

Otonomy, Inc.
Form 10-Q
November 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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

.. **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- 36591

Otonomy, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

26-2590070
(I.R.S. Employer
Identification Number)

6275 Nancy Ridge Drive, Suite 100

San Diego, California 92121

(858) 242-5200

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

The number of shares of the registrant's common stock, par value \$0.001, outstanding as of November 4, 2014 was 21,173,270.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Otonomy, Inc.****Condensed Balance Sheets**

(in thousands, except share and per share data)

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash	\$ 165,155	\$ 37,284
Restricted cash		75
Prepaid and other current assets	2,177	1,654
Total current assets	167,332	39,013
Property and equipment, net	952	683
Other long-term assets	41	61
Total assets	\$ 168,325	\$ 39,757
Liabilities, Convertible Preferred Stock and Stockholders Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,748	\$ 2,014
Accrued expenses	2,486	384
Accrued compensation	1,254	244
Current portion of deferred rent	83	73
Total current liabilities	5,571	2,715
Convertible preferred stock warrant liability		646
Deferred rent, net of current portion	156	220
Total liabilities	5,727	3,581
Commitments and Contingencies		
Convertible preferred stock, \$0.001 par value; 0 and 9,519,809 shares authorized at September 30, 2014 and December 31, 2013, respectively		
Series A convertible preferred stock, 0 and 404,671 shares designated at September 30, 2014 and December 31, 2013, respectively; 0 and 339,863 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively; \$0 and \$2,987 liquidation preference at September 30, 2014 and December 31, 2013, respectively		10,561
Series B convertible preferred stock, 0 and 1,708,076 shares designated at September 30, 2014 and December 31, 2013, respectively; 0 and 1,708,076 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively; \$0 and \$15,014 liquidation preference at September 30, 2014 and December 31, 2013, respectively		23,007
Series C convertible preferred stock, 0 and 7,407,062 shares designated at September 30, 2014 and December 31, 2013, respectively; 0 and 7,040,026 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively; \$0 and \$92,823 liquidation preference at September 30, 2014 and December 31, 2013, respectively		61,585
Stockholders equity (deficit):		

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Preferred stock, \$0.001 par value; 10,000,000 and 0 shares authorized at September 30, 2014 and December 31, 2013, respectively; no shares issued or outstanding at September 30, 2014 and December 31, 2013			
Common stock, \$0.001 par value; 200,000,000 and 11,851,717 shares authorized at September 30, 2014 and December 31, 2013, respectively; 21,172,221 and 75,325 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		21	
Additional paid-in capital		255,252	580
Accumulated deficit		(92,675)	(59,557)
Total stockholders' equity (deficit)		162,598	(58,977)
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	\$	168,325	\$ 39,757

See accompanying notes.

Table of Contents**Otonomy, Inc.****Condensed Statements of Operations and Comprehensive Loss**

(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(unaudited)			
Operating expenses:				
Research and development	\$ 7,361	\$ 3,548	\$ 24,616	\$ 9,698
General and administrative	2,040	807	5,169	2,284
Total operating expenses	9,401	4,355	29,785	11,982
Loss from operations	(9,401)	(4,355)	(29,785)	(11,982)
Other (expense) income:				
Interest expense	(31)	(1,478)	(39)	(2,524)
Change in fair value of convertible preferred stock warrant liability	(2,632)	189	(3,300)	2,713
Other income (expense), net	33	(3)	41	(9)
Total other (expense) income	(2,630)	(1,292)	(3,298)	180
Net loss and comprehensive loss	(12,031)	(5,647)	(33,083)	(11,802)
Accretion to redemption value of convertible preferred stock	(7)	(130)	(35)	(526)
Net loss attributable to common stockholders	\$ (12,038)	\$ (5,777)	\$ (33,118)	\$ (12,328)
Net loss per share attributable to common stockholders, basic and diluted	\$ (1.23)	\$ (76.69)	\$ (9.83)	\$ (165.29)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	9,823,690	75,325	3,369,437	74,585

See accompanying notes.

Table of Contents**Otonomy, Inc.****Condensed Statements of Cash Flows****(in thousands)**

	Nine Months Ended September 30,	
	2014	2013
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (33,083)	\$ (11,802)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	152	194
Stock-based compensation	895	125
Non-cash interest expense	39	2,524
Change in fair value of convertible preferred stock warrant liability	3,300	(2,713)
Deferred rent	(54)	(9)
Changes in operating assets and liabilities:		
Prepaid and other assets	(542)	(74)
Accounts payable	(814)	(249)
Accrued expenses	2,076	450
Accrued compensation	1,010	413
Net cash used in operating activities	(27,021)	(11,141)
Cash flows from investing activities:		
Decrease in restricted cash	75	
Purchases of property and equipment	(402)	(445)
Net cash used in investing activities	(327)	(445)
Cash flows from financing activities:		
Proceeds from convertible notes payable		7,009
Proceeds from issuance of convertible preferred stock, net of issuance costs	49,239	22,641
Proceeds from issuance of common stock in initial public offering, net of fees	104,681	
Proceeds from exercise of stock options, net of early exercise liability	98	5
Proceeds from exercise of preferred stock warrants	1,201	
Net cash provided by financing activities	155,219	29,655
Net change in cash	127,871	18,069
Cash at beginning of period	37,284	4,663
Cash at end of period	\$ 165,155	\$ 22,732
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of property and equipment in accounts payable and accrued expenses	\$ 19	\$ 7
Conversion of convertible notes payable and accrued interest into convertible preferred stock	\$	\$ 15,982
Deferred initial public offering costs in accounts payable and accrued expenses	\$ 555	\$

See accompanying notes.

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Otonomy, Inc.

Notes to Condensed Financial Statements

(unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Otonomy, Inc. (the Company) was incorporated in the state of Delaware on May 6, 2008. The Company is a clinical-stage biopharmaceutical company focused on the development and commercialization of innovative therapeutics for the treatment of diseases and disorders of the ear. The Company's proprietary technology is designed to deliver drug that is retained in the ear for an extended period of time following a single local administration. Utilizing this technology, the Company has advanced three product candidates into development. AuriPro™ is a sustained-exposure formulation of the antibiotic ciprofloxacin for which the Company has recently completed two Phase 3 clinical trials in pediatric patients with middle ear effusion at the time of tympanostomy tube placement surgery. OTO-104 is a sustained-exposure formulation of the steroid dexamethasone that is in a Phase 2b clinical trial for the treatment of patients with Ménière's disease. OTO-311 is a sustained-exposure formulation of the N-methyl-D-aspartate (NMDA) receptor antagonist gacyclidine in preclinical development as a potential treatment for tinnitus.

Initial Public Offering

In August 2014, the Company completed its initial public offering (the IPO) of 7,187,500 shares of common stock, which includes the exercise in full by the underwriters of their option to purchase up to 937,500 shares of common stock, at an offering price of \$16.00 per share. Proceeds from the IPO were approximately \$104.1 million, net of underwriting discounts and commissions and offering-related transaction costs incurred, which included \$0.6 million of offering-related transaction costs incurred but not yet paid as of September 30, 2014. In connection with the IPO: (i) the Company's outstanding shares of convertible preferred stock were automatically converted into 13,619,569 shares of common stock, (ii) the warrants exercisable for Series A convertible preferred stock were automatically converted into warrants exercisable for 142,113 shares of common stock and (iii) the warrants exercisable for Series C convertible preferred stock were exercised and such shares were automatically converted into 228,902 shares of common stock.

Reverse Stock Split

On July 31, 2014, the Company filed an amendment to its amended and restated certificate of incorporation, affecting a one-for-35.16 reverse stock split of its outstanding common and convertible preferred stock, which was approved by the Company's board of directors on July&nb