

Theravance Biopharma, Inc.
Form 10-Q
August 14, 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 June 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: 001-36033

THERAVANCE BIOPHARMA, INC.

(Exact Name of Registrant as Specified in its Charter)

Cayman Islands
(State or Other Jurisdiction of
Incorporation or Organization)

Not Applicable
(I.R.S. Employer
Identification No.)

PO Box 309
Ugland House, South Church Street
George Town, Grand Cayman, Cayman Islands
(Address of Principal Executive Offices)

KY1-1104
(Zip Code)

(650) 808-6000

(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 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. (Check one):

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

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As of July 31, 2014, the number of the registrant's outstanding ordinary shares was 32,233,105.

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THERAVANCE BIOPHARMA, INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THERAVANCE BIOPHARMA, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	June 30, 2014 (Unaudited)	December 31, 2013 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 268,199	\$
Short-term investments	80,997	
Accounts receivable, net of allowances of \$306 and \$89 at June 30, 2014 and December 31, 2013	90	199
Receivables from collaborative arrangements	2	934
Receivable from Theravance, Inc.	15,243	
Prepaid and other current assets	3,446	2,567
Inventories	14,756	10,406
Total current assets	382,733	14,106
Marketable securities	38,231	
Restricted cash		833
Property and equipment, net	9,624	10,238
Total assets	\$ 430,588	\$ 25,177
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,499	\$ 6,940
Accrued personnel-related expenses	6,482	9,870
Accrued clinical and development expenses	13,869	9,714
Other accrued liabilities	4,538	2,122
Deferred revenue, current	5,723	8,207
Total current liabilities	40,111	36,853
Deferred rent	4,989	4,774
Deferred revenue, non-current	729	585
Commitments and contingencies (Notes 3,7 and 9)		
Shareholders' Equity and Parent Company Deficit (Note 1):		
Preferred shares, \$0.00001 par value: 230 shares authorized, no shares issued or outstanding at June 30, 2014		
Ordinary shares, \$0.00001 par value: 200,000 shares authorized at June 30, 2014; 32,260 shares issued and outstanding at June 30, 2014		
Additional paid-in capital	405,221	
Accumulated other comprehensive income	70	
Accumulated deficit	(20,532)	

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Parent company deficit				(17,035)
Total shareholders' equity and parent company deficit		384,759		(17,035)
Total liabilities, shareholders' equity and parent company deficit		\$ 430,588	\$ 25,177	

See accompanying notes to condensed consolidated financial statements.

Table of Contents**THERAVANCE BIOPHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Product sales	\$ 861	\$	\$ 1,806	\$
Revenue from collaboration agreements	2,113	5	2,113	27
Total revenue	2,974	5	3,919	27
Costs and expenses:				
Cost of goods sold	279		467	
Research and development	46,283	30,400	88,006	55,808
Selling, general and administrative	13,118	8,557	32,170	15,345
Total costs and expenses	59,680	38,957	120,643	71,153
Loss from operations	(56,706)	(38,952)	(116,724)	(71,126)
Other income (expense), net	214		214	
Loss before income taxes	(56,492)	(38,952)	(116,510)	(71,126)
Provision for income taxes	(1,723)		(1,723)	
Net loss	\$ (58,215)	\$ (38,952)	\$ (118,233)	\$ (71,126)
Net loss per share:				
Basic and diluted net loss per share	\$ (1.83)	\$ (1.23)	\$ (3.72)	\$ (2.24)
Shares used to compute basic and diluted net loss per share	31,768	31,768	31,768	31,768

See accompanying notes to condensed consolidated financial statements.

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THERAVANCE BIOPHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	\$ (58,215)	\$ (38,952)	\$ (118,233)	\$ (71,126)
Other comprehensive income:				
Net unrealized gain on available-for-sale securities	20		20	
Comprehensive loss	\$ (58,195)	\$ (38,952)	\$ (118,213)	\$ (71,126)

See accompanying notes to condensed consolidated financial statements.

Table of Contents**THERAVANCE BIOPHARMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In thousands)

	Six Months Ended	
	June 30,	
	2014	2013
Operating activities		
Net loss	\$ (118,233)	\$ (71,126)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,418	1,402
Share-based compensation	19,464	11,723
Changes in operating assets and liabilities:		
Accounts receivable	109	
Receivables from collaborative arrangements	932	(955)
Receivable from Theravance, Inc.	449	
Prepaid and other current assets	(1,043)	35
Inventories	(4,359)	(2,533)
Accounts payable	2,412	811
Accrued personnel-related expenses, accrued clinical and development expenses, and other accrued liabilities	4,737	1,419
Deferred rent expense	215	(376)
Deferred revenue	(2,340)	6,764
Net cash used in operating activities	(96,239)	(52,836)
Investing activities		
Purchases of property and equipment	(1,881)	(1,431)
Purchases of available-for-sale securities	(9,981)	
Maturities of available-for-sale securities	5,783	
Payments received on notes receivable		100
Net cash used in investing activities	(6,079)	(1,331)
Financing activities		
Cash and cash equivalents contributed from Theravance, Inc. (Note 10)	277,541	
Transfers from Theravance, Inc.	92,976	54,167
Net cash provided by financing activities	370,517	54,167
Net increase in cash and cash equivalents	268,199	
Cash and cash equivalents at beginning of period		
Cash and cash equivalents at end of period	\$ 268,199	\$
Supplemental disclosure of noncash information		
Contribution of net assets, excluding cash and cash equivalents, from Theravance, Inc. (Note 10)	\$ 125,337	\$

See accompanying notes to condensed consolidated financial statements.

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THERAVANCE BIOPHARMA, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Operations and Summary of Significant Accounting Policies

Description of Operations

Theravance Biopharma, Inc. (Theravance Biopharma, the Company, or we and other similar pronouns) is a biopharmaceutical company with a pipeline of internally discovered product candidates, strategic collaborations with pharmaceutical companies and an approved product. Theravance Biopharma is focused on the discovery, development and commercialization of small molecule medicines across a number of therapeutic areas including respiratory disease, bacterial infections, central nervous system (CNS)/pain, and gastrointestinal (GI) motility dysfunction. We also have an economic interest in future payments that may be made by Glaxo Group Limited (which we refer to, together with its affiliates, as GSK) under agreements with Theravance, Inc. (Theravance), relating to certain drug programs, including FF/UMEC/VI and the MABA program, as monotherapy with GSK961081 (081) and as a combination (081/FF).

On June 1, 2014, Theravance separated its late-stage respiratory assets partnered with GSK from its biopharmaceutical operations (the Spin-Off) by transferring its discovery, development and commercialization operations (the Biopharmaceutical Business) and contributing \$393.0 million of cash, cash equivalents and marketable securities into its then wholly-owned subsidiary Theravance Biopharma. Prior to June 2, 2014, Theravance was the parent for the Biopharmaceutical Business. In connection with the Spin-Off, on June 2, 2014 Theravance made a pro rata dividend distribution to its stockholders of record on May 15, 2014 of one ordinary share of Theravance Biopharma for every three and one half shares of Theravance common stock outstanding on the record date. The Spin-Off resulted in Theravance Biopharma operating as an independent, publicly-traded company.

The Spin-Off was effected pursuant to a Separation and Distribution Agreement between Theravance and Theravance Biopharma (the Separation and Distribution Agreement), which provides, among other things, for the principal corporate transactions required to effect the Spin-Off and certain other agreements governing Theravance's relationship with Theravance Biopharma after the Spin-Off. These agreements are discussed further in Note 11.

Basis of Presentation

The condensed consolidated financial information as of June 30, 2014, and the three months and six months ended June 30, 2014 and 2013 are unaudited but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for a fair presentation of the financial position at such date and of the operating results and cash flows for those periods, and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated December 31, 2013 financial statements and notes thereto included in the information

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statement filed as an exhibit to our Registration Statement on Form 10 filed with the Securities and Exchange Commission (SEC) on May 7, 2014.

The accompanying unaudited condensed consolidated financial statements have been prepared using Theravance's historical cost basis of the assets and liabilities of the various activities that comprised the Biopharmaceutical Business of Theravance and reflect the consolidated results of operations, financial condition and cash flows of Theravance Biopharma as a wholly-owned subsidiary of Theravance prior to the Spin-Off on June 1, 2014. The various assets, liabilities, revenues and expenses associated with Theravance have been allocated to the historical condensed consolidated financial statements of Theravance Biopharma in a manner consistent with the Separation and Distribution Agreement, discussed in Note 11. Changes in parent company deficit represent Theravance's net investment in Theravance Biopharma, after giving effect to Theravance Biopharma's net loss, parent company expense allocations, and net cash transfers to and from Theravance.

For purposes of preparing the unaudited condensed consolidated financial statements, the Biopharmaceutical Business was derived from Theravance's historical consolidated financial statements, allocations of revenues, research and development (R&D) expenses, and non-operating income and expenses to Theravance Biopharma were made on a specific identification basis. For purposes of allocating general and administrative expenses from Theravance's historical condensed consolidated financial statements, costs directly related to the Biopharmaceutical Business were allocated to Theravance Biopharma on a specific identification basis or based on the estimated underlying effort. Theravance Biopharma's general and administrative expenses also include allocations of Theravance's general corporate overhead expenses, including finance, legal, human resources, information technology and other administrative functions. These allocations of general corporate overhead expenses were primarily based on the estimated underlying effort or an estimated number of full-time employees that worked with the Biopharmaceutical Business. The condensed consolidated balance sheets of Theravance Biopharma include assets and liabilities that were allocated to Theravance Biopharma principally on a specific identification basis.

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Management believes that the condensed consolidated statements of operations and comprehensive loss include a reasonable allocation of costs incurred by Theravance which benefited Theravance Biopharma. However, such expenses may not be indicative of the actual level of expense that would have been incurred by Theravance Biopharma if it had operated as an independent, publicly traded company or of the costs expected to be incurred in the future. As such, the financial information herein may not necessarily reflect the financial position, results of operations, and cash flows of Theravance Biopharma in the future or what it would have been had Theravance Biopharma been an independent, publicly traded company during the periods presented.

As Theravance Biopharma was a wholly-owned subsidiary of Theravance until June 2, 2014, no separate cash accounts for the Biopharmaceutical Business were historically maintained prior to the Spin-Off and, therefore, Theravance is presumed to have funded Theravance Biopharma's operating, investing and financing activities as necessary. For purposes of the historical condensed consolidated financial statements prior to the Spin-Off, funding of Theravance Biopharma's expenditures is reflected in the condensed consolidated financial statements as a component of parent company investment. In connection with the assets transfer and Spin-Off discussed above, Theravance contributed to Theravance Biopharma cash, cash equivalents and marketable securities of \$393.0 million.

We describe the Biopharmaceutical Business transferred to us by Theravance in connection with the Spin-Off as though the Biopharmaceutical Business were our business for all historical periods described. However, Theravance Biopharma did not conduct any operations prior to the Spin-Off.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Theravance Biopharma and its wholly owned subsidiaries, all of which are denominated in U.S. dollars. All intercompany balances and transactions have been eliminated in consolidation.