

Evoke Pharma Inc
Form 10-Q
November 13, 2013

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, 2013

OR

TRANSITION REPORT UNDER SECTION 13 OF 15(d) OR THE EXCHANGE ACT OF 1934
Commission File Number 001-36075

EVOKE PHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-8447886

(State or other jurisdiction
of incorporation)

(IRS Employer

Identification No.)

12555 High Bluff Drive, Suite 385, San Diego, CA

92130

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (760) 487-1255

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 October 31, 2013 there were 6,096,752 shares of common stock of the issuer outstanding.

EVOKE PHARMA, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Evoke Pharma, Inc.****(A Development Stage Company)****Condensed Balance Sheets**

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,738,053	\$ 116,013
Total current assets	23,738,053	116,013
Total assets	\$ 23,738,053	\$ 116,013
Liabilities, convertible preferred stock and stockholders equity (deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,176,226	\$ 96,798
Accrued compensation	390,981	417,611
Warrant liability		56,000
Current portion of long-term debt, net of debt discount	1,069,802	
Total current liabilities	2,637,009	570,409
Long-term debt, net of current portion	1,878,436	979,792
Total liabilities	4,515,445	1,550,201
Commitments and contingencies		
Series A convertible preferred stock, \$0.0001 par value; authorized shares 0 at September 30, 2013 and 12,245,068 at December 31, 2012; issued and outstanding shares 0 at September 30, 2013 and 12,195,068 at December 31, 2012		18,225,166
Stockholders equity (deficit):		
Preferred stock, \$0.0001 par value; authorized shares 5,000,000 at September 30, 2013 and 0 at December 31, 2012; issued and outstanding shares 0 at September 30, 2013 and December 31, 2012		
Common stock, \$0.0001 par value; authorized shares 50,000,000 at September 30, 2013 and 20,000,000 at December 31, 2012; issued and outstanding shares 5,781,752 at September 30, 2013 and 1,242,750 at December 31, 2012	578	124
Additional paid-in capital	40,296,800	195,525
Deficit accumulated during the development stage	(21,074,770)	(19,855,003)

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Total stockholders equity (deficit)	19,222,608	(19,659,354)
Total liabilities, convertible preferred stock and stockholders equity (deficit)	\$ 23,738,053	\$ 116,013

See accompanying notes to unaudited condensed financial statements.

Evoke Pharma, Inc.**(A Development Stage Company)****Condensed Statements of Operations and Comprehensive Loss****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,		Period From January 29, 2007 (inception) to September 30, 2013
	2013	2012	2013	2012	
Operating expenses:					
Research and development	\$ 78,731	\$ 337,003	\$ 320,558	\$ 847,298	\$ 16,312,087
General and administrative	406,862	140,746	700,489	493,210	4,005,022
Purchase of in-process research and development					650,000
Total operating expenses	485,593	477,749	1,021,047	1,340,508	20,967,109
Loss from operations	(485,593)	(477,749)	(1,021,047)	(1,340,508)	(20,967,109)
Other income (expense)					
Interest income	629	466	2,850	1,401	216,702
Interest expense	(39,940)	(10,521)	(119,570)	(10,521)	(325,512)
Change in fair value of preferred stock purchase right					(188,587)
Change in fair value of warrant liability	39,000	1,550	(82,000)	4,550	(54,264)
Grant income					244,000
Total other income (expense)	(311)	(8,505)	(198,720)	(4,570)	(107,661)
Net loss and comprehensive loss	\$ (485,904)	\$ (486,254)	\$ (1,219,767)	\$ (1,345,078)	\$ (21,074,770)
Net loss per common share, basic and diluted	\$ (0.41)	\$ (0.43)	\$ (1.06)	\$ (1.20)	
Weighted-average shares used to compute basic and diluted net loss per share	1,190,212	1,125,875	1,153,751	1,122,125	

See accompanying notes to unaudited condensed financial statements.

Evoke Pharma, Inc.**(A Development Stage Company)****Condensed Statements of Cash Flows****(Unaudited)**

	Nine Months Ended September 30,		Period From
	2013	2012	January 29, 2007
			(inception) to
			September 30,
			2013
Operating activities			
Net loss	\$ (1,219,767)	\$ (1,345,078)	\$ (21,074,770)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	13,881	9,378	103,592
Non-cash interest	17,446	2,021	123,512
Change in fair value of purchase right liability			188,587
Change in fair value of warrant liability	82,000	(4,550)	54,264
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		39,459	
Accounts payable and accrued expenses	(44,562)	201,666	469,847
Net cash used in operating activities	(1,151,002)	(1,097,104)	(20,134,968)
Financing activities			
Proceeds from convertible promissory note			250,000
Proceeds from bank line of credit and loan advances	2,000,000	1,000,000	5,500,000
Payment on bank line of credit			(2,500,000)
Proceeds from issuance of common stock	25,200,000		25,204,580
Cash paid in connection with initial public offering	(2,426,958)		(2,426,958)
Proceeds from issuance of preferred stock and purchase rights, net			17,744,041
Proceeds from exercise of stock options			101,358
Net cash provided by financing activities	24,773,042	1,000,000	43,873,021
Net change in cash and cash equivalents	23,622,040	(97,104)	23,738,053
Cash and cash equivalents at beginning of the period	116,013	865,876	
Cash and cash equivalents at end of the period	\$ 23,738,053	\$ 768,772	\$ 23,738,053
Supplemental disclosures of cash flow information			
Interest paid	\$ 94,750	\$ 4,750	\$ 194,626

Supplemental disclosures of noncash financing information

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Conversion of convertible promissory note and accrued interest to Series A Convertible Preferred Stock	\$		\$		\$	292,538
Issuance of Series A Convertible Preferred Stock warrants	\$	49,000	\$	24,250	\$	108,486

See accompanying notes to unaudited condensed financial statements.

Evoke Pharma, Inc.

(A Development Stage Company)

Notes to Condensed Financial Statements

(Unaudited)

1. Organization and Basis of Presentation

Evoke Pharma, Inc. (the Company) was incorporated in the state of Delaware on January 29, 2007 (inception). The Company is a specialty pharmaceutical company focused primarily on the development of drugs to treat gastroenterological disorders and disease.

As of September 30, 2013, the Company has devoted substantially all of its efforts to product development, raising capital and building infrastructure, and has not realized revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

Reverse Stock Split

On August 30, 2013, the Company filed an amendment to its amended and restated certificate of incorporation, effecting a one-for-five reverse stock split of the Company's issued and outstanding shares of common stock. All issued and outstanding common stock and per share amounts contained in the Company's financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

Unaudited Interim Financial Information

The accompanying interim condensed financial statements are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and following the requirements of the U.S. Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. In management's opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position and its results of operations and comprehensive loss and its cash flows for periods presented. These statements do not include all disclosures required by GAAP and should be read in conjunction with the Company's financial statements and accompanying notes for the fiscal year ended December 31, 2012, which is contained in the Company's final prospectus filed by the Company with the SEC on September 25, 2013 relating to the Company's Registration Statement on Form S-1/A (File No. 333-188838) for the Company's initial public offering (IPO). The results for interim periods are not necessarily indicative of the results expected for the full fiscal year or any other interim period.

Use of Estimates

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 at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Initial Public Offering and Related Transactions

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On September 30, 2013, the Company completed its IPO whereby it sold 2,100,000 shares of common stock at a price of \$12.00 per share. Net proceeds from the IPO were determined as follows:

Gross proceeds (excluding over-allotment)	\$ 25,200,000
Underwriting discounts and commissions and non-accountable expense allowance	(2,080,275)
Total offering costs (excluding value of warrants granted to underwriter of \$470,000)	(1,444,043)
Net proceeds	\$ 21,675,682

Additionally, upon the closing of the IPO, certain transactions occurred based on a successful completion of the IPO:

the conversion of all outstanding shares of convertible preferred stock into 2,439,002 shares of the Company's common stock;

retention bonuses in the amount of \$355,000 became payable to the Company's executive officers. Such amount will be recorded as expense on a straight-line basis from May 22, 2013 (the date of the retention agreements entered into with the executive officers) through December 24, 2013, the date at which the final payment is due based on continued employment. Since the terms of the payment required the occurrence of either a change in control of the Company, or an equity financing, neither of which are considered probable to occur until they happen, a catch-up expense of \$202,857 was recorded at the time of the Company's IPO. Should the executive officers voluntarily terminate their employment or are terminated by the Company for cause, the executive would forfeit any portion of the retention payment that has not been paid to them;

the issuance of warrants to purchase 84,000 shares of the Company's common stock to the representative of the underwriters of the Company's IPO and certain of its affiliates. The warrants will become exercisable at a price of \$21.00 per share beginning on September 24, 2014 and will expire on September 24, 2018. The \$470,000 initial fair value of the warrants was determined using the Black-Scholes option pricing model and recorded as a cost of the Company's IPO and charged to additional paid-in capital;

The fair value of the issued warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

Assumed risk-free interest rate	1.44%
Assumed volatility	71%
Expected warrant life	5 years
Expected dividend yield	0.0%

the conversion of warrants to purchase 110,000 shares of convertible preferred stock into warrants to purchase 22,000 shares of the Company's common stock and the resultant reclassification of the \$187,000 warrant liability to additional paid-in capital; and

the filing of an amended and restated certificate of incorporation to authorize 50,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock.

In addition to the above, the following benefit plans became effective in connection with the Company's IPO:

2013 Equity Incentive Award Plan

The 2013 Equity Incentive Award Plan (2013 Plan) became effective on the day prior to the public trading date of our common stock. Under the 2013 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units and other awards to individuals who are then employees, officers, non-employee directors or consultants of the Company or its subsidiaries. A total of 510,000 shares of common stock were initially reserved for issuance under the 2013 Plan. In addition, the number of shares of common stock available for issuance under the

2013 Plan will be annually increased on the first day of each fiscal year during the term of the 2013 Plan, beginning with the 2014 fiscal year, by an amount equal to the least of: (i) 300,000 shares; (ii) four percent of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year; or (iii) such other amount as the Company's board of directors may determine.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (ESPP) became effective on the day prior to the public trading date of our common stock. The ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation. A total of 30,000 shares of common stock were initially reserved for issuance under the ESPP. In addition, the number of shares of common stock available for issuance under the ESPP will be annually increased on the first day of each fiscal year during the term of the ESPP, beginning with the 2014 fiscal year, by an amount equal to the least of: (i) 30,000 shares; (ii) one percent of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year; or (iii) such other amount as the Company's board of directors may determine.

On October 3, 2013, the underwriters for the Company's IPO exercised their over-allotment option to purchase an additional 315,000 shares of the Company's common stock at \$12.00 per share. The over-allotment exercise is expected to result in estimated net proceeds to the Company of \$3,440,400, after deducting \$264,600 of underwriting discounts and commissions and an estimated \$75,000 of additional offering costs.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard became effective for the Company beginning in the first quarter of 2013, and its adoption did not have any impact on the Company's financial statements.

2. Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents and adjusted for the weighted-average number of common shares outstanding that are subject to repurchase. The Company has excluded 101,875, 116,875, 105,625 and 120,625 weighted-average shares subject to repurchase from the weighted-average number of common shares outstanding for the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, respectively. Diluted net loss per share is calculated by dividing the net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. Dilutive common stock equivalents are comprised of convertible preferred stock, warrants for the purchase of convertible preferred stock, warrants for the purchase of common stock, and options outstanding under the Company's equity incentive plans. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

The following table summarizes the weighted-average anti-dilutive securities excluded from the calculation of diluted net loss per share (in common stock equivalent shares):

	Three and Nine Months Ended September 30,	
	2013	2012
Convertible preferred stock outstanding		2,439,002
Warrants for convertible preferred stock		14,000
Warrants for common stock	106,000	
Common stock options	231,250	123,250
	337,250	2,576,252

3. Fair Value Measurements

The following tables present information about the Company's financial liabilities measured at fair value on a recurring basis, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. As a basis for categorizing inputs, the Company uses a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value from market based assumptions to entity specific assumptions:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company's Level 3 financial liabilities consist of warrant liabilities related to warrants to purchase preferred stock. All warrants are being measured at fair value utilizing the Black-Scholes option pricing model.

The fair value of the outstanding preferred stock warrants at December 31, 2012 was estimated using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2012	
Assumed risk-free interest rate	0.25	1.78%
Assumed volatility		80%
Expected warrant life	2.08	9.50 years
Expected dividend yield		0.0%

The warrant liability was adjusted to its fair value of \$187,000 prior to the closing of the Company's IPO on September 30, 2013. As a result of the IPO, all of the Company's outstanding preferred stock warrants became exercisable for common stock, are no longer required to be recorded as liabilities, and were reclassified to additional paid-in capital as of September 30, 2013. As such, there are no remaining liabilities measured at fair value on a recurring basis as of September 30, 2013.

Liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows: