Aldeyra Therapeutics, Inc.
Form 10-Q
May 14, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

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: 001-36332

ALDEYRA THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1968197**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
131 Hartwell Avenue, Suite 320 Lexington, MA	**02421**
(Address of principal executive offices)	**(Zip Code)**

(781) 761-4904

(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 x 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 x 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 x

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

As of May 13, 2015, there were 9,590,021 shares of the registrant s common stock issued and outstanding.

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Aldeyra Therapeutics, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2015

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Part I FINANCIAL INFORMATION

Item 1. Condensed Financial Statements (Unaudited)

ALDEYRA THERAPEUTICS, INC.

BALANCE SHEETS (Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,721,097	$ 8,527,304
Prepaid expenses and other current assets	177,074	232,568
Total current assets	15,898,171	8,759,872
Deferred offering costs	20,000	14,238
Fixed assets, net	13,182	12,993
Total assets	$ 15,931,353	$ 8,787,103
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 406,145	$ 341,294
Accrued expenses	436,157	908,724
Current portion of credit facility	193,866	77,546
Total current liabilities	1,036,168	1,327,564
Credit facility, net of current portion and debt discount	1,068,515	1,175,481
Total liabilities	2,104,683	2,503,045
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, $0.001 par value, 15,000,000 shares authorized, none issued and outstanding as of March 31, 2015 and December 31, 2014		
Common stock, voting, $0.001 par value; 150,000,000 authorized and 6,890,021 shares issued and outstanding as of March 31, 2015 and 5,565,415 shares issued and outstanding as of December 31, 2014	6,890	5,565
Additional paid-in capital	62,467,936	52,790,090
Accumulated deficit	(48,648,156)	(46,511,597)
Total stockholders equity	13,826,670	6,284,058

Total liabilities and stockholders equity	$ 15,931,353	$ 8,787,103

The accompanying notes are an integral part of these unaudited financial statements.

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ALDEYRA THERAPEUTICS, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating expenses:		
Research and development	$ 1,136,434	$ 444,278
General and administrative	972,101	800,646
Loss from operations	(2,108,535)	(1,244,924)
Other income (expense):		
Change in fair value of preferred stock warrant liabilities		1,759,915
Interest income		3
Interest expense	(28,024)	(113,221)
Total other income, net	(28,024)	1,646,697
Net (loss) income and comprehensive (loss) income	(2,136,559)	401,773
Accretion of preferred stock		(191,568)
Allocation of undistributed earnings to preferred stockholders		(223,442)
Net loss attributable to common stockholders	$ (2,136,559)	$ (13,237)
Net loss per share attributable to common stockholders:		
Basic	$ (0.32)	$ (0.04)
Diluted	$ (0.32)	$ (4.04)
Weighted average common shares outstanding:		
Basic	6,667,519	327,365
Diluted	6,667,519	438,975

The accompanying notes are an integral part of these unaudited financial statements.

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ALDEYRA THERAPEUTICS, INC.

STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)

	Common Voting Stock		Stockholders Equity		
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2014	5,565,415	$ 5,565	$ 52,790,090	$ (46,511,597)	$ 6,284,058
Stock-based compensation			640,073		640,073
Issuance of common stock, net of issuance costs	1,324,606	1,325	9,037,773		9,039,098
Net loss				(2,136,559)	(2,136,559)
Balance, March 31, 2015	6,890,021	$ 6,890	$ 62,467,936	$ (48,648,156)	$ 13,826,670

The accompanying notes are an integral part of these unaudited financial statements.

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ALDEYRA THERAPEUTICS, INC.

STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (2,136,559)	$ 401,773
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	640,073	365,686
Amortization of debt discount non-cash interest expense	9,354	87,980
Change in fair value of warrant liability, purchase rights and warrant purchase rights		(1,759,915)
Depreciation	1,252	
Change in operating assets and liabilities:		
(Increase) decrease		
Prepaid expenses and other current assets	55,494	(1,329)
Accounts payable	64,851	(175,892)
Accrued interest on convertible notes related parties		2,607
Accrued expenses	(478,329)	15,198
Net cash used in operating activities	(1,843,864)	(1,063,892)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(1,441)	
Net cash used in investing activities	(1,441)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of issuance costs	9,039,098	
Cash paid for deferred offering costs		(52,841)
Net cash provided by (used in) financing activities	9,039,098	(52,841)
NET INCREASE IN CASH	7,193,793	(1,116,733)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,527,304	3,262,354
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,721,097	$ 2,145,621
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 18,320	$ 22,682

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accretion of redeemable convertible preferred stock	$		$	191,568
Deferred offering costs not yet paid	$	20,000	$	209,896

The accompanying notes are an integral part of these unaudited financial statements.

ALDEYRA THERAPEUTICS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF BUSINESS

Aldeyra Therapeutics, Inc. (the Company or Aldeyra) was incorporated in the state of Delaware. The Company is developing a treatment for diseases thought to be related to high levels of free aldehydes, naturally occurring pro-inflammatory toxins.

The Company s principal activities to date include raising capital and research and development activities.

2. BASIS OF PRESENTATION

The accompanying interim unaudited condensed financial statements and related disclosures are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company s financial statements and related footnotes for the year ended December 31, 2014 included in the Company s Annual Report on Form 10 -K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission on March 23, 2015. The financial information as of March 31, 2015, the three months ended March 31, 2015 and 2014 is unaudited, but in the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation of the financial position, results of operations and cash flows at the dates and for the periods presented of the results of these interim periods have been included. The balance sheet data as of December 31, 2014 was derived from audited financial statements. The results of the Company s operations for any interim period are not necessarily indicative of the results that may be expected for any other interim period or for a full fiscal year.

On January 14, 2015, the Company sold, in a private placement, an aggregate of approximately 1.1 million shares of common stock at a price of $7.00 per share. Investors received warrants to purchase up to approximately 1.1 million shares of common stock at an exercise price of $9.50. The warrants will expire 3 years from the date of issuance. The warrants do not include a net-exercise feature. The warrants may be redeemed by the Company at a price of $0.001 per share upon notice to the holders in the event that the closing bid for Aldeyra s common stock for each of the fifteen consecutive trading days prior to such redemption is at least $20.00 per share and the average trading volume of Aldeyra s common stock during such period is 50,000 shares per day. Following Aldeyra s notification to the warrant holders of its exercise of the redemption right under the warrants, each warrant holder will have the option to exercise their warrants prior to the redemption date rather than having them redeemed. The Company raised approximately $7.1 million in net proceeds in the private placement of common stock and warrants.

On January 21, 2015, in a subsequent private placement, the Company sold an aggregate of 211,528 shares of common stock at a price of $9.33 per share and a warrant to purchase up to 211,528 shares of common stock at a price of $0.125 per share subject to the warrant. The exercise price of the warrant is $9.50 per share. The warrant will expire 3 years from the date of issuance. The warrant does not include a net-exercise feature. The warrant may be redeemed by the Company at a price of $0.001 per share upon notice to the holder thereof in the event that the closing bid for Aldeyra s common stock for each of the fifteen consecutive trading days prior to such redemption is at least $20.00 per share and the average trading volume of Aldeyra s common stock during such period is at least 50,000 shares per day.

Following Aldeyra s notification to the warrant holder of its exercise of the redemption right under the warrant, the warrant holder will have the option to exercise the warrant prior to the redemption date rather than having it redeemed. The Company raised approximately $2.0 million in net proceeds in the private placement of common stock and a warrant to purchase common stock.

In addition, the Company raised $18.8 million, after deducting underwriting discounts and commissions and other offering expenses, on May 13, 2015, through the issuance and sale of 2,700,000 shares of common stock in a follow-on public offering.

The Company s management believes that its currently available resources, including funds obtained from the May 2015 follow-on public offering and amounts potentially available under its credit facility Note 5, will provide sufficient funds to enable the Company to meet its expected obligations through approximately the end of 2017 based on the Company s current business plan. However, these amounts will not be sufficient for the Company to commercialize its product candidates or conduct any substantial, additional development requirements requested by the FDA. Additional funding may not be available to the Company on acceptable terms, or at all. If the Company is unable to secure additional capital, or meet financial covenants that could be implemented under the Company s term loans in certain circumstances, it will be required to significantly decrease the amount of planned expenditures, and may be required to cease operations.

Curtailment of operations would cause significant delays in the Company s efforts to introduce its products to market, which is critical to the realization of its business plan and the future operations of the Company.

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Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS

Net loss attributable to common stockholders

The following table summarizes the computation of basic and diluted net loss per share attributable to common stockholders of the Company:

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Basic		
Net (loss) income and comprehensive (loss) income	$ (2,136,559)	$ 401,773
Accretion of preferred stock		(191,568)
Allocation of undistributed earnings to preferred stockholders		(223,442)
Net loss attributable to common stockholders basic	$ (2,136,559)	$ (13,237)
Diluted		
Net loss attributable to common stockholders basic	(2,136,559)	(13,237)
Less: change in fair value of derivative liabilities		(1,759,915)
Net loss available to common stockholders diluted	$ (2,136,559)	$ (1,773,152)
Denominator:		
Basic		
Weighted-average number of common shares basic	6,667,519	327,365
Diluted		
Weighted-average number of common shares basic	6,667,519	327,365
Warrants to purchase preferred stock (treasury stock)		111,610
Total weighted average number of common shares diluted	6,667,519	438,975
Net loss per share:		
Basic	$ (0.32)	$ (0.04)
Diluted	$ (0.32)	$ (4.04)

The following potentially dilutive securities outstanding, prior to use of the treasury stock method or if-converted method, have been excluded from the computation of diluted weighted-average shares outstanding, because such securities had an antidilutive impact:

	Three Months ended March 31,	
	2015	2014
Options to purchase common stock	874,032	609,842
Preferred Stock		303,567
Convertible note payable-related parties		3,810
Warrants to purchase common stock	1,384,608	
Total of common stock equivalents	2,258,640	917,219

For the three months ended March 31, 2014, the Company corrected on a prospective basis its calculation of weighted average common shares on a diluted basis from what the Company had disclosed previously for the same period. The prospective modification reflects a change to the Stock options (treasury stock) from 4,851 shares to no shares which also resulted in a change to the diluted net loss per share from ($4.00) to ($4.04).

4. FAIR VALUE MEASUREMENTS

As of March 31, 2015 and December 31, 2014, the carrying amounts of cash and cash equivalents, prepaid expenses and other current assets, and accounts payable approximated their estimated fair values because of the short term nature of these financial instruments. The carrying value of the Company s credit facility in current and long-term liabilities approximates fair value because the Company s interest rate yield is near current market rates available to the Company.

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Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are performed in a manner to maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 Quoted prices in active markets that are accessible at the market date for identical unrestricted assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no assets or liabilities measured at fair value at March 31, 2015 or December 31, 2014.

5. CREDIT FACILITY

In April 2012, the Company entered into a loan and security agreement (the Credit Facility) with Square 1 Bank (Square 1) which was amended in November 2013, November 2014 and March 18, 2015. Pursuant to the amended Credit Facility, Square 1 agreed to make term loans in a principal amount of up to $5,000,000 available to the Company with proceeds to be used first to refinance outstanding loans from Square 1, second to fund expenses related to the Company s clinical trials, and the remainder for general working capital purposes. The term loans are to be made available to the Company upon the following terms: (i) $2,000,000 was made available in November 2014; and (ii) $3,000,000 (the Tranche B Loan) is to be made available to the Company following the satisfaction of certain conditions, including receipt of positive phase 2 data in either Sjögren-Larsson Syndrome (SLS) or noninfectious anterior uveitis. As of March 31, 2015, $1,395,833 was outstanding under the Credit Facility. Each term loan accrues interest from its date of issue at a variable annual interest rate equal to the greater of 2.0% plus prime or 5.25% per annum. Any term loan made is payable as interest-only prior to November 2015 and thereafter is payable in monthly installments of principal plus accrued interest over 36 months. The Credit Facility is collateralized by the Company s assets, including its intellectual property.

At March 31, 2015, the Credit Facility is shown net of a remaining debt discount of $133,453 which is being amortized using the effective interest method through the current maturity date of the Credit Facility, November 2018.

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6. INCOME TAXES

No provision for federal taxes has been recorded as the Company has incurred losses since inception for tax purposes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

In assessing the realizability of net deferred taxes in accordance with ASC 740, *Income Taxes*, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the weight of available evidence, primarily the incurrence of net losses since inception and anticipated net losses in the near future, the Company does not consider it more likely than not that some or all of the net deferred taxes will be realized. Accordingly, a 100% valuation allowance has been applied against net deferred taxes.

Under the provisions of the Internal Revenue Code, certain substantial changes in the Company s ownership may result in a limitation on the amount of net operating loss carryforwards which can be used in future years.

All tax years are open for examination by the taxing authorities for both federal and state purposes.

The Company accounts for uncertain tax positions pursuant to ASC 740 which prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. If the tax position meets this thr