

Kindred Biosciences, Inc.
Form 10-Q
November 07, 2016
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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 September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36225

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 Accelerated filer Non-accelerated filer Smaller reporting company

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of October 31, 2016, Kindred Biosciences, Inc. had outstanding 19,891,407 shares of common stock, \$0.0001 par value.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Kindred Biosciences, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	September 30, December 31, 2016 2015 (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,311	\$ 19,992
Short-term investments	47,168	53,051
Prepaid expenses and other	887	712
Total current assets	61,366	73,755
Property and equipment, net	1,796	1,244
Long-term investments	2,005	4,590
Other assets	30	30
Total assets	\$ 65,197	\$ 79,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 690	\$ 717
Accrued compensation	1,280	1,922
Accrued liabilities	677	569
Total current liabilities	2,647	3,208
Long-term liability	18	40
Total liabilities	2,665	3,248
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 19,891,407 and 19,836,360 shares issued and outstanding at September 30, 2016 and December 31, 2015, 2 respectively		2
Additional paid-in capital	137,810	135,021
Accumulated other comprehensive income (loss)	12	(50)
Accumulated deficit	(75,292)	(58,602)
Total stockholders' equity	62,532	76,371
Total liabilities and stockholders' equity	\$ 65,197	\$ 79,619

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

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Kindred Biosciences, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Operating expenses:				
Research and development	\$3,754	\$5,033	\$10,352	\$14,833
General and administrative	2,022	2,095	5,907	5,969
Restructuring costs	—	—	655	—
Total operating expenses	5,776	7,128	16,914	20,802
Loss from operations	(5,776)	(7,128)	(16,914)	(20,802)
Interest and other income, net	93	33	224	92
Net loss	(5,683)	(7,095)	(16,690)	(20,710)
Change in unrealized gains (losses) on available-for-sale securities	(21)	5	62	31
Comprehensive loss	\$(5,704)	\$(7,090)	\$(16,628)	\$(20,679)
Net loss per share, basic and diluted	\$(0.29)	\$(0.36)	\$(0.84)	\$(1.05)
Weighted-average number of common shares outstanding, basic and diluted	19,891	19,792	19,864	19,758

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

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Kindred Biosciences, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net loss	\$(16,690)	\$(20,710)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,699	3,103
Depreciation and amortization expense	115	108
Amortization of premium on marketable securities	199	128
Changes in operating assets and liabilities:		
Prepaid expenses and other	(175) 28
Other assets	—	(8
Accounts payable	141	(135
Accrued liabilities and accrued compensation	(553) 258
Net cash used in operating activities	(14,264) (17,228
Cash Flows from Investing Activities		
Purchase of investments	(61,482) (81,086
Sale of investments	—	3,000
Maturities of investments	69,813	87,000
Purchase of property and equipment	(838) (322
Net cash provided by investing activities	7,493	8,592
Cash Flows from Financing Activities		
Exercise of stock options and purchase of ESPP shares	90	206
Net cash provided by financing activities	90	206
Net change in cash and cash equivalents	(6,681) (8,430
Cash and cash equivalents at beginning of period	19,992	12,969
Cash and cash equivalents at end of period	\$13,311	\$4,539

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

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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 financial statements and notes thereto for the year ended December 31, 2015 included in our annual report on Form 10-K as filed with the SEC on March 4, 2016. 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 intercompany accounts and transactions have been eliminated in consolidation.

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 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 and the sale of our common stock in our April 2014 follow-on public offering. We believe that our cash, cash equivalents, short-term and long-term investments totaling \$62,484,000 as of September 30, 2016, 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

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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 November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 are currently evaluating the new guidance and have not determined the impact this standard may have 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 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.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which amends ASC Topic 718, “Compensation - Stock Compensation”. The ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the consolidated financial statements. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption will be permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. Our early adoption of this standard in the nine months ended September 30, 2016 did not have any material impact 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:

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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.

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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 September
30, 2016

Description	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$2,136	\$2,136	\$ —	\$ —
U.S. treasury bills	1,999	1,999	—	—
U.S. government agency notes	600	—	600	—
Commercial paper	6,399	—	6,399	—
Short-term investments:				
U.S. treasury bills	9,491	9,491	—	—
U.S. treasury bonds	15,045	15,045	—	—
U.S. government agency notes	9,643	—	9,643	—
Commercial paper	2,691	—	2,691	—
Corporate notes	10,298	—	10,298	—
Long-term investments:				
Corporate notes	2,005	—	2,005	—
	\$60,307	\$28,671	\$ 31,636	\$ —

Fair Value Measurements as of December 31,
2015

Description	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	\$8,169	\$ 8,169	\$ —	\$ —
U.S. government agency notes	4,385	—	4,385	—
Short-term investments:				
U.S. treasury bills	41,282	—	41,282	—
U.S. government agency notes	11,769	—	11,769	—
Long-term investments:				
U.S. treasury bills	4,590	—	4,590	—
	\$70,195	\$ 8,169	\$ 62,026	