Calithera Biosciences, Inc.
Form 10-Q
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

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: 001-36644

CALITHERA BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	27-2366329
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

343 Oyster Point Blvd., Suite 200

South San Francisco, CA 94080

(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (650) 870-1000

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 x

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 x 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.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of October 31, 2014, the registrant had 17,930,394 shares of common stock, $0.0001 par value per share, outstanding.

Calithera Biosciences, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2014

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PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

Calithera Biosciences, Inc.

Condensed Balance Sheets

(In thousands, except per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 34,852	$ 33,820
Prepaid expenses and other current assets	1,398	349
Total current assets	36,250	34,169
Restricted cash	46	116
Property and equipment, net	785	559
Other assets	2,561	-
Total assets	$ 39,642	$ 34,844
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 879	$ 150
Accrued liabilities	3,243	1,194
Total current liabilities	4,122	1,344
Non-current liabilities	292	31
Total liabilities	4,414	1,375
Commitments and contingencies		
Convertible preferred stock, $0.0001 par value, 11,340 and 7,757 shares authorized as of September 30, 2014 (unaudited) and December 31, 2013; 9,592 and 7,689 shares issued and outstanding as of September 30, 2014 (unaudited) and December 31, 2013	70,241	54,282
Stockholders' deficit:		
Common stock, $0.0001 par value, 25,000 and 9,896 shares authorized as of September 30, 2014 (unaudited) and December 31, 2013; 338 and 161 shares issued and outstanding as of September 30, 2014 (unaudited) and December 31, 2013	-	-
Additional paid-in capital	10,008	9,329
Accumulated deficit	(45,021)	(30,142)
Total stockholders' deficit	(35,013)	(20,813)
Total liabilities and stockholders' deficit	$ 39,642	$ 34,844

See accompanying notes.

Calithera Biosciences, Inc.

Condensed Statements of Operations and Comprehensive Loss

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating expenses:				
Research and development	$ 3,894	$ 2,735	$ 11,395	$ 6,804
General and administrative	1,347	583	3,488	1,486
Total operating expenses	5,241	3,318	14,883	8,290
Loss from operations	(5,241)	(3,318)	(14,883)	(8,290)
Other income	2	—	4	—
Net loss and comprehensive loss	$ (5,239)	$ (3,318)	$ (14,879)	$ (8,290)
Net loss per share attributable to common stockholders, basic and diluted	$ (16.85)	$ (34.22)	$ (61.90)	$ (115.74)
Weighted average common shares used to compute net loss per share attributable to common stockholders, basic and diluted	311	97	240	72

See accompanying notes.

Calithera Biosciences, Inc.

Statement of Convertible Preferred Stock and Stockholders’ Deficit

(Unaudited)

(In thousands, except per share amounts)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance at December 31, 2013	7,689	$ 54,282	161	$ -	$ 9,329	$ (30,142)	$ (20,813)
Issuance of Series D convertible preferred stock for cash at $8.41 per share in July 2014, net of $41 in issuance costs	1,903	15,959	-	-	-	-	$ -
Issuance of common stock to nonemployees	-	-	21	-	54	-	$ 54
Vesting of common stock issued to founders	-	-	1	-	1	-	$ 1
Exercise of stock options	-	-	155	-	249	-	$ 249
Stock-based compensation expense	-	-	-	-	375	-	$ 375
Net loss	-	-	-	-	-	(14,879)	$ (14,879)
Balance at September 30, 2014	9,592	$ 70,241	338	$ -	$ 10,008	$ (45,021)	$ (35,013)

See accompanying notes.

Calithera Biosciences, Inc.

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Month Ended September 30,	
	2014	2013
Cash Flows From Operating Activities		
Net loss	$(14,879)	$(8,290)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	257	210
Stock-based compensation	375	41
Loss on disposal of property and equipment	2	3
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,048)	(158)
Other assets	(1,430)	-
Accounts payable	637	131
Accrued liabilities	965	314
Deferred rent	361	5
Net cash used in operating activities	(14,760)	(7,744)
Cash Flows From Investing Activities		
Purchase of property and equipment	(486)	(153)
Change in restricted cash	70	(9)
Net cash used in investing activities	(416)	(162)
Cash Flows From Financing Activities		
Net proceeds from issuance of convertible preferred stock	15,959	8,676
Proceeds from stock option exercises	249	59
Net cash provided by financing activities	16,208	8,735
Net increase in cash and cash equivalents	1,032	829
Cash and cash equivalents at beginning of period	33,820	2,205
Cash and cash equivalents at end of period	$34,852	$3,034
Supplemental Disclosure of Non-Cash Investing and Financing Information:		
Services settled through the issuance of common stock	$55	$—

See accompanying notes.

Calithera Biosciences, Inc.

Notes to Condensed Financial Statements

1. Organization and Basis of Presentation

Calithera Biosciences, Inc. (the "Company") was incorporated in the State of Delaware on March 9, 2010. The Company is a clinical-stage biopharmaceutical company focused on discovering and developing novel small molecule drugs directed against tumor metabolism and tumor immunology targets for the treatment of cancer. The Company's principal operations are based in South San Francisco, California, and it operates in one segment.

Reverse Stock Split

On September 18, 2014, the Company's board of directors, and on September 19, 2014 the Company's stockholders, approved the amendment and restatement of the Company's certificate of incorporation to effect a reverse split of the Company's common stock and convertible preferred stock at a 1-for-48 ratio (the "Reverse Stock Split"). The Reverse Stock Split became effective on September 19, 2014, upon the filing of the Company's amended and restated certificate of incorporation. The par value of the common and convertible preferred stock was not adjusted as a result of the Reverse Stock Split. All issued and outstanding common stock, convertible preferred stock, options for common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect this Reverse Stock Split for all periods presented.

Initial Public Offering

In October 2014, the Company completed an initial public offering ("IPO") of its common stock. In connection with its IPO, the Company issued and sold 8,000,000 shares of its common stock, at a price to the public of $10.00 per share. As a result of the IPO, the Company received approximately $71.7 million in net proceeds, after deducting underwriting discounts and commissions of $5.6 million and offering expenses of approximately $2.7 million payable by the Company. At the closing of the IPO, 9,592,042 shares of outstanding convertible preferred stock were automatically converted into 9,592,042 shares of common stock. Following the IPO, there were no shares of preferred stock outstanding. In connection with the IPO, the Company amended and restated its Amended and Restated Certificate of Incorporation to change the authorized capital stock to 200,000,000 shares designated as common stock and 10,000,000 shares designated as preferred stock, all with a par value of $0.0001 per share. As of September 30, 2014, the Company had incurred $2.6 million of deferred offering costs, which will be offset against the net proceeds received from the sale of common stock. The condensed financial statements, including share and per share amounts, do not give effect to the IPO.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The interim condensed balance sheet as of September 30, 2014, and the statements of operations and comprehensive loss, and cash flows for the nine months ended September 30, 2014 and 2013 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect, in the opinion of management, all adjustments of a normal and recurring nature that are necessary for the fair presentation of the Company's condensed financial statements included in this report. The financial data and the other information disclosed in these notes to the financial statements related to the nine-month periods are also unaudited. The results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other future annual or interim period. The balance sheet as of December 31, 2013 included herein was derived from the audited financial statements as of that date. These financial statements should be read in conjunction with the Company's audited financial statements included in the prospectus dated October 1, 2014 that forms a part of the Company's Registration Statement on Form S-1, filed with the SEC pursuant to Rule 424 promulgated under the Securities Act of 1933, as amended.

Use of Estimates

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). 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 and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to clinical trial accrued liabilities, fair value of common stock, income taxes, and stock-based compensation. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions that management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time from the date of purchase to be cash equivalents. Cash equivalents consist primarily of amounts invested in money market accounts.

Accrued Research and Development Costs

The Company records accrued liabilities for estimated costs of research and development activities conducted by third-party service providers, which include the conduct of preclinical and clinical studies, and contract manufacturing activities. The Company records the estimated costs of research and development activities based upon the estimated amount of services provided but not yet invoiced, and include these costs in accrued liabilities in the balance sheets and within research and development expense in the statements of operations and comprehensive loss. These costs are a significant component of the Company’s research and development expenses. The Company accrues for these costs based on factors such as estimates of the work completed and in accordance with agreements established with its third-party service providers under the service agreements. The Company makes significant judgments and estimates in determining the accrued liabilities balance in each reporting period. As actual costs become known, the Company adjusts its accrued liabilities. The Company has not experienced any material differences between accrued costs and actual costs incurred. However, the status and timing of actual services performed, number of patients enrolled, and the rate of patient enrollments may vary from the Company’s estimates, resulting in adjustments to expense in future periods. Changes in these estimates that result in material changes to the Company’s accruals could materially affect the Company’s results of operations.

Deferred Offering Costs

Deferred offering costs, consisting primarily of legal, accounting, printer and filing fees related to the initial public offering are capitalized. The deferred offering costs will be offset against proceeds from the initial public offering upon completion of the offering in October 2014. As of September 30, 2014, $2.6 million of deferred offering costs were capitalized, which are included in other assets in the accompanying condensed balance sheets. No amounts were deferred as of December 31, 2013.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period without consideration of common stock equivalents. Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive.

Reclassification

Certain reclassifications have been made to prior period amounts to conform to current period presentation. These reclassifications did not have an impact on the Company’s results of operations or financial condition as of September 30, 2014 and December 31, 2013.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation. ASU 2014-10 simplifies the accounting guidance by removing all incremental financial reporting requirements for development stage entities. The amendments related to the elimination of the inception-to-date information and other disclosure requirement of Topic 915 should be applied retrospectively, and are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company early adopted this guidance and accordingly, there is no inception to date information presented in these financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, companies will have reduced diversity in the timing and content of footnote disclosures than under today's guidance. ASU 2014-15 is effective for the Company in the first quarter of 2016 with early adoption permitted. Management is currently assessing the impact the adoption of ASU 2014-15 will have on the financial statements.

3. Fair Value Measurements

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Financial instruments include cash and cash equivalents, accounts payable and accrued liabilities that approximate fair value due to their relatively short maturities. Assets and liabilities recorded at fair value on a recurring basis in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 – Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3 – Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The Company’s financial instruments consist only of Level 1 assets, which are highly liquid money market funds. At September 30, 2014 and December 31, 2013, the Company had $46,000 and $116,000 in money market funds that are included in restricted cash on the balance sheets.

4. Balance Sheet Components

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Accrued bonus and payroll expenses	$ 1,081	$ 934
Accrued professional and consulting services	1,149	127
Accrued clinical expenses	677	-
Other	336	133
Total accrued liabilities	$ 3,243	$ 1,194

5. Convertible Preferred Stock

In July 2014, the Company issued 1,902,583 shares of Series D convertible preferred stock at a price of $8.41 per share, with the same provisions of previously issued Series D convertible preferred stock. Aggregate net proceeds were approximately $16.0 million.

6. Stock Based Compensation

Equity Compensation Plans

On September 18, 2014, the Company's board of directors, and on September 19, 2014, the Company's stockholders, approved the 2014 Equity Incentive Plan (the "2014 Plan") which became effective in October 2014, at which time the 2010 Equity Incentive Plan was terminated. The 2014 Plan provides for the grant of stock options, other forms of equity compensation, and performance cash awards. The maximum number of shares of common stock that may be issued under the 2014 Plan is 971,340. In addition, the number of shares of common stock reserved for issuance under the 2014 Plan will automatically increase on January 1 of each year, beginning on January 1, 2015 and ending on and including January 1, 2024, by 4% of the total number of shares of the Company's capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by the Company's board of directors.

On September 18, 2014, the Company’s board of directors, and on September 19,2014, the Company’s stockholders, approved the 2014 Employee Stock Purchase Plan (the “ESPP”) which became effective in October 2014. The initial number of shares of common stock that may be issued under the ESPP is 189,883 shares and the number of shares reserved for the ESPP will increase automatically each year, beginning on January 1, 2015 and continuing through and including January 1, 2024, by the lesser of (1) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year; (2) 250,000 shares of common stock; or (3) such lesser number as determined by the Company’s board of directors.

A summary of stock option activity under the 2010 Equity Incentive Plan is as follows (in thousands, except share data and contractual term amounts):

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Value Intrinsic
Outstanding — December 31, 2013	864,829	$ 1.80		$ 769
Options granted	547,160	$ 5.05		
Options exercised	(155,436)	$ 1.60		
Options canceled	(47,950)	$ 1.54		
Outstanding — September 30, 2014	1,208,603	$ 3.31	9.19	$ 8,567
Exercisable — September 30, 2014	108,178	$ 2.05	8.43	$ 913