

Global Blood Therapeutics, Inc.

Form 10-Q

August 02, 2018

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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 June 30, 2018

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: 001-37539

Global Blood Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
27-4825712
(I.R.S. Employer
Identification No.)
171 Oyster Point Boulevard, Suite 300
South San Francisco, CA 94080
(Address of principal executive offices)
(650) 741-7700
(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, smaller reporting company, or an 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

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

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.

As of July 30, 2018, there were 52,053,294 shares of the registrant's Common Stock, par value \$0.001 per share, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBAL BLOOD THERAPEUTICS, INC.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share amounts)**

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 342,103	\$ 198,332
Short-term marketable securities	120,381	116,493
Prepaid expenses and other current assets	7,051	9,487
Total current assets	469,535	324,312
Property and equipment, net	17,097	16,571
Long-term marketable securities	51,487	14,607
Restricted cash	906	1,046
Other assets, noncurrent	213	184
Total assets	\$ 539,238	\$ 356,720
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,429	\$ 7,177
Accrued liabilities	10,628	10,135
Accrued compensation	6,240	8,579
Other liabilities, current	990	373
Total current liabilities	21,287	26,264
Other liabilities, noncurrent	11,398	11,652
Total liabilities	32,685	37,916
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized as of June 30, 2018 and December 31, 2017; no shares issued and outstanding		
Common stock, \$0.001 par value, 150,000,000 shares authorized as of June 30, 2018 (unaudited) and December 31, 2017, respectively; 51,867,094 and 46,131,723 shares issued and outstanding as of June 30,	52	46

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2018 (unaudited) and December 31, 2017, respectively

Additional paid-in capital	886,624	617,051
Accumulated other comprehensive loss	(242)	(336)
Accumulated deficit	(379,881)	(297,957)
Total stockholders' equity	506,553	318,804
Total liabilities and stockholders' equity	\$ 539,238	\$ 356,720

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**GLOBAL BLOOD THERAPEUTICS, INC.****Condensed Consolidated Statements of Operations and Comprehensive Loss****(Unaudited)****(In thousands, except share and per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	\$ 31,573	\$ 18,278	\$ 61,517	\$ 35,561
General and administrative	10,914	6,152	23,665	12,590
Total operating expenses	42,487	24,430	85,182	48,151
Loss from operations	(42,487)	(24,430)	(85,182)	(48,151)
Other income (expense):				
Interest income, net	2,115	689	3,287	1,130
Other income (expenses), net	4	(142)	(29)	(194)
Total other income, net	2,119	547	3,258	936
Net loss	(40,368)	(23,883)	(81,924)	(47,215)
Other comprehensive loss:				
Net unrealized gain (loss) on marketable securities, net of tax	82	(89)	94	(102)
Comprehensive loss	\$ (40,286)	\$ (23,972)	\$ (81,830)	\$ (47,317)
Basic and diluted net loss per common share	\$ (0.78)	\$ (0.55)	\$ (1.65)	\$ (1.15)
Weighted-average number of shares used in computing basic and diluted net loss per common share	51,742,904	43,063,996	49,767,633	41,112,266

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**GLOBAL BLOOD THERAPEUTICS, INC.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (81,924)	\$ (47,215)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,342	608
Amortization of premium on marketable securities	107	380
Stock-based compensation	15,584	5,234
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,419)	(2,550)
Accounts payable	(3,717)	623
Accrued liabilities	1,894	1,375
Accrued compensation	(2,339)	(475)
Other liabilities	572	(33)
Net cash used in operating activities	(70,900)	(42,053)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,300)	(575)
Purchase of marketable securities	(112,558)	(124,861)
Maturities of marketable securities	76,778	32,785
Net cash used in investing activities	(39,080)	(92,651)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock in public offering, net	255,119	135,625
Proceeds from issuance of common stock in settlement of employee stock purchase plan and exercise of stock options	3,896	1,654
Tax paid related to net shares settlement of equity awards	(5,404)	
Net cash provided by financing activities	253,611	137,279
Net increase in cash, cash equivalents and restricted cash	143,631	2,575
Cash, cash equivalents and restricted cash at beginning of period	199,378	92,212
Cash, cash equivalents and restricted cash at end of period	\$ 343,009	\$ 94,787

**SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND
FINANCING INFORMATION:**

Accrued purchase of property and equipment	\$	(1,401)	\$	30
Leasehold improvements paid for by landlord	\$		\$	2,897

See accompanying notes to unaudited condensed consolidated financial statements.

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GLOBAL BLOOD THERAPEUTICS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Global Blood Therapeutics, Inc. (the Company, we, us, and our) was incorporated in Delaware in February 2011 and commenced operations in May 2012. We are a clinical-stage biopharmaceutical company determined to discover, develop and deliver innovative treatments that provide hope to underserved patient communities. Our primary activities have been establishing our facilities, recruiting personnel, conducting development of our product candidates, including clinical trials, and raising capital. Our principal operations are based in South San Francisco, California, and we operate in one segment.

Follow-on Offerings

In December 2017, we completed a follow-on offering and issued 2,631,579 shares of common stock at a price of \$38.00 per share with proceeds of \$96.4 million net of underwriting costs and commissions, and offering expenses. In addition, in January 2018, we sold an additional 394,736 shares of our common stock directly to the underwriters when they exercised their over-allotment option at the price of \$38.00 per share for proceeds of \$14.6 million net of underwriting costs and commissions.

In March 2018, we completed a follow-on offering and issued an aggregate of 4,600,000 shares of our common stock at a price of \$54.00 per share, including 600,000 shares of our common stock sold directly to the underwriters when they exercised their over-allotment option at the price of \$54.00 per share. We received total proceeds of \$240.6 million from the offering, net of underwriting discounts and commissions, and offering expenses.

Need for Additional Capital

In the course of our development activities, we have sustained operating losses and we expect such losses to continue over the next several years. Our ultimate success depends on the outcome of our research and development activities. Since inception through June 30, 2018, we have incurred cumulative net losses of \$379.9 million. We expect to incur additional losses in the future to conduct product research and development and we recognize the need to raise additional capital to fully implement our business plan. We intend to raise such capital through the issuance of additional equity, and potentially through borrowings, and strategic alliances with partner companies. However, if such financing is not available at adequate levels, we will need to re-evaluate our operating plans. We believe that our existing cash and cash equivalents and marketable securities will be sufficient to fund our cash requirements for at least the next twelve months.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2017 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for

complete financial statements. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other interim period or for any other future year.

The accompanying unaudited interim condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K, filed with the SEC on February 27, 2018.

Use of Estimates

The preparation of the accompanying unaudited interim condensed consolidated financial statements in accordance with U.S. GAAP requires us 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 condensed consolidated financial statements, and the reported amounts of costs and expenses during the reporting period. We base our estimates and assumptions on historical experience when available and on various factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results could differ from these estimates under different assumptions or conditions.

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Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Significant Accounting Policies

There have been no material revisions in our significant accounting policies described in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The new standard provides guidance on eight specific cash flow classification issues. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We adopted ASU No. 2016-15 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*. The new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. We adopted ASU No. 2016-18 in the first quarter of 2018 using a retrospective transition method to each period presented. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718)*, which is intended to clarify and reduce the diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation – Stock Compensation, to a change to the terms or conditions of a share-based payment award. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted ASU No. 2017-09 in the first quarter of 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-04, *Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*. The amendment of ASU No. 2018-03 adds, amends and supersedes variance paragraphs that contain SEC guidance in ASC 320, *Investments-Debt Securities* and ASC 980, *Regulated Operations*. The amendments in this update were effective upon issuance in March 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendment of ASU No. 2018-05 adds various paragraphs that contain SEC guidance in ASC 740, *Income Taxes* and SEC Staff Accounting Bulletin No. 118. The amendments in this update were effective upon issuance in March 2018. The adoption of this new standard did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*, which is intended to improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting. Under the new standard, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when conditions necessary to earn the right to benefit from the instruments have been satisfied. These equity-classified non-employee share-based payment awards are measured at the grant date. Consistent with the accounting for employee share-based payment awards, an entity considers the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions. The new standard also eliminates the requirement to reassess classification of such awards upon vesting. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We early adopted ASU No. 2018-07 effective January 1, 2018. The early adoption of this new standard did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or

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on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. In January 2018, the FASB issued a proposed amendment to ASU 842 that would provide an entity the optional transition method to initially account for the impact of the adoption with a cumulative adjustment to accumulated deficit on the effective date of the ASU, January 1, 2019 rather than January 1, 2017, which would eliminate the need to restate amounts presented prior to January 1, 2019. ASU 842 provides practical expedients that allow entities to not (i) reassess whether any expired or existing contracts are considered or contain leases; (ii) reassess the lease classification for any expired or existing leases; and (iii) reassess initial direct costs for any existing leases. We are in the process of analyzing initial data gathered to evaluate the impact of adopting the ASU on its consolidated financial statements and the related systems required to capture the increased reporting and disclosures associated with the ASU. We plan to adopt the standard on January 1, 2019 and expect to elect the use of practical expedients. If the proposed amendment to ASU 842 is adopted, we plan to elect the transition method for adoption as described above.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendment of ASU No. 2018-02 states an entity may elect to reclassify the income tax effects of the Tax Cuts and Jobs Act of 2017 (the Tax Cuts and Jobs Act) on items within accumulated other comprehensive income to retained earnings. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. We believe that the adoption of this new standard will have no material impact on our consolidated financial position or results of operations and have not elected to early adopt the amendment.

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 consolidated financial statements on a recurring basis (at least annually). Our financial instruments consist of cash and cash equivalents, marketable securities, other receivables as included in prepaid expenses and other current assets, restricted cash, accounts payable and accrued liabilities. Cash and cash equivalents, marketable securities and restricted cash are reported at their respective fair values on our condensed consolidated balance sheets. The remaining financial instruments are reported on our condensed consolidated balance sheets at cost that approximate current fair values due to their relatively short maturities.

Assets and liabilities recorded at fair value on a recurring basis in the condensed consolidated 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 following table summarizes our financial assets measured at fair value on a recurring basis (in thousands):

		June 30, 2018		
	Total	Level 1	Level 2	Level 3
Financial Assets:				
Money market funds	\$ 337,159	\$ 337,159	\$	\$
Corporate debt securities	51,429		51,429	
U.S. government agency securities	47,344		47,344	
Certificates of deposits	5,966		5,966	
U.S. government securities	67,129			