

Karyopharm Therapeutics Inc.
Form 10-Q
November 10, 2014
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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, 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: 001-36167

Karyopharm Therapeutics Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-3931704
(I.R.S. Employer
Identification Number)

85 Wells Avenue, 2nd Floor

Newton, MA
(Address of principal executive offices)

02459
(Zip Code)

(617) 658-0600

(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 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
(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

As of November 4, 2014 there were 32,700,563 shares of Common Stock, \$0.0001 par value per share, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited).****Karyopharm Therapeutics Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)****(in thousands, except share and per share amounts)**

| | September 30, 2014 | December 31, 2013 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 227,131 | \$ 155,974 |
| Prepaid expenses and other current assets | 4,215 | 1,982 |
| Total current assets | 231,346 | 157,956 |
| Property and equipment, net | 2,734 | 240 |
| Other assets | 675 | 30 |
| Restricted cash | 400 | |
| Total assets | \$ 235,155 | \$ 158,226 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,102 | \$ 1,740 |
| Accrued expenses | 3,649 | 1,168 |
| Deferred revenue | 14 | 79 |
| Deferred rent | 142 | |
| Other current liabilities | 327 | 305 |
| Total current liabilities | 6,234 | 3,292 |
| Deferred rent | 1,117 | |
| Total liabilities | 7,351 | 3,292 |
| Stockholders equity | | |
| Convertible preferred stock, \$0.0001 par value; 5,000,000 shares authorized; none issued and outstanding | | |
| Common stock, \$0.0001 par value; 100,000,000 shares authorized; 32,614,387 and 29,587,258 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively | 3 | 3 |
| Additional paid-in capital | 340,219 | 217,500 |

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| | | | | |
|--|----|-----------|----|----------|
| Accumulated deficit | | (112,418) | | (62,569) |
| Total stockholders' equity | | 227,804 | | 154,934 |
| Total liabilities and stockholders' equity | \$ | 235,155 | \$ | 158,226 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Karyopharm Therapeutics Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(unaudited)****(in thousands, except share and per share amounts)**

| | Three Months ended, September 30, | | Nine Months ended September 30, | |
|---|--|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Contract and grant revenue | \$ 21 | \$ | \$ 214 | \$ 366 |
| Operating expenses: | | | | |
| Research and development | 15,951 | 7,738 | 40,089 | 18,763 |
| General and administrative | 3,814 | 1,583 | 10,028 | 3,405 |
| Total operating expenses | 19,765 | 9,321 | 50,117 | 22,168 |
| Loss from operations | (19,744) | (9,321) | (49,903) | (21,802) |
| Interest income | 20 | | 54 | 1 |
| Net loss | \$ (19,724) | \$ (9,321) | \$ (49,849) | \$ (21,801) |
| Net loss per share applicable to common stockholders basic and diluted | \$ (0.61) | \$ (3.66) | \$ (1.63) | \$ (9.11) |
| Weighted-average number of common shares outstanding used in net loss per share applicable to common stockholders basic and diluted | 32,558,646 | 2,544,587 | 30,619,074 | 2,392,589 |
| Comprehensive loss | \$ (19,724) | \$ (9,321) | \$ (49,849) | \$ (21,801) |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Karyopharm Therapeutics Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(in thousands)**

| | Nine Months ended September 30, | |
|---|--|-------------|
| | 2014 | 2013 |
| Operating activities | | |
| Net loss | \$ (49,849) | \$ (21,801) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 191 | 106 |
| Noncash consulting expense | | 88 |
| Loss on disposal of fixed assets | 50 | |
| Stock-based compensation expense | 9,649 | 1,769 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (2,233) | (95) |
| Other non-current assets | (645) | (2,042) |
| Accounts payable | 362 | 673 |
| Accrued expenses and other liabilities | 2,601 | 1,156 |
| Deferred revenue | (65) | (66) |
| Deferred rent | 1,259 | |
| Net cash used in operating activities | (38,680) | (20,212) |
| Investing activities | | |
| Purchases of property and equipment | (2,735) | (25) |
| Increase in restricted cash | (400) | |
| Net cash used in investing activities | (3,135) | (25) |
| Financing activities | | |
| Proceeds from the issuance of common stock, net of issuance costs | 112,837 | 340 |
| Proceeds from the exercise of stock options | 135 | |
| Proceeds from sale of convertible preferred stock, net of issuance costs | | 72,434 |
| Net cash provided by financing activities | 112,972 | 72,774 |
| Net increase in cash and cash equivalents | 71,157 | 52,537 |
| Cash and cash equivalents at beginning of period | 155,974 | 391 |
| Cash and cash equivalents at end of period | \$ 227,131 | \$ 52,928 |
| Supplemental disclosure of non-cash financing activity | | |
| Issuance of preferred stock in satisfaction of preferred stock subscription | \$ | \$ 13,980 |

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share and per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Karyopharm Therapeutics Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. Additionally, operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2014. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission (SEC) on March 21, 2014.

Basis of Consolidation

The consolidated financial statements at September 30, 2014 include the accounts of Karyopharm Therapeutics Inc. (a Delaware corporation), the accounts of Karyopharm Securities Corp. (KPSC, a wholly-owned Massachusetts corporation of the Company incorporated in December 2013), and the accounts of Karyopharm Europe GmbH (a wholly-owned German Limited Liability Company, incorporated in September 2014). At December 31, 2013, the consolidated financial statements also included the accounts of NPM Pharma Inc. (NPM, a wholly-owned Canadian corporation of the Company). As of March 31, 2014, NPM transferred its remaining assets and liabilities to Karyopharm Therapeutics Inc. Following the transfer, NPM was dissolved. The dissolution of NPM had no effect on the consolidated financial statements.

Subsequent Events

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The Company has completed an evaluation of all subsequent events through the date of the filing of this Quarterly Report on Form 10-Q, and has determined that no events or transactions require recognition or disclosure.

2. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition and most industry-specific guidance. The new standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The Company has not determined yet the potential effects of the adoption of this standard on its consolidated financial position, results of operations or cash flows.

On June 10, 2014, the FASB issued ASU 2014-10, which simplifies financial reporting for development stage entities by eliminating requirements specific to development stage entities. As a result, entities in a development stage will no longer need to present inception-to-date information about income statement line items, cash flows, and equity transactions. Instead, the new guidance clarifies how these entities should tailor existing disclosures to explain the risks and uncertainties related to their activities. This update is effective for annual periods beginning after December 15, 2014, and early application is permitted for any annual or interim period for which the entity's financial statements have not yet been issued. The Company adopted this guidance prior to issuing the interim financial statements for the three and six months ended June 30, 2014. The adoption of ASU 2014-10 impacted disclosure only and did not have any impact on the Company's financial position or results of operations.

The Company did not adopt any new accounting pronouncements during the nine months ended September 30, 2014 that had an effect on the Company's condensed consolidated financial statements, except for the adoption of ASU2014-10 discussed above.

3. 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 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:

| | |
|----------------|--|
| Level 1 inputs | Quoted prices in active markets for identical assets or liabilities |
| Level 2 inputs | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly |
| Level 3 inputs | Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability |

The Company's cash equivalents are comprised of money market funds. The Company measures these investments at fair value. The fair value of cash equivalents is determined based on Level 1 inputs. The following table presents information about the Company's financial assets that have been measured at fair value at September 30, 2014 and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands):

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| Description | Total | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|------------|--|---|--|
| Financial assets | | | | |
| Money Market Funds, included in cash equivalents | \$ 219,067 | \$ 219,067 | \$ | \$ |

The following table presents information about the Company's financial assets that have been measured at fair value at December 31, 2013 and indicates the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands):

| Description | Total | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|------------|--|---|--|
| Financial assets | | | | |
| Money Market Funds, included in cash equivalents | \$ 155,765 | \$ 155,765 | \$ | \$ |

4. Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

| | Estimated Useful Life Years | September 30, 2014 | December 31, 2013 |
|--|--|-----------------------|----------------------|
| Laboratory equipment | 4 | \$ 434 | \$ 328 |
| Furniture and fixtures | 5 | 60 | 98 |
| Office and computer equipment | 3 | 173 | 85 |
| Leasehold improvements | Lesser of useful life or lease term | 2,430 | 79 |
| | | 3,097 | 590 |
| Less accumulated depreciation and amortization | | (363) | (350) |
| | | \$ 2,734 | \$ 240 |

5. Accrued Expenses

Accrued expenses consist of the following (in thousands):

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| | September 30, 2014 | | December 31, 2013 | |
|------------------------------------|-----------------------|-------|----------------------|-------|
| Research and development costs | \$ | 1,660 | \$ | 698 |
| Payroll and employee-related costs | | 1,228 | | 100 |
| Professional fees | | 167 | | 215 |
| Other | | 594 | | 155 |
| | \$ | 3,649 | \$ | 1,168 |

6. Net Loss Per Share

Basic and diluted net loss per common share is calculated by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. The Company's potentially dilutive shares, which include convertible preferred stock, outstanding stock options and unvested restricted stock are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

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The following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect at September 30, 2014 and 2013:

| | September 30, | |
|-----------------------------|---------------|------------|
| | 2014 | 2013 |
| Convertible preferred stock | | 19,114,241 |
| Outstanding stock options | 2,942,927 | 1,775,593 |
| Unvested restricted stock | 78,015 | 224,019 |

7. Stock-based Compensation

During 2010, the Company established the 2010 Stock Incentive Plan (the "2010 Plan"). In October 2013, the Company adopted the 2013 Stock Incentive Plan (the "2013 Plan"). The 2013 Plan became effective upon the closing of the Company's initial public offering ("IPO") in November 2013. The 2013 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock-based awards. Upon effectiveness of the IPO, the number of shares of common stock that were reserved under the 2013 Plan was the sum of 969,696 shares plus 198,372, the number of shares available under the 2010 Plan. The number of shares reserved under the 2013 Plan is increased by the number of shares of common stock (up to a maximum of 2,126,377 shares) subject to outstanding awards under the 2010 Plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company. The 2013 Plan also includes an "evergreen provision" that allows for an annual increase in the number of shares of common stock available for issuance under the 2013 Plan. The annual increase will be added on the first day of each year beginning in 2014 and each subsequent anniversary until the expiration of the 2013 Plan, and is equal to the lowest of: (i) 1,939,393 shares of common stock, (ii) 4.0% of the number of shares of common stock outstanding and (iii) an amount determined by the board of directors. On January 1, 2014, the shares available under the 2013 Plan increased by 1,190,149 shares of common stock. No additional awards may be granted under the 2010 Plan.

Restricted stock

A summary of the Company's unvested restricted stock as of September 30, 2014 and changes during the nine months ended September 30, 2014 is as follows:

| | Shares | Weighted- average purchase price per share | |
|-----------------------------------|---------|---|------|
| Unvested at December 31, 2013 | 9,943 | \$ | 0.26 |
| Vested | (4,261) | | 0.26 |
| Unvested at September 30, 2014(1) | 5,682 | \$ | 0.26 |

(1) Excludes 72,333 shares of unvested restricted stock remaining from the early exercise of stock options.

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As of September 30, 2014, there was \$199 of total unrecognized stock-based compensation expense related to unvested restricted stock. The expense is expected to be recognized over a weighted average period of 0.9 years.

Stock options