such expenses will increase substantially in connection with our ongoing activities, as we:

- conduct preclinical studies and clinical trials for our XLRS, ACHM and XLRP product candidates;
- continue our research and development efforts, including exploration through early preclinical studies of potential applications of our gene therapy platform in:
  - orphan ophthalmology indications;
  - non-orphan ophthalmology indications including wet AMD and other inherited retinal diseases; and
  - other inherited diseases, such as otology and CNS indications.
- manufacture clinical trial materials and develop larger-scale manufacturing capabilities;
- seek regulatory approval for our product candidates;
- further develop our gene therapy platform;
- add personnel to support our collaboration, product development and commercialization efforts; and
- continue to operate as a public company.

As of December 31, 2017, we had cash and cash equivalents and investments totaling $119.7 million.

We do not expect to generate revenue from product sales unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates, which we expect will take a number of years and which we believe is subject to significant uncertainty. We believe that our existing cash and cash equivalents and investments at December 31, 2017, will be sufficient to allow us to generate data from our ongoing clinical programs, to move our pre-clinical optogenetic program in collaboration with Bionic Sight into the clinic and to fund our currently planned research and discovery programs for at least the next two years. In order to complete the process of obtaining regulatory approval for our lead product candidates and to build the sales, marketing and distribution infrastructure that we believe will be necessary to commercialize our lead product candidates, if approved, we will require substantial additional funding. Also, our current operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements or a combination of these approaches. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition and our ability to develop our products.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and share-based compensation. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a description of our accounting policies that, in our opinion, involve the most significant application of judgment or involve complex estimation and which could, if different judgments or estimates were made, materially affect our reported results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our June 2017 Form 10-K, for the year ended June 30, 2017.

New Accounting Pronouncements

Refer to Note 2 to the condensed financial statements included in this quarterly report for further information on recently issued accounting standards.

Financial operations review

Revenue

We primarily generate revenue through collaboration agreements, sponsored research arrangements with nonprofit organizations for the development and commercialization of product candidates and from federal research and development grant programs. In the future, we may generate revenue from a combination of: product sales, license fees, milestone payments, development services, research and development grants, and from collaboration and royalty payments for the sales of products developed under licenses of our intellectual property.

We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, research and development programs, manufacturing efforts and reimbursements, collaboration milestone payments, and the sale of our products, to the extent any are successfully commercialized. We do not expect to generate revenue from product sales for the foreseeable future, if at all. If we or our collaborators fail to complete the development of our product candidates in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, our results of operations and financial position would be materially adversely affected.

We expect in fiscal year 2018 that revenues from our Biogen collaboration associated with amortization of non-refundable upfront fees will decrease approximately $17 million compared to fiscal year 2017. This decrease is primarily due to reaching the end of the XLRP service period in the first quarter of fiscal year 2018, and to a lesser extent, due to changes in estimates associated with the period of performance under the XLRS and preclinical programs. In contrast, we expect that milestone revenue recognized under the Biogen collaboration will increase in the near term. Upon dosing of the first and fourth patient in the XLRP Phase 1/2 clinical trial, the Company expects to receive milestone payments and recognize revenue of $2.5 million and $10.0 million, respectively. Additionally, we expect development services revenues from our Biogen collaboration will increase by approximately $2.5 million in fiscal year 2018 due to the initiation of a Phase 1/2 clinical trial for XLRP.

Research and development expenses

Research and development expenses consist primarily of costs incurred for the development of our product candidates, which include:

- employee-related expenses, including salaries, benefits, travel and share-based compensation expense;
- expenses incurred under agreements with academic research centers, contract research organizations, or CROs, and investigative sites that conduct our clinical trials;
- license and sublicense fees and collaboration expenses;
- the cost of acquiring, developing, and manufacturing clinical trial materials; and
- facilities, depreciation, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance, and other supplies.

Research and development costs are expensed as incurred. Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and our clinical sites.

We cannot determine with certainty the duration and completion costs of the current or future clinical trials of our product candidates or if, when, or to what extent we will generate revenues from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates. The duration, costs, and timing of clinical trials and development of our product candidates will depend on a variety of factors, including:

- the scope, rate of progress, and expense of our ongoing as well as any additional clinical trials and other research and development activities;
- the timing and level of activity as determined by us or jointly with our partners;
- the level of funding received from our partners;

- whether or not we elect to cost share with our partners;
- the countries in which trials are conducted;
- future clinical trial results;
- uncertainties in clinical trial enrollment rates or drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies or elected as best practice by us;
- increased cost and delay associated with manufacturing or testing issues, including ongoing quality assurance, qualifying new vendors and developing in-house capabilities;
- significant and changing government regulation; and
- the timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA, or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate or if we experience significant delays in enrollment in or execution of any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

From inception through December 31, 2017, we have incurred approximately $153.0 million in research and development expenses. We expect our research and development expenses to increase for the foreseeable future as we continue the development of our product candidates, recognize sublincensing fees on Biogen milestones and explore potential applications of our gene therapy platform in other indications.

General and administrative expenses

General and administrative expenses consist primarily of salaries and related costs for personnel, including share-based compensation and travel expenses for our employees in executive, operational, legal, business development, finance and human resource functions. Other general and administrative expenses include costs to support employee training and development, board of directors' costs, depreciation, insurance expenses, facility-related costs not otherwise included in research and development expense, professional fees for legal services, including patent-related expenses, and accounting, investor relations, corporate communications and information technology services. We anticipate that our general and administrative expenses will continue to increase in the future as we hire additional employees to support our continued research and development efforts, collaboration arrangements, and the potential commercialization of our product candidates. Additionally, if and when we believe a regulatory approval of the first product candidate appears likely, we anticipate an increase in payroll and related expenses as a result of our preparation for commercial operations, especially as it relates to the sales and marketing of our product candidates.

Other income (expense), net

Other income and expense consists primarily of interest earned on cash and cash equivalents and our held-to-maturity investments.

Results of Operations

Comparison of the three months ended December 31, 2017 to the three months ended December 31, 2016

Revenue

	For the Three Months Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2017	2016	(dollars in thousands)	
Collaboration revenue				
Amortization of up front fees	$3,735	$10,803	$ (7,068)	(65)%
Development services	1,096	87	1,009	1160%
Total collaboration revenue	4,831	10,890	(6,059)	(56)%
Grant revenue	21	43	(22)	(51)%
Total revenue	$4,852	$10,933	$ (6,081)	(56)%

Total collaboration revenue for the three months ended December 31, 2017 was $4.8 million compared to $10.9 million generated during the same period in 2016. Non-refundable upfront fees received under our collaboration with Biogen are amortized to collaboration revenue on a straight-line basis over the estimated service period. Development services revenue primarily consists of reimbursement of Post-Funding Development Activities under the Biogen Collaboration. Amortization revenue decreased $7.1 million for the three months ended December 31, 2017 compared to the same period in 2016 primarily due to reaching the end of the XLRP service period in the first quarter of fiscal year 2018, and to a much lesser extent, due to changes in estimates associated with the period of performance under the XLRS and preclinical programs. Development services revenue increased $1.0 million for the three months ended December 31, 2017 compared to the same period in 2016 primarily due to activities associated with preparing to conduct a Phase 1/2 clinical trial for XLRP. Grant revenue decreased $22,000 during the three months ended December 31, 2017 compared to the same period in 2016, largely attributable to reduced research and development activities on grant-funded projects.

Research and development expense

The following table summarizes our research and development expenses by product candidate or program for the three months ended December 31, 2017 and 2016:

	For the Three Months Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2017	2016	(dollars in thousands)	
External research and development expenses				
ACHM	$ 675	$ 477	$ 198	42%
XLRS	520	552	(32)	(6)%
XLRP	547	495	52	11%
Research and discovery programs	1,969	782	1,187	152%
Total external research and development expenses	3,711	2,306	1,405	61%
Internal research and development expenses				
Employee-related costs	2,092	1,916	176	9%
Share-based compensation	647	647	—	—
Other	1,276	1,172	104	9%
Total internal research and development expenses	4,015	3,735	280	7%
Total research and development expense	$7,726	$6,041	$ 1,685	28%

External research and development costs consist of collaboration, licensing, manufacturing, testing, and other miscellaneous expenses that are directly attributable to our most advanced product candidates and discovery programs. We do not allocate personnel-related costs, including stock-based compensation, costs associated with broad technology platform improvements or other indirect costs, to specific programs, as they are deployed across multiple projects under development and, as such, are separately classified as internal research and development expenses in the table above.

Research and development expenses for the three months ended December 31, 2017 were $7.7 million, compared to $6.0 million for the three months ended December 31, 2016, an increase of $1.7 million, or 28%. This increase was primarily attributable to:

- $1.2 million of increased external spending on general research and discovery programs primarily due to increased spending on the optogenetics, otology, and adrenoleukodystrophy (ALD) preclinical programs and increased spending on general research activities in ophthalmology to support ongoing clinical programs;
- $0.2 million of increased external spending on the ACHM programs primarily due to activities associated with ongoing Phase 1/2 clinical trials;
- $0.2 million of increased employee-related expenses associated with the hiring of additional employees to support clinical trial execution and research and development activities.

General and administrative expense

	For the Three Months Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2017	2016		
	(dollars in thousands)			
Employee-related costs	$1,388	$ 954	$ 434	45%
Share-based compensation	685	846	(161)	(19)%
Other	1,295	940	355	38%
Total general and administrative expense	$3,368	$2,740	$ 628	23%

General and administrative expense for the three months ended December 31, 2017 increased by $0.6 million to $3.3 million compared to the same period in 2016. The increase was primarily driven by higher employee-related costs and other expenses which resulted from hiring additional employees to support our continued expansion. The increases were partially offset by lower share-based compensation expenses and legal and professional fees during the three months ended December 31, 2017 compared to the three months ended December 31, 2016.

Comparison of six months ended December 31, 2017 to the six months ended December 31, 2016

Revenue

	For the Six Months Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2017	2016		
	(dollars in thousands)			
Collaboration revenue				
Amortization of up front fees	$13,489	$22,528	$ (9,038)	$ (40)%
Development services	1,650	134	1,516	1131%
Total collaboration revenue	15,139	22,662	(7,522)	(33)%
Grant revenue	28	77	(49)	(64)%
Total revenue	$15,167	$22,739	$ (7,571)	(33)%

Total collaboration revenue for the six months ended December 31, 2017 was $15.1 million compared to $22.7 million generated during the same period in 2016. Non-refundable upfront fees received under our collaboration with Biogen are amortized to collaboration revenue on a straight-line basis over the estimated service period. Development services revenue primarily consists of reimbursement of Post-Funding Development Activities under the Biogen Collaboration. Amortization revenue decreased $9.0 million for the six months ended December 31, 2017 compared to the same period in 2016 primarily due to due to reaching the end of the XLRP service period in the first quarter of fiscal year 2018, and to a much lesser extent, due to changes in estimates associated with the period of performance under the XLRS and preclinical programs. Development services revenue increased $1.5 million for the six months ended December 31, 2017 compared to the same period in 2016 primarily due to activities associated with preparing to conduct a Phase 1/2 clinical trial for XLRP. Grant revenue decreased $49,000 during the six months ended December 31, 2017 compared to the same period in 2016, largely attributable to reduced research and development activities on grant-funded projects.

Research and development expense

	For the Six Months Ended December 31,		Increase	% Increase
	2017	2016	(Decrease)	(Decrease)
	(dollars in thousands)			
External research and development expenses				
ACHM	$ 1,754	$ 1,381	$ 373	27%
XLRS	1,338	970	368	38%
XLRP	1,247	753	494	66%
Research and discovery programs	3,732	1,522	2,210	145%
Total external research and development expenses	8,071	4,626	3,445	74%
Internal research and development expenses				
Employee-related costs	4,184	3,519	665	19%
Share-based compensation	1,189	1,281	(92)	(7)%
Other	2,558	2,186	372	17%
Total internal research and development expenses	7,931	6,986	945	14%
Total research and development expense	$16,002	$11,612	$ 4,390	38%

Research and development expenses for the six months ended December 31, 2017 were $16.0 million, compared to $11.6 million for the six months ended December 31, 2016, an increase of $4.4 million, or 38%. This increase was primarily attributable to:

- $2.2 million of increased external spending on general research and discovery programs primarily due to increased spending on the optogenetics, otology, and adrenoleukodystrophy (ALD) preclinical programs and increased spending on general research activities in ophthalmology to support ongoing clinical programs;
- $0.7 million of increased employee-related expenses associated with the hiring of additional employees to support clinical trial execution and research and development activities;
- $0.5 million of increased external spending on the XLRP program primarily associated with filing an Investigational New Drug application with the U.S. Food and Drug Administration in August 2017 and activities associated with preparing to conduct a Phase 1/2 clinical trial;
- $0.4 million of increased external spending on the ACHM programs primarily due to activities associated with the ongoing Phase 1/2 clinical trials;
- $0.4 million of increased external spending on the XLRS program primarily related to increased patient enrollment in the ongoing Phase 1/2 clinical trial.

General and administrative expense

	For the Six Months Ended December 31,		Increase	% Increase
	2017	2016	(Decrease)	(Decrease)
	(dollars in thousands)			
Employee-related costs	$2,770	$1,976	$ 794	40%
Share-based compensation	1,612	1,631	(20)	(1)%
Legal and professional fees	337	485	(149)	(31)%
Other	2,355	1,494	861	57%
Total general and administrative expense	$7,074	$5,586	$ 1,488	27%

General and administrative expense for the six months ended December 31, 2017 increased by $1.5 million to $7.0 million compared to the same period in 2016. The increase was primarily driven by increased corporate infrastructure and employee-related costs which resulted from hiring additional employees to support our continued expansion, partially offset by lower legal and professional fees.

Liquidity and capital resources

We have incurred cumulative losses and negative cash flows from operations since our inception in 1999, and as of December 31, 2017, we had an accumulated deficit of $96.2 million. It will be several years, if ever, before we have a product candidate ready for commercialization. We expect that our research and development and general and administrative expenses will continue to increase and as a result, we anticipate that we will require additional capital to fund our operations, which we may raise through a combination of equity offerings, debt financings, other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements.

As of December 31, 2017, we had cash, cash equivalents, and investments totaling $119.7 million. We believe that our existing cash, cash equivalents, and investments at December 31, 2017 will be sufficient to enable us to advance planned preclinical studies and clinical trials for our lead product candidates and currently planned discovery programs for at least the next two years.

Cash in excess of immediate requirements is invested in accordance with our investment policy which primarily seeks to maintain adequate liquidity and preserve capital by generally limiting investments to certificates of deposit and investment-grade debt securities that mature within 24 months. As of December 31, 2017, our cash and cash equivalents were held in bank accounts and money market funds, while our investments consisted of certificates of deposit and corporate and government bonds, none of which mature more than 24 months after the balance sheet date, consistent with our investment policy that seeks to maintain adequate liquidity and preserve capital.

Cash flows

The following table sets forth the primary sources and uses of cash for each of the periods set forth below:

	For the Six Months Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2017	2016	(dollars in thousands)	
Net cash provided by (used in):				
Operating activities	$(18,500)	$(12,788)	$ (5,712)	45%
Investing activities	58,154	26,395	31,759	120%
Financing activities	(15)	24	(39)	(164)%
Net increase in cash and cash equivalents:	$ 39,639	$ 13,631	$ 26,008	191%

Operating activities. For the six months ended December 31, 2017 and 2016, net cash used in operating activities was primarily the result of cash payments made for normal business operations and the impact of changes in our working capital accounts.

Investing activities. Net cash provided by investing activities for the six months ended December 31, 2017 consisted primarily of cash proceeds of $58.3 million from the maturity of investments.

Financing activities. Net cash used in financing activities during the six months ended December 31, 2017 was primarily associated with payments toward capital lease obligations, with a minor offset resulting from the exercise of common stock options. Net cash provided by financing activities during the six months ended December 31, 2016 was associated with the exercise of common stock options.

Operating capital requirements

To date, we have not generated any revenue from product sales. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize one of our current or future product candidates. We anticipate that we will continue to generate losses for the foreseeable future 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 all of the risks incident in the development of new gene therapy products, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business.

We believe that our existing cash and cash equivalents and investments at December 31, 2017, will be will be sufficient to allow us to generate data from our ongoing clinical programs, to move our pre-clinical optogenetic program in collaboration with Bionic Sight into the clinic and to fund our currently planned research and discovery programs for at least the next two years. In order to complete the process of obtaining regulatory approval for our lead product candidates and to build the sales, marketing and distribution infrastructure that we believe will be necessary to commercialize our lead product candidates, if approved, we will require substantial additional funding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended June 30, 2017, which is incorporated by reference herein, for a description of our market risks.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on, and as of the time of such evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as a result of the material weakness identified by management as initially disclosed under "Item 9A—Controls and Procedures" in our Annual Report on Form 10-K for the year ended June 30, 2017.

As discussed in our Annual Report on Form 10-K for the year ended June 30, 2017, our management has determined that we have a material weakness in our internal control over financial reporting which relates to the design and operation of our closing and financial reporting processes. Refer to Part II, Item 9A, "Controls and Procedures," in our Annual Report on Form 10-K for the year ended June 30, 2017 for a discussion of the actions that we have previously undertaken to remediate this material weakness. During the period covered by this Quarterly Report on Form 10-Q, we continued to: (a) provide functional and system training to employees and to prepare detailed documentation to clearly define key tasks and actions; (b) document and formalize our accounting policies and internal control processes and to help strengthen supervisory reviews by our management; (c) hire additional employees to provide further support to our finance and accounting team; and (d) design and implement monthly manual controls to manage our financial reporting close processes and to help ensure an adequate level of segregation of duties within our finance and accounting function. Although we had not fully remediated this material weakness as of December 31, 2017, we continue to actively engage in the implementation of these and other remediation efforts to address this material weakness.

As a result of these efforts, as of the date of this filing management believes we have made progress toward remediating the underlying causes of the material weakness. Although we believe our remediation efforts will be effective in remediating the material weakness, there can be no assurance as to when the remediation plan will be fully implemented, or that the plan, as currently designed, will adequately remediate the material weakness. The material weakness will not be considered fully addressed until the enhanced policies and procedures over documentation evidencing certain controls involving our Closing and Financial Report Process have been in operation for a sufficient period of time for our management to conclude that the material weakness has been fully remediated. We will continue to work on implementing and testing the enhanced documentation policies and procedures in order to make this final determination.

Changes in Internal Control over Financial Reporting

As described above, during the period covered by this Quarterly Report on Form 10-Q we took and are continuing to take remedial actions intended to correct material weaknesses in our system of internal controls over financial reporting, which remedial actions have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Except for those remedial actions, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings. However, because of the nature of our business, we may be subject at any particular time to lawsuits or other claims arising in the ordinary course of our business, and we expect that this will continue to be the case in the future.

ITEM 1A. RISK FACTORS

Refer to Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended June 30, 2017 for a listing of our risk factors. There has been no material change in such risk factors since June 30, 2017.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Fifth Amended and Restated Certificate of Incorporation of Applied Genetic Technologies Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, event date March 26, 2014, filed on April 1, 2014)
3.2	Amended and Restated Bylaws of Applied Genetic Technologies Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, event date March 26, 2014, filed on April 1, 2014)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer of Applied Genetic Technologies Corporation
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer of Applied Genetic Technologies Corporation
32.1**	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer of Applied Genetic Technologies Corporation
101*	Interactive Data Files pursuant to Rule 405 of Regulation S-T (XBRL)

* Filed herewith.
** Furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIED GENETIC TECHNOLOGIES CORPORATION
(Registrant)

By: /s/ William Sullivan
William Sullivan, Chief Financial Officer

Date: February 9, 2018

Exhibit 31.1

CERTIFICATIONS

I, Susan B. Washer certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Genetic Technologies Corporation;

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(s) 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.

Date: February 9, 2018

By: /s/ Susan B. Washer
Susan B. Washer
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, William A. Sullivan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Genetic Technologies Corporation;

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(s) 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.

Date: February 9, 2018

By: /s/ William A. Sullivan
William A. Sullivan
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Applied Genetic Technologies Corporation (the "Company") for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, that to her or his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2018

By: /s/ Susan B. Washer
Susan B. Washer
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 9, 2018

By: /s/ William A. Sullivan
William A. Sullivan
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Applied Genetic Technologies Corporation and will be retained by Applied Genetic Technologies Corporation and furnished to the Securities and Exchange Commission or its staff upon request.