

Corvus Pharmaceuticals, Inc.
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2017

OR

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

Corvus Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction
of incorporation)

001-37719
(Commission
File Number)

46-4670809
(IRS Employer
Identification Number)

863 Mitten Road, Suite 102
Burlingame, CA 94010
(Address of principal executive offices, including Zip Code)

Registrant's telephone number, including area code: **(650) 900-4520**

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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 ☒

As of August 3, 2017, 20,934,514 shares of the registrant's common stock, \$0.0001 par value per share, were outstanding.

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CORVUS PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2017

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(in thousands, except share and per share data)

(unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,095	\$ 5,050
Marketable securities	76,231	129,846
Prepaid and other current assets	1,308	1,137
Total current assets	111,634	136,033
Property and equipment, net	2,984	3,248
Other assets	869	869
Total assets	\$ 115,487	\$ 140,150
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,138	\$ 1,900
Accrued and other liabilities	5,380	4,044
Total current liabilities	9,518	5,944
Other liabilities	1,187	1,405
Total liabilities	10,705	7,349
Commitments and contingencies (<i>Note 11</i>)		
Stockholders' equity:		
Preferred stock: \$0.0001 par value; 10,000,000 shares authorized at June 30, 2017 and December 31, 2016; 0 shares issued and outstanding at June 30, 2017 and December 31, 2016		
Common stock: \$0.0001 par value; 290,000,000 shares authorized at June 30, 2017 and December 31, 2016; 20,934,514 and 20,922,428 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively		
	2	2
Additional paid-in capital	203,720	200,709
Accumulated other comprehensive loss	(52)	(39)
Accumulated deficit	(98,888)	(67,871)
Total stockholders' equity	104,782	132,801
Total liabilities and stockholders' equity	\$ 115,487	\$ 140,150

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

Table of Contents**CORVUS PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating expenses:				
Research and development	\$ 12,386	\$ 7,119	\$ 25,884	\$ 12,517
General and administrative	2,788	1,706	5,507	2,734
Total operating expenses	15,174	8,825	31,391	15,251
Loss from operations	(15,174)	(8,825)	(31,391)	(15,251)
Interest income	193	180	374	259
Net loss	\$ (14,981)	\$ (8,645)	\$ (31,017)	\$ (14,992)
Net loss per share, basic and diluted	\$ (0.73)	\$ (0.43)	\$ (1.52)	\$ (1.42)
Shares used to compute net loss per share, basic and diluted	20,426,849	19,959,459	20,388,820	10,568,562
Other comprehensive income (loss):				
Unrealized (loss) gain on marketable securities	11	49	(13)	123
Comprehensive loss	\$ (14,970)	\$ (8,596)	\$ (31,030)	\$ (14,869)

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

Table of Contents**CORVUS PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$ (31,017)	\$ (14,992)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	412	250
Amortization (accretion) related to marketable securities	(113)	310
Stock-based compensation	2,989	1,517
Changes in operating assets and liabilities:		
Prepaid and other current assets	(184)	84
Other assets		(619)
Accounts payable	2,322	129
Accrued and other liabilities	1,350	920
Other long-term liabilities	(218)	636
Net cash used in operating activities	(24,459)	(11,765)
Cash flows from investing activities		
Purchases of marketable securities	(47,072)	(152,790)
Maturities of marketable securities	100,800	94,925
Purchase of property and equipment	(232)	(1,487)
Net cash provided by (used in) investing activities	53,496	(59,352)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs		71,355
Proceeds from exercise of common stock options	8	
Net cash provided by financing activities	8	71,355
Net increase in cash and cash equivalents	29,045	238
Cash and cash equivalents at beginning of the period	5,050	4,105
Cash and cash equivalents at end of the period	\$ 34,095	\$ 4,343
Supplemental disclosures of cash flow information		
Purchases of property and equipment incurred but not paid	\$	\$ 11

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

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CORVUS PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Organization

Corvus Pharmaceuticals, Inc. (Corvus or the Company) was incorporated in Delaware on January 27, 2014 and commenced operations in November 2014. Corvus is a clinical-stage biopharmaceutical company focused on the development and commercialization of novel immuno-oncology therapies that are designed to harness the immune system to attack cancer cells. The Company's primary activities have been establishing its facilities, recruiting personnel, conducting research and development of its product candidates, including conducting a clinical trial, and raising capital. The Company's operations are located in Burlingame, California. The Company has four insignificant subsidiaries.

Initial Public Offering

On March 22, 2016, the Company's registration statement on Form S-1 (File No. 333-208850) relating to its initial public offering (IPO) of its common stock was declared effective by the Securities and Exchange Commission (SEC) and the shares of its common stock began trading on the NASDAQ Global Market on March 23, 2016. The public offering price of the shares sold in the IPO was \$15.00 per share. The IPO closed on March 29, 2016, pursuant to which the Company sold 4,700,000 shares of its common stock. On April 26, 2016, the Company sold an additional 502,618 shares of its common stock to the underwriters upon partial exercise of their over-allotment option, at the initial offering price of \$15.00 per share. The Company received aggregate net proceeds of approximately \$70.6 million, after underwriting discounts, commissions and offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of convertible preferred stock were converted into common stock.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Company's functional and reporting currency is the U.S. dollar. The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business. Since its inception, the Company has incurred significant losses and negative cash flows from operations. During the six months ended June 30, 2017, the Company incurred a net loss of \$31.0 million and used \$24.5 million of cash in operations. As of June 30, 2017, the Company had an accumulated deficit of \$98.9 million and cash, cash equivalents and marketable securities of \$110.3 million. The Company has financed its operations primarily with the proceeds from the sale of stock. The Company will need to raise additional capital to meet its business objectives. The Company believes that its current cash, cash equivalents and marketable securities will be sufficient to fund its planned expenditures and meet its obligations through at least the next twelve months.

Unaudited Interim Financial Information

The accompanying interim condensed consolidated financial statements and related disclosures are unaudited, have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The condensed consolidated results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period. The accompanying condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2017.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from such estimates.

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Concentrations of Credit Risk and Other Risks and Uncertainties

Substantially all of the Company's cash and cash equivalents are deposited in accounts with two financial institutions that management believes are of high credit quality. Such deposits may, at times, exceed federally insured limits. The Company maintains its cash with an accredited financial institution and accordingly, such funds are subject to minimal credit risk. The Company's marketable securities consist of investments in U.S. Treasury securities, U.S. government agency securities and corporate debt obligations, which can be subject to certain credit risks. However, the Company mitigates the risks by investing in high-grade instruments, limiting its exposure to any one issuer, and monitoring the ongoing creditworthiness of the financial institutions and issuers. The Company has not experienced any losses on its deposits of cash, cash equivalents or marketable securities.

The Company is subject to a number of risks similar to other early stage biopharmaceutical companies, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, its reliance on third parties to conduct its clinical trials, the need to obtain marketing approval for its product candidates, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company's product candidates, its right to develop and commercialize its product candidates pursuant to the terms and conditions of the licenses granted to the Company, and protection of proprietary technology. If the Company does not successfully commercialize or partner any of its product candidates, it will be unable to generate product revenue or achieve profitability.

Segments

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment, that of the development of and commercialization of novel immuno-oncology therapies that are designed to harness the immune system to attack cancer cells.

Critical Accounting Policies

The Company's critical accounting policies are described in Note 2 to our consolidated financial statements for the year ended December 31, 2016, included in our Annual Report on Form 10-K. There have been no material changes to the Company's critical accounting policies during the six months ended June 30, 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which required an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective January 1, 2018 for public companies. Early application is permitted as of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU No. 2016-08,

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Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which relates to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. These standards have the same effective date and transition date of January 1, 2018. The Company does not believe adopting this guidance will have a material impact on its consolidated financial statements as the Company is not yet generating revenues.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that replaces existing lease guidance. The new standard requires lessees to record right of use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The standard is effective for the Company beginning January 1, 2019, with early application permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

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In May 2017, the FASB issued ASU No 2017-09, Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting, to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. ASU 2017-09 will be effective for the Company beginning January 1, 2018 and will be applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

3. Net Loss per Share

The following table shows the calculation of net loss per share (in thousands, except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net loss	\$ (14,981)	\$ (8,645)	\$ (31,017)	\$ (14,992)
Denominator:				
Weighted average common shares outstanding	20,934,514	20,771,392	20,931,765	11,414,296
Less: weighted average common shares subject to repurchase	(507,665)	(811,933)	(542,945)	(845,734)
Weighted average common shares outstanding used to compute basic and diluted net loss per share	20,426,849	19,959,459	20,388,820	10,568,562
Net loss per share, basic and diluted	\$ (0.73)	\$ (0.43)	\$ (1.52)	\$ (1.42)

The amounts in the table below were excluded from the calculation of diluted net loss per share, due to their anti-dilutive effect:

	June 30,	
	2017	2016
Common stock subject to repurchase	465,451	770,550
Outstanding options	2,441,856	2,034,386
Total shares of common stock equivalents	2,907,307	2,804,936

4. Fair Value Measurements

Financial assets and liabilities are measured and recorded at fair value. 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 fair value hierarchy prioritizes valuation inputs based on the observable nature of those inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

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Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability

There have been no transfers of assets and liabilities between levels of hierarchy.

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The following tables present information as of June 30, 2017 and December 31, 2016 about the Company's assets that are measured at fair value on a recurring basis and indicate the level of the fair value hierarchy the Company utilized to determine such fair values (in thousands):

	June 30, 2017			Total
	Fair Value Measured Using			Balance
	(Level 1)	(Level 2)	(Level 3)	
Assets				