

Kindred Biosciences, Inc.
Form 10-Q
May 03, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 March 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36225

KINDRED BIOSCIENCES, INC.
(Exact name of registrant as specified in its charter)

Delaware 46-1160142
(State of incorporation) (I.R.S. Employer Identification No.)
1555 Bayshore Highway, Suite 200
Burlingame, California 94010
(Address of principal executive office) (Zip code)
Registrant's telephone number: (650) 701-7901

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 time 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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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 checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 28, 2017, Kindred Biosciences, Inc. had outstanding 23,310,559 shares of common stock, \$0.0001 par value.

Table of Contents



Table of Contents

Kindred Biosciences, Inc.

TABLE OF CONTENTS

Part No.	Item No.	Description	Page No.
I		<u>FINANCIAL INFORMATION</u>	
	1	<u>Financial Statements</u>	<u>3</u>
		<u>Condensed Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</u>	<u>3</u>
		<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2017 and 2016</u>	<u>4</u>
		<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016</u>	<u>5</u>
		<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
	2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
	3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>22</u>
	4	<u>Controls and Procedures</u>	<u>22</u>
II		<u>OTHER INFORMATION</u>	
	1	<u>Legal Proceedings</u>	<u>23</u>
	1A	<u>Risk Factors</u>	<u>23</u>
	2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>23</u>
	3	<u>Defaults Upon Senior Securities</u>	<u>23</u>
	4	<u>Mine Safety Disclosures</u>	<u>23</u>
	5	<u>Other Information</u>	<u>23</u>
	6	<u>Exhibits</u>	<u>24</u>
		<u>Index to Exhibits</u>	<u>24</u>
		<u>Signatures</u>	<u>25</u>

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Kindred Biosciences, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	March 31, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,866	\$ 6,687
Short-term investments	45,272	50,068
Other receivables	2,118	—
Prepaid expenses and other	1,156	1,282
Total current assets	68,412	58,037
Property and equipment, net	2,585	2,441
Long-term investments	3,005	1,052
Other assets	46	46
Total assets	\$ 74,048	\$ 61,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 994	\$ 410
Accrued compensation	903	1,807
Accrued liabilities	950	1,650
Total current liabilities	2,847	3,867
Long-term liability	61	29
Total liabilities	2,908	3,896
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 23,179,228 and 19,916,290 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	158,763	138,810
Accumulated other comprehensive loss	(32) (31
Accumulated deficit	(87,593) (81,101
Total stockholders' equity	71,140	57,680
Total liabilities and stockholders' equity	\$ 74,048	\$ 61,576

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

Table of Contents

Kindred Biosciences, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2017	2016
Operating expenses:		
Research and development	\$3,780	\$3,437
General and administrative	2,843	2,020
Restructuring costs	—	655
Total operating expenses	6,623	6,112
Loss from operations	(6,623)	(6,112)
Interest and other income, net	131	52
Net loss	(6,492)	(6,060)
Change in unrealized gains (losses) on available-for-sale securities	(1)	68
Comprehensive loss	\$(6,493)	\$(5,992)
Net loss per share, basic and diluted	\$(0.30)	\$(0.31)
Weighted-average number of common shares outstanding, basic and diluted	21,516	19,836

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

Table of Contents

Kindred Biosciences, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2017	2016
Cash Flows from Operating Activities		
Net loss	\$(6,492)	\$(6,060)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	1,241	762
Depreciation and amortization expense	46	38
Amortization of premium on marketable securities	88	77
Changes in operating assets and liabilities:		
Prepaid expenses and other	98	(150)
Accounts payable	726	117
Accrued liabilities and accrued compensation	(1,572)	(1,268)
Net cash used in operating activities	(5,865)	(6,484)
Cash Flows from Investing Activities		
Purchase of investments	(16,356)	(33,673)
Sale of investments	1,600	—
Maturities of investments	17,510	30,440
Purchase of property and equipment	(332)	(664)
Net cash provided by (used in) investing activities	2,422	(3,897)
Cash Flows from Financing Activities		
Exercise of stock options	76	—
Net proceeds from sale of common stock	16,546	—
Net cash provided by financing activities	16,622	—
Net change in cash and cash equivalents	13,179	(10,381)
Cash and cash equivalents at beginning of period	6,687	19,992
Cash and cash equivalents at end of period	\$19,866	\$9,611

Supplemental disclosure of non-cash investing and financing activities:

Purchase of property and equipment included in accounts payable and accrued liabilities	28	98
Proceeds due from sale of common stock	2,090	—

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

Table of Contents

Kindred Biosciences, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Kindred Biosciences, Inc. ("KindredBio", "we", "us" or "our") was incorporated on September 25, 2012 (inception) in the State of Delaware. On April 25, 2016, we filed a Certificate of Incorporation with the State of Delaware for a wholly owned subsidiary, KindredBio Equine, Inc. ("Subsidiary"). The Subsidiary has one class of capital stock which is designated common stock, \$0.0001 par value per share. The authorized number of shares of common stock for the Subsidiary is 1,000.

We are a biopharmaceutical company focused on saving and improving the lives of pets. Our activities since inception have consisted principally of raising capital, establishing facilities, recruiting management and technical staff and performing research and development and advancing our product candidates seeking regulatory approval. Our headquarters are located in Burlingame, California.

We are subject to risks common to companies in the biotechnology and pharmaceutical industries. There can be no assurance that our research and development will be successfully completed, that adequate patent or other intellectual property protection for our technology will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. We operate in an environment of substantial competition from other animal health companies. In addition, we are dependent upon the services of our employees and consultants, as well as third-party contract research organizations and manufacturers. The accompanying unaudited interim condensed consolidated financial statements ("financial statements") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016 included in our annual report on Form 10-K as filed with the SEC on March 1, 2017. In the opinion of management, all adjustments, consisting of a normal and recurring nature, considered necessary for a fair presentation, have been included in these unaudited interim condensed consolidated financial statements.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned Subsidiary. All inter-company accounts and transactions have been eliminated in consolidation.

Stock Offerings

In January 2015, we filed a shelf registration statement on Form S-3 to offer and sell, from time to time, equity securities in one or more offerings up to a total dollar amount of \$150.0 million. On December 19, 2016, we entered into an At Market Issuance Sales Agreement ("Sales Agreement") with FBR Capital Markets & Co. ("FBR"), pursuant to which we may issue and sell shares of our common stock having an aggregate offering price up to \$30.0 million, from time to time, through FBR as our sales agent. In conjunction with the Sales Agreement, FBR will receive compensation based on an aggregate of 3% of the gross proceeds on the sale price per share of our common stock. Any sales made pursuant to the Sales Agreement are deemed an "at-the-market" offering and would be made pursuant to the shelf registration statement on Form S-3. In the quarter ended March 31, 2017, we sold 2,990,604 shares through FBR under the Sales Agreement and received approximately \$19,346,000 in gross proceeds. Net proceeds after deducting approximately \$582,000 in commissions and approximately \$128,000 in offering costs were approximately \$18,636,000, of which \$2,090,000 was recorded in accounts receivable at March 31, 2017 and received in April 2017. Subsequent to March 31, 2017 and through April 30, 2017, we sold an additional 91,811 shares under the Sales Agreement and received approximately \$639,000 in net proceeds after deducting commissions, of which \$60,000 was recorded in accounts receivable at April 30, 2017 and received in May 2017.

Liquidity

We have incurred losses and negative cash flows from operations and have not generated any revenue since our inception. We expect to continue to incur losses and negative cash flows, which will increase significantly from historical levels as we expand our product development activities, seek regulatory approvals for our product candidates, establish a biologics

6

Table of Contents

manufacturing capability, and begin to commercialize any approved products. To date, we have been funded primarily through sales of our former convertible preferred stock, the sale of our common stock in our initial public offering in December 2013, the sale of our common stock in our April 2014 follow-on public offering and periodic sales of our common stock under the ATM in the first quarter of 2017. We believe that our cash, cash equivalents, short-term and long-term investments totaling \$68,143,000 as of March 31, 2017, are sufficient to fund our planned operations for at least the next 24 months.

If we require additional funding for operations, we may seek such funding through public or private equity or debt financings or other sources, such as corporate collaborations and licensing arrangements. We may not be able to obtain financing on acceptable terms, or at all, and we may not be able to enter into corporate collaborations or licensing arrangements. The terms of any financing may result in dilution or otherwise adversely affect the holdings or the rights of our stockholders.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with U.S. 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions reflected in these condensed consolidated financial statements include, but are not limited to, the valuation of stock-based awards, the realization of deferred tax assets, the recoverability of long-lived assets and the accrual of research and development expenses. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from those estimates.

Comprehensive Loss

Our comprehensive loss includes the change in unrealized gains or losses on available-for-sale securities. The cumulative amount of gains or losses are reflected as a separate component of stockholders' equity in the condensed consolidated balance sheets as accumulated other comprehensive income (loss).

Recently Issued Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers". This new standard will replace most of the existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The new standard, as amended, becomes effective in the first quarter of fiscal year 2018, but allows the adoption of the standard one year earlier if we so choose. To-date we do not have any revenue, but we continue to assess the effect of this new standard.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes", requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the consolidated balance sheet. The classification change for all deferred taxes as non-current simplifies entities' processes as it eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The update is effective for public business entities issuing consolidated financial statements for the annual periods beginning after December 15, 2016, and interim periods within those annual periods. We adopted this standard as of March 31, 2017 and the adoption did not have a material impact on our condensed consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments and also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the new guidance and have not determined the impact this standard may have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", requiring organizations that lease assets—referred to as “lessees”—to recognize on the consolidated balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The ASU on leases will take effect for public companies for fiscal years, and interim periods

7

Table of Contents

within those fiscal years, beginning after December 15, 2018. We are currently evaluating the new guidance and have not determined the impact this standard may have on our condensed consolidated financial statements.

We do not believe there are any other recently issued standards not yet effective that will have a material impact on our consolidated financial statements when the standards become effective.

2. Fair Value Measurements

Certain assets and liabilities are carried at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, is used to measure fair value:

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

Level 2: Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying amount of financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities approximate fair value due to the short maturities of these financial instruments. Financial assets, which consist of money market funds and available-for-sale securities, are measured at fair value on a recurring basis.

Financial assets, which consist of money market funds and available-for-sale securities, are measured at fair value on a recurring basis and are summarized as follows (in thousands):

Fair Value Measurements as of March 31, 2017

Description	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$3,763	\$ 3,763	\$ —	\$ —
Commercial paper	15,296	—	15,296	—
Short-term investments:				
U.S. treasury bonds	3,004	3,004	—	—
U.S. government agency notes	16,000	—	16,000	—
Commercial paper	5,413	—	5,413	—
Corporate notes	20,855	—	20,855	—
Long-term investments:				
Corporate notes	3,005	—	3,005	—
	\$67,336	\$ 6,767	\$ 60,569	\$ —

Table of Contents

Description	Fair Value Measurements as of December 31, 2016			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$3,157	\$3,157	\$ —	\$ —
Commercial paper	850	—	850	—
Short-term investments:				
U.S. treasury bills	5,997	5,997	—	—
Commercial paper	4,228	—	4,228	—
U.S. government agency notes	13,550	—	13,550	—
U.S. treasury bonds and notes	11,015	11,015	—	—
Corporate notes	15,278	—	15,278	—
Long-term investments:				
Corporate notes	1,052	—	1,052	—
	\$55,127	\$20,169	\$34,958	\$ —

During the three months ended March 31, 2017, there were no transfers of assets between Level 1, Level 2 or Level 3 of the fair value hierarchy.

At March 31, 2017 and December 31, 2016, we did not have any financial liabilities which were measured at fair value on a recurring basis.

3. Investments

We classify all highly-liquid investments with stated maturities of greater than three months from the date of purchase and remaining maturities of less than one year as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments are viewed as being available to support current operations. We classify and account for investments as available-for-sale and reflect realized gains and losses using the specific identification method. Changes in market value, if any, excluding other-than-temporary impairments, are reflected in other comprehensive income (loss).

The fair value of available-for-sale investments by type of security at March 31, 2017 was as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:				
U.S. government agency notes	\$ 16,009	\$ —	—\$	