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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 March 31, 2021

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: 001-36225

KINDRED BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**46-1160142**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

1555 Bayshore Highway, Suite 200
Burlingame, California 94010
(Address of principal executive offices) (Zip code)
Registrant's telephone number: (650) 701-7901

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.0001 par value	KIN	The NASDAQ Stock Market LLC
Preferred Stock Purchase Rights	KIN	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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. ☐

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 April 30, 2021, Kindred Biosciences, Inc. had outstanding 45,273,504 shares of common stock, $0.0001 par value.

Kindred Biosciences, Inc.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Kindred Biosciences, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	March 31, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,911	$ 11,620
Short-term investments	50,240	46,758
Accounts, royalty and license receivable	2,337	624
Other receivables	10,378	—
Inventories	—	207
Prepaid expenses and other	3,225	3,415
Total current assets	79,091	62,624
Property and equipment, net	27,451	28,204
Long-term investments	158	1,500
Operating lease right-of-use assets	3,225	3,428
Other assets	54	58
Total assets	$ 109,979	$ 95,814
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 353	$ 145
Accrued compensation	1,372	2,070
Accrued liabilities	1,168	2,745
Current portion of operating lease liabilities	844	825
Current portion of loan payable	2,815	1,111
Total current liabilities	6,552	6,896
Long-term liabilities:		
Long-term operating lease liabilities	2,716	2,934
Long-term loan payable, net of debt discount	16,926	18,502
Total liabilities	26,194	28,332
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.0001 par value; 100,000,000 shares authorized; 44,707,614 and 39,492,134 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	4	4
Additional paid-in capital	338,374	312,321
Accumulated other comprehensive income	2	12
Accumulated deficit	(254,595)	(244,855)
Total stockholders' equity	83,785	67,482
Total liabilities and stockholders' equity	$ 109,979	$ 95,814

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

Kindred Biosciences, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share amounts)
(Unaudited)

	Three months ended March 31,	
	2021	**2020**
Revenues:		
Net product revenues	$ 227	$ 603
Partner royalty revenue	326	—
Contract manufacturing revenue	1,842	—
Total revenues	2,395	603
Operating costs and expenses:		
Cost of product revenues [(1)]	207	3,577
Contract manufacturing costs	383	—
Research and development	6,287	8,867
Selling, general and administrative	4,684	8,873
Restructuring costs	—	1,676
Total operating costs and expenses	11,561	22,993
Loss from operations	(9,166)	(22,390)
Interest and other expense, net	(574)	(371)
Net loss	(9,740)	(22,761)
Change in unrealized gains or losses on available-for-sale securities	(10)	(9)
Comprehensive loss	$ (9,750)	$ (22,770)
Net loss per share, basic and diluted	$ (0.24)	$ (0.58)
Weighted-average number of common shares outstanding, basic and diluted	41,089	39,186

(1) Includes $3,494 Finished Goods write-off in the first quarter of 2020 related to the Dechra Asset Purchase Agreement, consistent with the transition to proprietary Dechra branding and regulatory best practices related to label transitions on asset divestitures.

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

Kindred Biosciences, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2021	**2020**
Cash Flows from Operating Activities		
Net loss	$ (9,740)	$ (22,761)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,496	2,064
Depreciation and amortization expense	1,202	1,053
Amortization of discount on marketable securities	73	(109)
Amortization of debt discount of loan payable	128	85
Finished goods write off related to Dechra asset purchase [(1)]	—	3,494
Changes in operating assets and liabilities:		
Accounts receivable	(1,713)	679
Inventories	207	(100)
Prepaid expenses and other	194	(1,398)
Accounts payable	163	1,558
Accrued liabilities and accrued compensation	(2,415)	(1,677)
Net cash used in operating activities	(9,405)	(17,112)
Cash Flows from Investing Activities		
Purchases of investments	(18,469)	(16,720)
Maturities of investments	16,246	33,769
Purchases of property and equipment	(260)	(1,418)
Net cash (used in) provided by investing activities	(2,483)	15,631
Cash Flows from Financing Activities		
Exercises of stock options	21	124
Payment of restricted stock tax liability on net settlement	(507)	(669)
Net proceeds from sale of common stock	13,665	—
Net cash provided by (used in) financing activities	13,179	(545)
Net change in cash and cash equivalents	1,291	(2,026)
Cash and cash equivalents at beginning of period	11,620	15,986
Cash and cash equivalents at end of period	$ 12,911	$ 13,960

(1) Includes $3,494 Finished Goods write-off in the first quarter of 2020 related to the Dechra Asset Purchase Agreement, due to the transition to proprietary Dechra branding on asset divestitures.

Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 39	$ 1,224
Proceeds due from sale of common stock	$ 10,378	$ —

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

Kindred Biosciences, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Kindred Biosciences, Inc. ("KindredBio", "we", "us" or "our") was incorporated on September 25, 2012 (inception) in the State of Delaware. On April 25, 2016, we filed a Certificate of Incorporation with the State of Delaware for a wholly owned subsidiary, KindredBio Equine, Inc. ("KindredBio Equine"). KindredBio Equine has one class of capital stock which is designated common stock, $0.0001 par value per share. The authorized number of shares of common stock for KindredBio Equine is 1,000. On February 1, 2019, we filed a Certificate of Incorporation with the State of Delaware for a wholly owned subsidiary, Centaur Biopharmaceutical Services, Inc. ("Centaur Biopharmaceutical Services"). Centaur Biopharmaceutical Services has one class of capital stock which is designated common stock, $0.0001 par value per share. The authorized number of shares of common stock for Centaur Biopharmaceutical Services is 1,000.

We are a commercial-stage biopharmaceutical company focused on saving and improving the lives of pets. Our activities since inception have consisted principally of raising capital, establishing facilities, recruiting management and technical staff and performing research and development and advancing our product candidates seeking regulatory approval. Our headquarters are located in Burlingame, California.

Our first product, Mirataz® (mirtazapine transdermal ointment) was approved in May 2018 and became commercially available to veterinarians in the United States in July 2018. In November 2019, our second product, Zimeta™ (dipyrone injection) for the control of fever in horses was approved by the FDA and became commercially available in December 2019. In addition, we have multiple other product candidates, predominantly biologics, in various stages of development. We believe there are significant unmet medical needs for pets, and that the pet therapeutics segment of the animal health industry is likely to grow substantially as new therapeutics are identified, developed and marketed specifically for pets.

In March 2020, we announced a strategic realignment of our business model whereby we plan to rely more on a partnership-based model for commercialization strategy similar to the traditional human biotech commercialization strategy whereby pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales. Our focus is on accelerating our deep pipeline of late-stage biologics candidates in canine and feline markets and to strengthen our strategic position by prioritizing our most attractive late stage programs and substantially reducing our expenses to best position the company for success.

In March 2020, we sold Mirataz to Dechra Limited for a cash purchase price of $43 million. In December 2020, we entered into a Distribution and Licensing Agreement granting Dechra Veterinary Products, LLC, an exclusive license under our Patents and Marketing Authorizations to promote, market, sell and distribute Zimeta in the U.S. and Canadian territories.

In addition, we announced an agreement granting Elanco Animal Health, Inc. ("Elanco") exclusive global rights to KIND-030 in December 2020. Under the terms of the agreement, we received a non-refundable upfront payment of $500,000, and will receive development milestone payments of up to $16 million upon achievement of certain development, regulatory and manufacturing targets, and sales milestones in an aggregate amount of up to $94 million payable throughout the term of the agreement. Furthermore, royalty payments are to range from the low to high teens. The agreement specifies that KindredBio will supply the licensed product to Elanco, and that Elanco will conduct the necessary regulatory activities to achieve approvals in Europe and other key international markets.

We are subject to risks common to companies in the biotechnology and pharmaceutical industries. There can be no assurance that our research and development will be successfully completed, that adequate patent or other intellectual property protection for our technology will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. We operate in an environment of substantial competition from other animal health companies. In addition, we are dependent upon the services of our employees and consultants, as well as third-party contract research organizations and manufacturers.

The December 2019 outbreak of the novel strain of coronavirus (COVID-19) may adversely impact both our ability to obtain sufficient and timely supplies of our products and other product candidates and our revenue from those products. In addition to adversely affecting our ability to obtain sufficient and timely supplies of products and product candidates from

suppliers, any outbreak of contagious diseases, such as the recent novel strain of coronavirus (COVID-19) that is affecting the global community, could adversely affect our business and operations in other ways, many of which cannot currently be determined or quantified. These uncertain factors, including the duration of the outbreak, the severity of the disease and the actions to contain or treat its impact, could impair our operations including, among others, employee mobility and productivity, availability of facilities, conduct of our clinical trials, manufacturing and supply capacity, and availability and productivity of third party service suppliers.

The accompanying unaudited interim condensed consolidated financial statements (“financial statements”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020 included in our annual report on Form 10-K as filed with the SEC on March 16, 2021. In the opinion of management, all adjustments, consisting of a normal and recurring nature, considered necessary for a fair presentation, have been included in these financial statements.

The accompanying financial statements include the accounts of Kindred Biosciences and its wholly owned subsidiaries (the "Company"). All inter-company accounts and transactions have been eliminated in consolidation.

Stock Offerings

On April 8, 2020, we entered into an At Market Offering ("ATM") whereby we may offer and sell shares of our common stock from time to time up to $25 million. Through December 31, 2020, 59,211 shares were sold through the ATM, for total gross proceeds of approximately $298,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $201,000. In January 2021, we sold another 1,456,497 shares, for total gross proceeds of approximately $7,059,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $6,876,000. On January 15, 2021, we entered into an amendment to the ATM. In accordance with the terms of the amended ATM, we may offer and sell shares of our common stock up to $24,366,000. From February 3, 2021 through March 31, 2021, 3,625,470 shares were sold through the amended ATM, for total gross proceeds of approximately $17,620,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $17,167,000. Among them, 2,250,000 shares were sold on March 31, 2021 and settled on April 5, 2021, with gross proceeds of approximately $10,652,000. Net proceeds after deducting underwriting discounts and commissions and offering expense, were approximately $10,378,000, which has been recorded as an other receivable as of March 31, 2021.

Borrowings

On September 30, 2019, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Solar Capital Ltd., to make available to KindredBio an aggregate principal amount of up to $50 million under the Loan Agreement. The Loan Agreement provides for a term loan commitment of $50 million in three tranches: (1) a $20 million term A loan that was funded on September 30, 2019; (2) a $15 million term B loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, no later than December 31, 2020; and (3) a $15 million term C loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, on or before June 30, 2021. Each term loan has a maturity date of September 30, 2024. We elected not to draw down on the $15 million term B loan before the December 31, 2020 deadline. Each term loan bears interest at a floating per annum rate equal to the one-month LIBOR rate (with a floor of 2.17%) plus 6.75%. We are permitted to make interest-only payments on each term loan through October 31, 2021. See Note 6.

On March 16, 2020, we entered into a First Amendment to Loan and Security Agreement (the "First Amendment") with the Lenders in connection with the sale of our Mirataz asset. Among other things, the First Amendment increases the minimum cash amount, as defined in the Loan Agreement, required to be maintained by KindredBio to $10,000,000.

On December 23, 2020, we entered into a Second Amendment to Loan and Security Agreement (the "Second Amendment") with the Lenders in connection with the Zimeta Distribution and license Agreement with Dechra. All other terms and conditions remain the same as the First Amendment.

Liquidity

We have incurred losses and negative cash flows from operations and had an accumulated deficit of $254,595,000 as of March 31, 2021. We expect to continue to incur losses and negative cash flows as we continue our product development activities, seek regulatory approvals for our product candidates, establish a biologics manufacturing capability, and commercialize any approved products. To date, we have been funded primarily through sales of our equity and recently through an asset sale and licensing of our products. We might require additional capital until such time as we can generate operating revenues in excess of operating expenses. We believe that our cash, cash equivalents and investments totaling $63,309,000 as of March 31, 2021, along with the $10,378,000 of net proceeds received on April 5, 2021 from the sale of stock through the ATM, remaining proceeds from the Mirataz sale, and revenues from royalties and contract manufacturing will be sufficient to fund our planned operations through the end of 2023. In addition, our January 15, 2021 ATM facility will provide us with access to additional cash and extend our runway, if required.

If we require additional funding for operations, we may seek such funding through public or private equity or debt financings or other sources, such as corporate collaborations and licensing arrangements. We may not be able to obtain financing on acceptable terms, or at all, and we may not be able to enter into corporate collaborations or licensing arrangements. The terms of any financing may result in dilution or otherwise adversely affect the holdings or the rights of our stockholders.

Revenue Streams

Our revenues consist of revenue from Mirataz and Zimeta associated partner royalties, remaining revenue from the sale of our Mirataz asset, partner licensing revenue and contract manufacturing revenue. While we did record product revenue for Zimeta in the first quarter of 2021, we do not expect to have product revenue going forward.

Product revenue

Our product revenues consist of product revenues resulting from the sales of Mirataz through April 2020 and Zimeta through January 2021. We account for a contract with a customer when there is a legally enforceable contract between us and our customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Our customers could either be distributors who subsequently resell our products to third parties such as veterinarians, clinics or animal hospitals, licensing partners or other third parties.

Revenue from asset sale

On March 16, 2020, we entered into an Asset Purchase Agreement to sell Mirataz to Dechra for a cash purchase price of $43 million. On April 15, 2020, we completed the sale of Mirataz to Dechra and received payment of $38.7 million on the closing date. Of the remaining $4.3 million, $2.15 million will be paid out of escrow beginning in 12 months after the closing date and the balance of $2.15 million will be paid out 18 months after closing date, assuming no escrow claims.

Partner royalties

We recognize royalty revenue in connection with licenses granted under license and development arrangements with partners. Royalties are based upon a percentage of commercial sales of partnered products based on levels of net sales. These sales-based royalties, for which the license was deemed the predominant element to which the royalties relate, are estimated and recognized in the period in which the partners' commercial sales occur. The royalties are generally reported and payable to us within 45 to 60 days of the end of each calendar quarter in which the commercial sales are made. We base our estimates of royalties earned on actual sales information from our partners when available. If actual royalties received are different than amounts estimated, we would adjust the royalty revenue in the period in which the adjustment becomes known. We do not recognize revenues if it is probable that a significant reversal of revenues will occur.

Contract manufacturing revenue

The manufacturing revenue stream generally represents revenue from the manufacturing of customer product(s). Under a manufacturing contract, a quantity of manufacturing runs is ordered and the product is manufactured according to the customer's specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The product(s) are manufactured exclusively

for a specific customer and have no alternative use. The customer retains control of their product during the entire manufacturing process and can make changes to the process or specifications at their request.

The customer and our project team typically have a timeline on each milestone and duration time. They also have an estimated start and finish date. When the project is moving forward, they constantly change to the actual date to track the project progress. The timing has been shared by both parties. This becomes the most important basis for our revenue recognition.

Because of the timing effect of revenue recognition, billings and cash collections can be recorded into three different ways: billed trade receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to trade receivables on the balance sheet when our rights become unconditional. Contract liabilities represent customer deposits and deferred revenue billed and/or received in advance of our fulfillment of performance obligations. Contract liabilities convert to revenue as we perform our obligations under the contract.

Partner Licensing Revenue

Partner licensing revenue consists of revenue that compensates us for services performed, such as formulation, process development, and preparation of pre-clinical and clinical drug product materials under research and development arrangements with partners. Revenues related to research and development are generally recognized as the related services or activities are performed using the output method and in accordance with the contract terms. To the extent that the agreements specify services are to be performed on a fixed basis, revenues are recognized consistent with the pattern of the work performed. In agreements that specify milestones, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated milestone is recognized at a point in time. Non-refundable milestone payments related to arrangements under which we have continuing performance obligations would be deferred and recognized over the period of performance. Milestone payments that are not within our control, such as submission for approval to regulators by a partner or approvals from regulators, are not considered probable of being achieved until those submissions are submitted by the customer or approvals are received.

Revenue Recognition

We recognize revenues in accordance with ASC Topic 606 (“ASC 606”), "Revenue from Contracts with Customers". We account for a contract with a customer when there is a legally enforceable contract between us and our customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Our customers could either be distributors who subsequently resell our products to third parties such as veterinarians, clinics or animal hospitals, licensing partners or the third parties.

In accordance with ASC 606, we apply the following steps to recognize revenue that reflect the consideration to which we expect to be entitled to receive in exchange for the promised goods or services:

1. Identify the contract with a customer

A contract with a customer exists when we enter into an enforceable contract with a customer. These contracts define each party's rights, payment terms and other contractual terms and conditions of the sale. We apply judgment in determining the customer’s ability and intention to pay, which is based on published credit and financial information pertaining to the customer.

2. Identify the performance obligations in the contract

Our product in a given purchase order is delivered at the same time and we do not separate an individual order into separate performance obligations. We have concluded the sale of finished goods and related shipping and handling are accounted for as a single performance obligation as there are no other promises to deliver goods beyond what is specified in each accepted customer order.

Under a manufacturing contract, a quantity of manufacturing runs is ordered and the product is manufactured according to the customer’s specifications and typically only one performance obligation is included. Each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer.

3. Determine the transaction price

The transaction price is determined based on the consideration which we will be entitled to receive in exchange for transferring goods or service to the customer, typically a fixed consideration in our contractual agreements.

4. Allocate the transaction price to the performance obligations

The transaction price is allocated to the performance obligations identified in each contract. The nature of the promises/obligations under our contracts is to transfer a distinct good or service. Accordingly, because a single performance obligation exists, including in each milestone pertaining to contract manufacturing, no allocation of the transaction price is necessary.

5. Determine the satisfaction of performance obligation

Revenue for product sales is recognized when control of the finished goods is transferred to the customer, net of applicable reserves for variable consideration. Control of the finished goods is transferred at a point in time, upon delivery to the customer.

For contract manufacturing service, revenue is recognized over time. Control of the finished manufactured products is transferred at a point in time, upon delivery to the customer.

Royalty revenues are estimated and recognized in the period in which the partners' commercial sales occur. The royalties are generally reported and payable to us within 45 to 60 days of the end of each calendar quarter in which the commercial sales are made.

For partner licensing, revenues related to research and development are generally recognized as the related services or activities are performed using the output method and in accordance with the contract terms. To the extent that the agreements specify services are to be performed on a fixed basis, revenues are recognized consistent with the pattern of the work performed. In agreements that specify milestones, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price using the most likely amount method.

Reserves for Variable Consideration

Revenues from product sales are recorded at the net sales price, which includes estimates of variable consideration for which reserves are established. Components of variable consideration include product returns, allowances and discounts. These estimates take into consideration a range of possible outcomes for the expected value (probability-weighted estimate) or relevant factors such as current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the respective underlying contracts. The amount of variable consideration included in the transaction price may be constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized where the contract will not occur in a future period. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net product revenues and earnings in the period such variances become known.

No reserves for contract manufacturing service are recorded as each manufacturing run represents a distinct service that is sold separately and has stand-alone value to the customer. The product(s) are manufactured exclusively for a specific customer and have no alternative use.

Sales-based royalty revenues recorded by us are based on the licensee's actual net sales that occurred during the relevant period. No reserves were established and to-date, there were no adjustments made in subsequent periods.

Revenues from partner licensing is recognized when non-refundable, up-front fees are allocated to a license that is determined to be distinct from the other performance obligations identified in the license agreement. No reserves were established.

Product Returns

Consistent with the industry practice, we generally offer customers a limited right of return of damaged or expired product that has been purchased directly from us. Our return policy generally allows customers to receive credit for expired products within 90 days after the product's expiration date. We estimate the amount of our product revenues that may be returned by our customers and record these estimates as a reduction of product revenues in the period the related product revenues are recognized, as well as within accrued liabilities, in the consolidated balance sheets. We currently estimate product return liabilities using probability-weighted available industry data and data provided by the our distributors such as the inventories remaining in the distribution channel. To-date, we have no returns and believe that returns of our product in future periods will be minimal. We do not record a return asset associated with the returned damaged or expired goods due to such asset is deemed to be fully impaired at the time of product return. We no longer carry any product returns reserve for Mirataz, but have maintained a small amount of product return reserve for Zimeta.

Our contract manufacturing customer retains control of their product during the entire manufacturing process and can make changes to the process or specifications at their request. There are no product returns.

Sales Discounts and Allowances

We compensate our distributors for sales order management, data and distribution and other services through sales discounts and allowances. However, such services are not distinct from our sale of products to distributors and, therefore, these discounts and allowances are recorded as a reduction of product revenues in the consolidated statements of operations and comprehensive loss, as well as a reduction to accounts receivable in the consolidated balance sheets. Starting February 2021, we no longer have sales to distributors.

No discounts and allowances are recorded for contract manufacturing service as the price of each milestone is agreed upon when the contract is signed.

Cost of Revenues

Cost of product revenues consists primarily of the cost of direct materials, direct labor and overhead costs associated with manufacturing, inbound shipping and other third-party logistics costs.

Contract manufacturing costs consist primarily of the cost of direct materials, direct labor and overhead costs associated with manufacturing, rent, facility costs and related machinery depreciation.

Inventories

We value inventory at the lower of cost or net realizable value. We determine the cost of inventory using the standard-cost method, which approximates actual cost based on a first-in, first-out method. We analyze our inventory levels quarterly and write down inventory subject to expire in excess of expected requirements, or that has a cost basis in excess of its expected net realizable value. In the quarter ended March 31, 2020, we wrote off $3,494,000 Mirataz inventory related to the Dechra Asset Purchase Agreement, due to the transition to Dechra brand labelling. In January 2021, we sold all our excess Zimeta finished goods inventory to Dechra. Currently, we do not own any inventory.

Property, Plant and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which range from two to five years for furniture, fixtures, lab and computer equipment and software, and fifteen to thirty-nine years for land improvements and real property. Land and assets held within construction in progress are not depreciated. Construction in progress is related to the construction or development of property and equipment that have not yet been placed in service for their intended use. Expenditures for repairs and maintenance of assets are charged to expense as incurred. We amortize leasehold improvements using the straight-line method over the estimated useful lives of the respective assets or the lease term, whichever is shorter. Upon retirement or sale, the cost and related accumulated depreciation and amortization of assets disposed of are removed from the accounts and any resulting gain or loss is included in other income/expense.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management 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 financial statements, and the reported amounts of revenues and expenses during the reporting periods. Estimates are based on historical experiences or on forecasts, including information received from third parties and other assumptions that the Company believes are reasonable under the circumstances. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Actual results could differ from those estimates.

Comprehensive Loss

Our comprehensive loss includes the change in unrealized gains or losses on available-for-sale debt securities. The cumulative amount of gains or losses are reflected as a separate component of stockholders' equity in the condensed consolidated balance sheets as accumulated other comprehensive income.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848)", changes to the interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate ("LIBOR"). The amendments provide optional expedients and exceptions for applying U.S. GAAP to contracts that reference LIBOR expected to be discontinued because of reference rate reform. The expedients and exceptions do not apply to contract modifications made after December 31, 2022. The following optional expedients are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: Modifications of contracts within the scope of Topics 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. The amendments also permit an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. When elected, the optional expedients for contract modifications must be applied consistently for all contracts. It applies to all entities within the scope of the affected accounting guidance and will take effect as of March 12, 2020 through December 31, 2022. We have one loan contract which references LIBOR rate. We have not modified the contract with our lenders yet. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements.

We do not believe there are any other recently issued standards not yet effective that will have a material impact on our financial statements when the standards become effective.

2. Revenues and Cost of Revenues

In March 2020, we entered into an Asset Purchase Agreement to sell Mirataz to Dechra. In December 2020, we entered into a Distribution and Licensing Agreement granting Dechra an exclusive license under our patents and marketing authorizations to promote, market, sell and distribute Zimeta in the U.S. and Canadian territories. Our revenue generated from product sale of Mirataz ended as of April 2020 and from Zimeta ended as of January 2021. We record partner royalties from Dechra based on Mirataz and Zimeta net sales on a quarterly basis.

Our exclusive license and collaboration agreement with Elanco allow us to receive future development milestone payments of up to $16 million upon achievement of certain development, regulatory and manufacturing targets, and sales milestones in an aggregate amount of up to $94 million payable throughout the term of the agreement, including royalty payments ranging from the low to high teens.

We recorded contract manufacturing revenue for the manufacture of Vaxart's oral vaccine candidate for COVID-19 based on the percentage completion of specific milestones for the quarter. The expansion of our manufacturing agreement with Vaxart for COVID-19 and other vaccine candidates will extend our contract manufacturing activities through at least the end of 2021.

In September 2019, we were selected by the National Cancer Institute ("NCI") as one of three contractors in response to the solicitation for the PREVENT Cancer Preclinical Drug Development Program ("PREVENT"): Current Good Manufacturing Practice ("cGMP") Production of Vaccines and Biologicals for Cancer Prevention (cGMP Pool). As a cGMP pool contractor,

KindredBio is eligible to provide manufacturing, formulation and analytical services to meet the needs of the PREVENT pipeline. In February 2021, we were awarded a work order from the NCI and began work on our first NCI project.

We account for a contract with a customer when there is a legally enforceable contract between us and our customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Our product revenues are measured based on the consideration specified in the contract with each customer, net of product returns, discounts and allowances.

The following table summarizes revenues and costs for the three months ended March 31, 2021 and 2020 (in thousands).

	Three months ended March 31,	
	2021	**2020**
Revenues		
Net product revenues	$ 227	$ 603
Partner royalty revenue	326	—
Contract manufacturing revenue	1,842	—
Total revenues	2,395	603
Costs of revenues		
Cost of product revenues [(1)]	207	3,577
Contract manufacturing costs	383	—
Total costs of revenues	590	3,577
Gross margin	$ 1,805	$ (2,974)

(1) Includes $3,494 Finished Goods write-off in the first quarter of 2020 related to the Dechra Asset Purchase Agreement, due to the transition to proprietary Dechra branding on asset divestitures.

The following table summarizes contract manufacturing revenues and costs by projects for the three months ended March 31, 2021 and 2020 (in thousands).

	Three months ended March 31,	
	2021	**2020**
Vaxart project		
Contract manufacturing revenues	$ 1,800	$ —
Contract manufacturing costs	345	—
Net profit	1,455	—
NCI Project		
Contract manufacturing revenues	42	—
Contract manufacturing costs	38	—
Net profit	4	—
Total		
Contract manufacturing revenues	1,842	—
Contract manufacturing costs	383	—
Net profit	$ 1,459	$ —

The following table summarizes product revenues and costs for the three months ended March 31, 2021 and 2020 (in thousands).

	Three months ended March 31,	
	2021	2020
Mirataz		
Net product revenues	$ —	$ 596
Cost of product revenues	—	3,575
Net profit/(loss)	—	(2,979)
Zimeta		
Net product revenues	227	7
Cost of product revenues	207	2
Net profit	20	5
Total		
Net product revenues	227	603
Cost of product revenues	207	3,577
Net profit/(loss)	$ 20	$ (2,974)

Concentrations of credit risk

Our net product revenue for the quarter ended March 31, 2021 was generated entirely from sales within the United States for excess Zimeta inventory sold to Dechra. Our partner royalties for Mirataz and Zimeta are also with Dechra. In total, Dechra accounted for approximately 23% of total revenue. For the quarter ended March 31, 2020, our product sales to three large distributors, namely MWI Animal Health, Covetrus and Midwest Veterinary Supply, each accounted for more than 10% of gross product revenues. These three distributors accounted for approximately 73% of our gross product revenues in the first three months of 2020.

Vaxart accounted for 98% of the contract manufacturing services we provided in the first quarter of 2021. We did not have any manufacturing revenue for the same period in 2020. Manufacturing contracts require up-front payments and installment payments during the service period. We perform periodic evaluations of the financial condition of our customers and generally do not require collateral, but we can terminate any contract if a material default occurs.

Product returns

Our return policy generally allows customers to receive credit for expired products within 90 days after the product’s expiration date. We estimated product return liabilities of 3% for Zimeta of gross product revenue using probability-weighted available industry data and data provided by our distributors such as the inventories remaining in the distribution channel. We are no longer marketing Zimeta and will not be increasing the product return liabilities, but adjustments will be made to the reserves based on actual returns in the future.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at their carrying values, net of any allowances for doubtful accounts. Accounts receivable consist primarily of amounts due from distributors, for which collection is probable based on the customer's intent and ability to pay. Receivables are evaluated for collection probability on a regular basis and an allowance for doubtful accounts is recorded, if necessary. We have no allowance for doubtful accounts as of March 31, 2021 and December 31, 2020 as our analysis did not uncover any collection risks.

Contract assets

Because of the timing effect of revenue recognition, billings and cash collections can be recorded into three different ways: billed trade receivables, contract assets (unbilled receivables), and contract liabilities (customer deposits and deferred revenue). Contract assets are recorded when our right to consideration is conditioned on something other than the passage of time. Contract assets are reclassified to trade receivables on the balance sheet when our rights become unconditional. Contract liabilities represent customer deposits and deferred revenue billed and/or received in advance of our fulfillment of performance

obligations. Contract liabilities convert to revenue as we perform our obligations under the contract. We did not record any contract assets and/or contract liabilities as of March 31, 2021 or December 31, 2020.

3. Fair Value Measurements

Certain assets and liabilities are carried at fair value. 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, is used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying amount of financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities approximate fair value due to the short maturities of these financial instruments. Financial assets, which consist of money market funds and available-for-sale securities, are measured at fair value on a recurring basis.

Financial assets, which consist of money market funds and available-for-sale securities, are measured at fair value on a recurring basis and are summarized as follows (in thousands):

	Fair Value Measurements as of March 31, 2021			
Description	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Cash equivalents:				
Money market funds	$ 6,810	$ 6,810	$ —	$ —
Commercial paper	6,099	—	6,099	—
Short-term investments:				
U.S. treasury bills	3,520	3,520	—	—
U.S. government agency notes	26,215	—	26,215	—
Commercial paper	16,685	—	16,685	—
Corporate notes	3,820	—	3,820	—
Long-term investments:				
Corporate notes	158	—	158	—
	$ 63,307	$ 10,330	$ 52,977	$ —

Description	Fair Value Measurements as of December 31, 2020			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	$ 219	$ 219	$ —	$ —
U.S. treasury bills	4,060	4,060	—	—
Commercial paper	3,899	—	3,899	—
U.S. government agency notes	2,000	—	2,000	—
Corporate notes	315	—	315	—
Short-term investments:				
U.S. treasury bills	6,531	6,531	—	—
U.S. government agency notes	36,444	—	36,444	—
Corporate notes	3,783	—	3,783	—
Long-term investments:				
U.S. government agency notes	1,500	—	1,500	—
	$ 58,751	$ 10,810	$ 47,941	$ —

During the three months ended March 31, 2021, there were no transfers of assets between Level 1, Level 2 or Level 3 of the fair value hierarchy.

At March 31, 2021 and December 31, 2020, we did not have any financial liabilities which were measured at fair value on a recurring basis.

4. Investments

We classify all highly-liquid investments with stated maturities of greater than three months from the date of purchase and remaining maturities of less than one year as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such investments are viewed as being available to support current operations. We classify and account for investments as available-for-sale and reflect realized gains and losses using the specific identification method. Changes in market value, if any, excluding other-than-temporary impairments, are reflected in other comprehensive income (loss).

The fair value of available-for-sale investments by type of security at March 31, 2021 was as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:				
Commercial paper	$ 16,689	$ —	$ (4)	$ 16,685
U.S. treasury bills	3,519	1	—	3,520
U.S. government agency notes	26,210	5	—	26,215
Corporate notes	3,819	2	(1)	3,820
	50,237	8	(5)	50,240
Long-term investments:				
Corporate notes	159	—	(1)	158
	159	—	(1)	158
Total available-for-sale investments	$ 50,396	$ 8	$ (6)	$ 50,398

The fair value of available-for-sale investments by type of security at December 31, 2020 was as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:				
U.S. treasury bills	$ 6,531	$ —	$ —	$ 6,531
U.S. government agency notes	36,437	8	(1)	36,444
Corporate notes	3,778	5	—	3,783
	46,746	13	(1)	46,758
Long-term investments:				
U.S. government agency notes	1,500	—	—	1,500
	1,500	—	—	1,500
Total available-for-sale investments	$ 48,246	$ 13	$ (1)	$ 48,258

5. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Accrued consulting	$ 317	$ 468
Accrued research and development costs	450	1,654
Other expenses	401	623
	$ 1,168	$ 2,745

6. Borrowings

On September 30, 2019, we entered into the Loan and Security Agreement with Solar Capital Ltd. The Lenders have agreed to make available to KindredBio an aggregate principal amount of up to $50 million under the Loan Agreement. The Loan Agreement provides for a term loan commitment of $50 million in three tranches: (1) a $20 million term A loan that was funded on September 30, 2019; (2) a $15 million term B loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, no later than December 31, 2020; and (3) a $15 million term C loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, on or before June 30, 2021. Each term loan has a maturity date of September 30, 2024. We elected not to draw down on the $15 million term B loan before the December 31, 2020 deadline. Each term loan bears interest at a floating per annum rate equal to the one-month LIBOR rate (with a floor of 2.17%) plus 6.75%. We are permitted to make interest-only payments on each term loan through October 31, 2021. We were in compliance with all covenants as of March 31, 2021.

In conjunction with the Dechra Asset Purchase Agreement, on March 16, 2020, we entered into a First Amendment to Loan and Security Agreement (the "First Amendment") with the Lenders in connection with the sale of our Miratax asset. Among other things, the First Amendment increases the minimum cash amount, as defined in the Loan Agreement, required to be maintained by KindredBio to $10,000,000. We paid an amendment fee of One Hundred Thousand Dollars $100,000, which was deemed fully earned and non-refundable on the First Amendment's effective date.

On December 23, 2020, we entered into a Second Amendment to Loan and Security Agreement (the "Second Amendment") with the Lenders in connection with the Zimeta Distribution and License Agreement with Dechra. We paid an amendment fee of $15,000. All other terms and conditions remain the same as the First Amendment.

As of March 31, 2021, assuming the principal payments start on November 1, 2021, our future debt payment obligations towards the principal and final fee, excluding interest payments and exit fee, for the respective fiscal years are as follows (in thousands):

2021	$	1,148
2022		6,667
2023		6,667
2024		6,275
Total principal and final fee payments		20,757
Less: Unamortized debt issuance costs		(512)
Less: Unaccreted value of final fee		(504)
Loan payable, total	$	19,741
Loan payable, short-term	$	2,815
Loan payable, long-term	$	16,926

7. Common Stock and Stock-Based Awards

Common Stock

During the three months ended March 31, 2021, we issued 65,115 shares of common stock in connection with the exercise of stock options for gross proceeds of $21,000. In addition, 208,175 restricted stock awards and restricted stock units vested during the three months ended March 31, 2021. 19,933 shares of restricted stock awards and 82,344 shares restricted stock units were withheld to satisfy employee tax withholding obligations arising in conjunction with the vesting of restricted stock and restricted stock units (see below).

Stock-Based Awards

The table below shows the number of shares of common stock underlying options granted to employees, directors and consultants, the assumptions used in the Black-Scholes option pricing model used to value those options and the resulting weighted-average grant date fair value per share:

Stock Option Plan	**Three months ended March 31,**	
	2021	**2020**
Shares underlying options granted	1,419,849	749,000
Weighted-average exercise price	$4.49	$9.81
Weighted average risk- free interest rate	0.55 %	1.66 %
Weighted average expected term (years)	5.7	5.8
Weighted average expected volatility	61%	54%
Expected dividend yield	—	—
Weighted-average grant date fair value per share	$2.44	$5.01

In June 2018, we adopted the 2018 Equity Incentive Plan (the “2018 Plan”), and reserved 3,000,000 shares of our common stock for issuance under the 2018 Plan. At the Annual Meeting of Stockholders of the Company held on June 15, 2020 (the “2020 Annual Meeting”), our stockholders approved an amendment to the 2018 Equity Incentive Plan (as amended, the “2018 Plan”) to increase the number of shares of common stock authorized for issuance by 1,600,000 shares. The 2018 Plan is the successor to our 2016 Equity Incentive Plan (the “2016 Plan”), which was retired on June 21, 2018 upon stockholders’ approval of our 2018 Plan. The 2016 Plan was the successor to our 2012 Equity Incentive Plan (the "2012 Plan"), which was retired on May 23, 2016 upon stockholders' approval of our 2016 Plan. All awards made under the 2016 and 2012 Plans shall remain subject to the terms of these plans. Options granted under the 2018 Plan may be either incentive stock options or

nonstatutory stock options. The 2018 Plan also provides for the grant of stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other stock awards. The exercise price of a stock option may not be less than 100% of the closing price of our common stock on the date of the grant. If, at any time we grant an incentive stock option, and the optionee directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of KindredBio stock, the option price shall be at least 110% of the fair value and shall not be exercisable more than five years after the date of grant. Options generally vest over a period of one or four years from the date of grant. Options granted under the 2018 Plan expire no later than 10 years from the date of grant. As of March 31, 2021, there were 3,378,020 option shares outstanding, and 722,140 shares available for future grants under the 2018 Plan.

Our Employee Stock Purchase Plan (the "Stock Purchase Plan" or "ESPP"), adopted in December 2014, permits eligible employees to purchase common stock at a discount through payroll deductions during defined six-month consecutive offering periods beginning December 1 with the exception of our first offering period which commenced on January 1, 2015 for a five month duration. The price at which the stock is purchased is equal to the lower of 85% of the fair market value of the common stock on the first day of the offering or 85% of the fair market value of our common stock on the purchase date. A total of 200,000 shares of common stock are authorized for issuance under the Stock Purchase Plan. At the Annual Meeting of Stockholders of Kindred Biosciences, Inc. held on June 22, 2018, our stockholders approved an amendment to increase the number of shares that may be issued under the ESPP from 200,000 shares to 500,000 shares. A participant may purchase a maximum of 2,000 shares of common stock during each offering period, not to exceed $25,000 worth of common stock on the offering date during each calendar year.

We use the Black-Scholes option pricing model, in combination with the discounted employee price, in determining the value of the Stock Purchase Plan expense to be recognized during each offering period. The following assumptions were used in the Black-Scholes option pricing model to calculate employee stock-based compensation:

Stock Purchase Plan	**Three months ended March 31,**	
	2021	**2020**
Weighted average risk-free interest rate	0.10%	1.63%
Weighted average expected term (years)	0.5	0.5
Weighted average expected volatility	66.7%	52.6%
Expected dividend yield	—	—
Weighted-average grant date fair value per share	$1.19	$2.19

Under the Stock Purchase Plan, employees did not purchase any shares of common stock during the three months ended March 31, 2021. At March 31, 2021 and December 31, 2020, we had an outstanding liability of $87,000 and $16,000, respectively, which is included in accrued compensation on the condensed consolidated balance sheets, for employee contributions to the Stock Purchase Plan for shares pending issuance at the end of the next offering period.

We recorded stock-based compensation expense as follows (in thousands):

	Three months ended March 31,	
	2021	**2020**
Research and development	$ 436	$ 553
General and administrative	2,060	1,511
	$ 2,496	$ 2,064

We had an aggregate of approximately $6,689,000 of unrecognized stock-based compensation expense for options outstanding and the Stock Purchase Plan as of March 31, 2021 which is expected to be recognized over a weighted-average period of 2.2 years.

Restricted Stock Award and Restricted Stock Units

On January 22, 2018, we granted 315,000 shares of restricted stock units to four employees. Shares will vest 25% on each one year anniversary of the grant date provided that the employee is in the employment of the Company on such vesting date. In Q1 2019, we granted 300,775 shares of restricted stock units to most of our employees. Shares will vest 25% on each one year anniversary of the grant date provided that the employee is in the employment of the Company on such vesting date. In Q1 2020, we granted 586,915 shares of restricted stock units to most of our employees. Shares will vest 25% on each one year anniversary of the grant date provided that the employee is in the employment of the Company on such vesting date. In July 2020, we granted 51,750 shares of restricted stock units to most of our employees except officers. Shares will vest 100% on the one year anniversary of the grant date provided that the employee is in the employment of the Company on such vesting date. As of March 31, 2021, we have an aggregate of approximately $3,196,000 unrecognized stock-based compensation expense for restricted stock awards and units outstanding which is expected to be recognized over a weighted-average period of 2.4 years.

Restricted stock award and restricted stock units activity for three months ended March 31, 2021 was as follows:

Restricted Stock Award / Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2020	633,742	$9.16
Granted	—	—
Vested	(208,175)	9.04
Forfeited	(36,664)	8.95
Unvested balance at March 31, 2021	388,903	$9.25

Stock Option Information

A summary of stock option activity under all stock plans for the three months ended March 31, 2021, is presented as follows:

Stock Options	Number of Outstanding	Weighted Average Exercise Price Per Share
Balance at December 31, 2020	6,377,732	$8.02
Granted	1,419,849	4.49
Exercised	(65,115)	0.32
Forfeited	(92,968)	5.39
Expired	(61,385)	10.28
Balance at March 31, 2021	7,578,113	$7.44

As of March 31, 2021, options to purchase 5,478,565 shares of common stock were exercisable at a weighted average price of $7.87 per share.

Equity Award Modifications

Stock Option Modifications

On February 5, 2021, KindredBio's directors approved amending existing and future option agreements for non-employee directors to provide that, following a director's retirement, the director will be given a period of three years (instead of the current period of three months) in which to exercise vested options. A non-employee director shall be eligible to retire from the Board and obtain the three-year option exercise period if (1) the director has attained age 55, (2) the director has completed at least three years of service as a KindredBio director as of the date on which his or her service as a director terminates, and (3) the sum of the director's age and years of service as a director is at least 65 as of the date on which his or her service as a director terminates. We accounted for the extension as a modification of an equity award under ASC 718. Accordingly, we recognized incremental stock compensation expense of approximately $1,014,000 during the three months ended March 31, 2021.

8. Stockholders' Equity

Stockholders' Equity

The following tables present the changes in stockholders' equity (in thousands except share amount in footnotes):

	Three months ended March 31, 2021					
	Common stock		Additional Paid in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2020	**39,492**	**$ 4**	**$ 312,321**	**$ 12**	**$ (244,855)**	**$ 67,482**
Comprehensive income						
Net loss	—	—	—	—	(9,740)	(9,740)
Change in unrealized gains/(loss) on available for sale securities	—	—	—	(10)	—	(10)
Total comprehensive loss						(9,750)
Stock-based compensation expenses	—	—	2,496	—	—	2,496
RSU issuance of shares when vested [1]	89	—	(409)	—	—	(409)
Shares withheld related to net share settlement of equity awards [2]	(20)	—	(98)	—	—	(98)
Exercise of common stock options	65	—	21	—	—	21
At-the-Market issuance of common stock, net of $636 of offering costs	5,082	—	24,043	—	—	24,043
Balance at March 31, 2021	**44,708**	**$ 4**	**$ 338,374**	**$ 2**	**$ (254,595)**	**$ 83,785**

(1) In Q1 2021, 170,675 RSU shares were vested, 88,331 shares were issued, 82,344 shares were forfeited to cover tax liabilities.
(2) In Q1 2021, 37,500 RSA shares were vested, 19,933 shares were forfeited to cover tax liabilities.

	Three months ended March 31, 2020					
	Common stock		Additional Paid in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	**39,204**	**$ 4**	**$ 304,963**	**$ 13**	**$ (223,059)**	**$ 81,921**
Comprehensive loss						
Net loss	—	—	—	—	(22,761)	(22,761)
Change in unrealized gains/(loss) on available for sale securities	—	—	—	(9)	—	(9)
Total comprehensive loss						(22,770)
Stock-based compensation expenses	—	—	2,064	—	—	2,064
RSU issuance of shares when vested [3]	95	—	(461)	—	—	(461)
Shares withheld related to net share settlement of equity awards [4]	(22)	—	(208)	—	—	(208)
Exercise of common stock options	13	—	124	—	—	124
Balance at March 31, 2020	**39,290**	**$ 4**	**$ 306,482**	**$ 4**	**$ (245,820)**	**$ 60,670**

(3) In Q1 2020, 143,696 RSU shares were vested, 95,050 shares were issued, 48,646 shares were forfeited to cover tax liabilities.
(4) In Q1 2020, 62,500 RSA shares were vested, 21,563 shares were forfeited to cover tax liabilities.

9. Leases

Leases

We have non-cancelable operating leases for laboratory space in Burlingame, California with several amendments to expand the facility. In February 2020, we further amended non-cancelable operating leases for laboratory space in Burlingame, California for an expansion of an additional 2,260 square feet of laboratory space commencing on May 1, 2020 and expiring on May 31, 2025. The total non-cancellable operating lease for the entire existing laboratory space is 13,736 square feet, expiring May 31, 2025. In August 2015, we entered into a new non-cancelable operating lease for 3,126 square feet of office space in San Diego, California and in June 2019, renewed the lease through February 2025. In September 2020, we renewed our headquarters 6,900 square feet of office space for another 3 years, expiring November 30, 2023. In May 2019, we signed another lease in Burlingame ("May 2019 lease"), consisting of 1,346 square feet of space through April 2022. In addition, we have five equipment leases expiring through 2027.

Operating lease expense was $257,000 and $265,000, respectively for the three months ended March 31, 2021 and 2020, which includes $3,000 sublease income and $33,000 short-term lease expenses, respectively. The following tables below do not include short term leases. We also have various equipment operating lease agreements.

Supplemental cash flow information, for the three months ended March 31, 2021, related to operating leases as follows (in thousands):

Amortization of operating lease	$	202
Cash paid within operating cash flows	$	249
Right-of-use assets obtained in exchange for new lease liabilities	$	—

Supplemental balance sheet information, as of March 31, 2021, related to operating leases was as follows (in thousands, except lease term and discount rate):

Reported as:		
Operating lease right-of-use assets	$	3,225
Current portion of operating lease liabilities	$	844
Long-term operating lease liabilities		2,716
Total lease liabilities	$	3,560
Weighted average remaining lease term (years)		3.8 years
Weighted average discount rate		5.50%

As of March 31, 2021, we are obligated to make minimum lease payments under non-cancelable operating leases, as follows (in thousands):

Year ending December 31,	**Lease Payments**	
2021 (remaining of year)	$	762
2022		1,058
2023		1,047
2024		837
2025		249
2026 and thereafter		10
Total lease payments		3,963
Less: imputed interest		(403)
Total lease liabilities	$	3,560

10. Commitments and contingencies

Purchase Commitments

In June 2018, we entered into a Strategic Supply Agreement (the "Agreement"), with Pall Corporation ("Pall") for the purchase of equipment and consumables to be used in support of our manufacturing requirements, including, but not limited to the Plant. Pursuant to the agreement, we will purchase certain pharmaceutical manufacturing equipment and related services in the aggregate amount of $3.8 million with a seven year consumable purchase obligation in the aggregate amount of approximately $16.5 million. The agreement is subject to customary undertakings, covenants, obligations, rights and conditions. We have incurred $3,778,000 in equipment purchase costs during the year ended of December 31, 2019. As of March 31, 2021, we are obligated to make consumable purchases and committed purchases as follows (in thousands):

Year ending December 31,	Consumable commitments	Consumable purchases	Remaining commitments
2021	$ 3,300	$ 264	$ 3,036
2022	3,625	—	3,625
2023	3,625	—	3,625
2024	4,285	—	4,285
Total	$ 14,835	$ 264	$ 14,571

11. Net Loss Per Share

Basic and diluted net loss per share was calculated as follows (in thousands, except per share amounts):

	Three months ended March 31,	
	2021	2020
Basic and diluted net loss per share:		
Numerator:		
Net loss	$ (9,740)	$ (22,761)
Denominator:		
Weighted-average number of common shares outstanding, basic and diluted	41,089	39,186
Net loss per share, basic and diluted	$ (0.24)	$ (0.58)
Potential shares of common stock that were excluded from the computation of diluted earnings per common share as they were anti-dilutive:		
Options to purchase common stock	7,578	6,932
Unvested RSAs/RSUs	389	876
Total number of potentially issuable shares	7,967	7,808

There was no difference between the Company's net loss and the net loss attributable to common stockholders for all periods presented.

12. Restructuring plan

On March 16, 2020, we announced a strategic realignment of our business model whereby we plan to rely more on a partnership-based model for commercialization strategy similar to the traditional human biotech commercialization strategy whereby pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales. Our focus will be on accelerating our deep pipeline of late-stage biologics candidates in canine and feline markets, while stopping small molecule development for these species. Accordingly, the companion animal commercial infrastructure will be substantially reduced. In connection with this restructuring, we eliminated 53 positions, representing about one-third of our workforce. The eliminated positions primarily relate to the companion animal sales force and research and development for small molecule programs. Restructuring expenses and retirement costs related to severance and health care benefits were approximately $1.7 million, exclusive of stock compensation.

On June 8, 2020, we announced a plan to strengthen our strategic position by, among other things, prioritizing our most attractive late stage programs and substantially reducing our expenses to best position the Company for success with the previously announced business model. This restructuring reduced our workforce by approximately 24 employees and involved a restructuring charge of approximately $2.3 million related to severance payments and health care benefits, exclusive of stock compensation. We further eliminated another 5 positions and incurred a restructuring charge of approximately $0.3 million related to severance payments and health care benefits in the third quarter of 2020. We have completed our restructuring and do not anticipate any further reductions in our workforce for the foreseeable future.

13. Subsequent events

In April 2021, 565,515 additional shares were sold through the ATM, for total gross proceeds of approximately $2,845,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $2,772,000.

On May 5, 2021, we entered into a Third Amendment to Loan and Security Agreement (the "Third Amendment") with the Lenders in connection with the Exclusive License and Collaboration Agreement with Elanco for KIND-030. We are obligated to pay an amendment fee of $15,000. All other terms and conditions remain the same as the First Amendment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this section, "KindredBio," "we," "our," "ours," "us" and the "Company" refer to Kindred Biosciences, Inc. and our wholly owned subsidiaries KindredBio Equine, Inc. and Centaur Biopharmaceutical Services, Inc. You should read the following discussion and analysis of our consolidated financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q consists of forward-looking statements such as statements regarding our expectations about the trials, regulatory approval, manufacturing, distribution and commercialization of our current and future product candidates and statements regarding our anticipated revenues, expenses, margins, profits and use of cash. In this Quarterly Report on Form 10-Q, the words "anticipates," "believes," "expects," "intends," "future," "could," "estimates," "plans," "would," "should," "potential," "continues" and similar words or expressions (as well as other words or expressions referencing future events, conditions or circumstances) often identify forward-looking statements.

These forward-looking statements are based on our current expectations. These statements are not promises or guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause our actual results to be materially different from any future results expressed or implied by the forward-looking statements. These risks include, but are not limited to, the following: our limited operating history and expectations of losses for the foreseeable future; the absence of significant revenue from our products and our product candidates for the foreseeable future; the likelihood that our revenue will vary from quarter to quarter; our potential inability to obtain any necessary additional financing; our substantial dependence on the success of our products and our lead product candidates which may not be successfully commercialized even if they are approved for marketing; the effect of competition; our potential inability to obtain regulatory approval for our existing or future product candidates; our dependence on third parties to conduct some of our development activities; our dependence upon third-party manufacturers for supplies related to our products and our product candidates and the potential inability of these manufacturers to deliver a sufficient amount of supplies on a timely basis; the uncertain effect of the COVID-19 pandemic on our business, results of operations and financial condition; uncertainties regarding the outcomes of trials regarding our product candidates; our potential failure to attract and retain senior management and key scientific personnel; uncertainty about our ability to enter into satisfactory agreements with third-party licensees of our biologic products and uncertainty about the amount of revenue that we will receive from such agreements; our significant costs of operating as a public company; potential cyber-attacks on our information technology systems or on our third-party providers' information technology systems, which could disrupt our operations; our potential inability to repay the secured indebtedness that we have incurred from third-party lenders, and the restrictions on our business activities that are contained in our loan agreement with these lenders; the risk that our 2020 strategic realignment and restructuring plans will result in unanticipated costs or revenue shortfalls; uncertainty about the amount of royalties that we will receive from the sale of Mirataz® to Dechra Pharmaceuticals PLC; the risk that the revenue from our delivery of services or products under any contract may be less than we anticipate if the other party to the contract exercises its right to terminate the contract prior to the completion of the contract or if such party is unable or unwilling to satisfy its payment obligations under the contract; our potential inability to obtain and maintain patent protection and other intellectual property protection for our products and our product candidates; potential claims by third parties alleging our infringement of their patents and other intellectual property rights; our potential failure to comply with regulatory requirements, which are subject to change on an ongoing basis; the potential volatility of our stock price; and the significant control over our business by our principal stockholders and management.

For a further description of these risks and uncertainties and other risks and uncertainties that we face, please see the "Risk Factors" sections that are contained in our filings with the U.S. Securities and Exchange Commission (the "SEC"), including the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 16, 2021, and any subsequent updates that may be contained in the "Risk Factors" sections of this Quarterly Report on Form 10-Q and our other Quarterly Reports on Form 10-Q filed with the SEC. As a result of the risks and uncertainties described above and in our filings with the SEC, actual results may differ materially from those indicated by the forward-looking statements made in this Quarterly Report on Form 10-Q. Forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this report and we undertake no obligation to update or revise these statements, except as may be required by law.

Overview

We are a commercial-stage biopharmaceutical company focused on saving and improving the lives of pets. Our mission is to bring to our pets the same kinds of safe and effective medicines that our human family members enjoy. Our core strategy is to identify compounds and targets that have already demonstrated safety and effectiveness in humans and to develop therapeutics based on these validated compounds and targets for pets, primarily dogs and cats. We believe this approach will lead to shorter development times and higher approval rates than pursuing new, non-validated targets. Our current portfolio includes over 20 product candidates in development, predominantly biologics. We also have state-of-the-art biologics manufacturing capabilities and a broad intellectual property portfolio.

Our first product, Mirataz® (mirtazapine transdermal ointment) was approved in May 2018 and became commercially available to veterinarians in the United States in July 2018. In November 2019, our second product, Zimeta™ (dipyrone injection) for the control of fever in horses was approved by the FDA and became commercially available in December 2019. In addition, we have multiple other product candidates, predominantly biologics, in various stages of development. We believe there are significant unmet medical needs for pets, and that the pet therapeutics segment of the animal health industry is likely to grow substantially as new therapeutics are identified, developed and marketed specifically for pets.

In March 2020, we sold Mirataz to Dechra Limited for a cash purchase price of $43 million. In December 2020, we entered into a Distribution and Licensing Agreement granting Dechra Veterinary Products, LLC, an exclusive license under our Patents and Marketing Authorizations to promote, market, sell and distribute Zimeta in the U.S. and Canadian territories.

Biologic Product Development Updates

KIND-016, Tirnovetmab (Interleukin-31)

In October 2018, we announced positive topline results from our pilot laboratory effectiveness study of tirnovetmab, KIND-016, a fully caninized, high-affinity monoclonal antibody targeting interleukin-31 (IL-31), for the treatment of atopic dermatitis in dogs. In addition, we announced that the U.S. Patent and Trademark Office has issued a patent (Patent No. 10,093,731) for KindredBio's anti-IL31 antibody.

In July 2019, we reported positive topline results from a pilot field effectiveness study for our IL-31antibody that confirmed the results from our pilot laboratory study. The manufacturing scale up process proceeded and the pivotal efficacy study of KIND-016 was initiated in December 2020.

Canine atopic dermatitis is an immune-mediated inflammatory skin condition in dogs and is the leading reason owners take their dog to the veterinarian. Atopic dermatitis is a large market, with the leading two products on the market selling over $900 million per year. We are pursuing a multi-pronged approach toward atopic dermatitis, with a portfolio of promising biologics. Our market research tells us there is strong demand for new biological treatments for pruritic dogs, with 70% of veterinarians, and a higher percentage of dermatologists, expressing a need for alternatives to current therapies.

KIND-039

On April 20, 2021, we unveiled positive results in a new long-acting interleukin (IL)-31 antibody program that integrates our novel half-life extension technology. Results from the pharmacokinetic study of the molecule demonstrated that the fully caninized, high-affinity antibody has up to a three-fold longer half-life compared to tirnovetmab. This extended half-life is expected to allow for up to three-fold longer interval between dosing.

KindredBio's half-life extension technology is intended to reduce dosing frequency, lower doses, and/or reduce cost of goods sold, while increasing patient convenience and compliance.

KIND-032

In December 2019 we announced the outcome of a positive pilot laboratory study of KIND-032, a fully caninized monoclonal antibody targeting interleukin-4 (IL-4) receptor, for the treatment of atopic dermatitis in dogs. In the study, 14 laboratory dogs with clinical signs consistent with atopic dermatitis were dosed with placebo or with KIND-032 at two different doses. The Canine Atopic Dermatitis Extent and Severity Index (CADESI) scores were assessed by board-certified veterinary dermatologists who were blinded to treatment assignments. The study demonstrated that KindredBio's antibody was well-tolerated. Although the study was a single-dose study designed primarily to assess safety and pharmacokinetics, evidence of positive efficacy and dose response was observed at Week 1, as measured by CADESI-04. A second pilot study to further assess dosing commenced in the third quarter of 2020. The KIND-032 program is proceeding as expected with preparations underway for a pivotal study.

The IL-4 pathway is a key driver of the inflammation that underlies atopic dermatitis and several other allergic diseases. Unlike KIND-025, which binds to IL-4 and IL-13 circulating in blood, KIND-032 binds to the IL-4 receptor on the surface of immune cells.

KIND-025

On March 24, 2020, we announced positive results from our pilot field efficacy study of KIND-025, a canine fusion protein targeting IL-4 and IL-13, for the treatment of atopic dermatitis in dogs. A higher treatment success rate was observed in the KIND-025 group over the placebo group from week 1 through week 4. Positive efficacy signals were also detected with other endpoints including 20mm or higher reduction from baseline in PVAS score. Cell line development is being continued as we further evaluate this program. The IL-4 and IL-13 pathways are key drivers of the inflammation that underlies atopic dermatitis and other allergic diseases. The IL-4/13 SINK molecule binds to both IL-4 and IL-13 circulating in the blood and inhibits their interactions with their respective receptors, thereby modifying the clinical signs associated with atopic dermatitis. We currently do not have plans to prioritize KIND-025 ahead of our other programs.

KIND-030

In August 2019, we announced positive results from our pilot efficacy study of KIND-030, a chimeric, high-affinity monoclonal antibody targeting canine parvovirus (CPV). This was a 12-dog study, of which 4 dogs were treated prophylactically and 2 dogs were treated after establishment of the infection. All treated dogs survived, compared to none in the applicable placebo group. The effect was seen in both prophylaxis setting, as well as in a treatment setting after establishment of infection.

In December 2020, we announced an agreement granting Elanco Animal Health, Inc. ("Elanco") exclusive global rights to KIND-030. Under the terms of the agreement, we received an upfront non-refundable payment of $500,000, and will receive development milestone payments of up to $16 million upon achievement of certain development, regulatory and manufacturing targets, and sales milestones in an aggregate amount of up to $94 million payable throughout the term of the agreement. Furthermore, royalty payments are to range from the low to high teens. The agreement specifies that KindredBio will supply the licensed product to Elanco, and that Elanco will conduct the necessary regulatory activities to achieve approvals in Europe and other key international markets.

KIND-030 is being pursued for two indications in dogs: prophylactic therapy to prevent clinical signs of canine parvovirus infection and treatment of established parvovirus infection. On September 16, 2020, we reported positive results from our pivotal efficacy study of KIND-030 in prevention of parvovirus infection in prophylactic treatment. In the randomized, blinded, placebo-controlled study, KIND-030 was administered to dogs as prophylactic therapy to prevent clinical signs of CPV infection. The primary objectives of the study were met. All of the placebo-control dogs developed parvovirus infection as predefined in the study protocol, while none of the KIND-030 treated dogs developed the disease. Furthermore, the parvovirus challenge resulted in 60% mortality rate in the control dogs compared to 0% mortality rate in the KIND-030 treated dogs. On April 28, 2021, we announced that the United States Department of Agriculture (USDA) Center for Veterinary Biologics has accepted efficacy data to support the prophylactic indication for KIND-030.

The pivotal efficacy study for the treatment indication is expected to be completed in the second quarter of 2021. It is part of the overall project data package required for full approval, along with safety, manufacturing and additional data. KIND-030 is a monoclonal antibody targeting canine parvovirus (CPV), and is partnered with Elanco. There is no set review timeline at the United States Department of Agriculture Center for Veterinary Biologics. Regulatory approval and review timeline are subject to the typical risks inherent in such a process.

CPV is the most significant cause of viral enteritis in dogs, especially puppies, with mortality rates reportedly as high as 91% if untreated. Banfield Medical records report that at least 250,000 dogs are infected with parvoviruses each year, excluding emergency hospitals, shelters, specialty hospitals or undiagnosed cases. While there are vaccines available for CPV, they have to be administered multiple times and many puppies do not receive the vaccine at all, or do not receive the complete series. This will not replace the need for vaccination; it may just change the timing of the vaccination post administration. There are currently no approved or unapproved treatments for CPV. Currently, owners spend up to thousands of dollars for supportive care for dogs infected with CPV.

KIND-509

On December 21, 2020, we announced positive results from the pilot field efficacy study of our monoclonal antibody against tumor necrosis factor alpha (anti-TNF antibody) for canine inflammatory bowel disease (IBD). The study was a randomized, blinded, placebo-controlled pilot effectiveness study that enrolled 10 dogs diagnosed with IBD to assess the efficacy and safety of KindredBio's anti-TNFα antibody over a 4-week treatment period. The primary effectiveness variable for this exploratory study was reduction in Canine Inflammatory Bowel Disease Activity Index (CIBDAI) score, which was assessed at Screening and Days 0, 7, 14, 21 and 28. Complete remission, defined as ≥ 75% reduction in average post-dose CIBDAI score from baseline, was achieved in 75% of the anti-TNFα group compared to 17% in the placebo group. The treatment effect was early-onset and durable. At Day 7, the first post-dose visit, 75% of the anti-TNFα treated dogs showed ≥ 75% reduction of CIBDAI score from baseline, compared to 17% in the placebo group. Furthermore, 50% of the anti-TNFα treated dogs achieved and maintained 100% reduction of CIBDAI score from baseline throughout all post-dose visits, whereas none in the placebo group achieved the same result.

IBD is a chronic disease of the gastrointestinal tract and can affect dogs at any age, but is more common in middle-aged and older dogs. The majority of canine IBD cases involve chronic states of diarrhea, vomiting, gastroenteritis, inappetence, and other symptoms, certain of which are cited as among the most frequent disorders impacting dogs. For certain dog breeds, the prevalence of diarrhea exceeds 5%. Existing treatments can have significant drawbacks, including limited diets and excessive antibiotic use, which can lead to owner frustration, lapses in treatment adherence, or poor quality of life for the affected animal.

In addition to the product candidates discussed above, we are in the early stages of development for multiple additional indications, including interleukin antibodies and canine checkpoint inhibitors, with the potential to attain approval for one or more products annually for several years. In all, we have over 20 programs for various indications for dogs and cats.

Manufacturing

We have constructed a Good Manufacturing Practice, or GMP, biologics manufacturing plant in Burlingame, CA which is fully commissioned. We have proceeded to GMP manufacturing of our feline erythropoietin product candidate in January 2018. In addition, construction and commissioning of our biologics manufacturing lines in our manufacturing plant in Elwood, Kansas have also been completed. The Elwood facility includes approximately 180,000 square feet with clean rooms, utility, equipment, and related quality documentation suitable for biologics and small molecule manufacturing.

In May 2020, we entered into an agreement with Vaxart, Inc. for the manufacture of Vaxart's oral vaccine candidate for COVID-19. We recorded contract manufacturing revenue based on the percentage completion of specific milestones for the quarter. In October 2020, we announced the expansion of our manufacturing agreement with Vaxart for COVID-19 and other vaccine candidates which will extend our contract manufacturing activities through at least the end of 2021.

Funding

We are a commercial-stage company with two products approved for marketing and sale. On April 15, 2020, we completed the sale of one of the products, Mirataz, to Dechra. In December 2020, we entered into a Distribution and Licensing Agreement granting Dechra an exclusive license under our patents and marketing authorizations to promote, market, sell and distribute Zimeta in the U.S. and Canadian territories. We have incurred significant net losses since our inception. We incurred cumulative net losses of $254,595,000 through March 31, 2021. These losses have resulted principally from costs incurred in connection with investigating and developing our product candidates, research and development activities and general and administrative costs associated with our operations.

Historically, our funding has been a combination of private and public offerings. From our initial public offering in December 2013 through December 2019, we raised approximately $257.4 million in net proceeds, after deducting underwriting discounts and commissions and offering expenses. On April 8, 2020, we entered into an At Market Offering Agreement ("ATM") whereby we may offer and sell shares of our common stock from time to time up to $25 million. Through December 31, 2020, 59,211 shares were sold through the ATM, for total gross proceeds of approximately $298,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $201,000. In January 2021, we sold an additional 1,456,497 shares, for total gross proceeds of approximately $7,059,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $6,876,000. On January 15, 2021, we entered into an amendment to the ATM. In accordance with the terms of the amended ATM, we may offer and sell shares of our common stock up to $24,366,000. From February 3, 2021 through March 31, 2021, 3,625,470 shares were sold through the amended ATM, for total gross proceeds of approximately $17,620,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $17,167,000. Among them, 2,250,000 shares were sold on March 31, 2021 and settled on April 5, 2021, with gross proceeds of approximately $10,652,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $10,378,000, which has been recorded as an other receivable as of March 31, 2021.

On September 30, 2019, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Solar Capital Ltd., to make available to KindredBio an aggregate principal amount of up to $50 million under the Loan Agreement. The Loan Agreement provides for a term loan commitment of $50 million in three tranches: (1) a $20 million term A loan that was funded on September 30, 2019; (2) a $15 million term B loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, no later than December 31, 2020; and (3) a $15 million term C loan that is to be funded at our request, subject to certain conditions described in the Loan Agreement being satisfied, on or before June 30, 2021. Each term loan has a maturity date of September 30, 2024. We elected not to draw down on the $15 million term B loan before the December 31, 2020 deadline. Each term loan bears interest at a floating per annum rate equal to the one-month LIBOR rate (with a floor of 2.17%) plus 6.75%. We are permitted to make interest-only payments on each term loan through October 31, 2021. The entire debt facility will mature on September 30, 2024.

As of March 31, 2021, we had cash, cash equivalents and investments of $63,309,000. Our sale of Mirataz to Dechra was completed on April 15, 2020 with proceeds of $38.7 million received. Of the remaining $4.3 million, $2.15 million will be paid out of escrow beginning in 12 months after the closing date and the balance of $2.15 million will be paid out 18 months after closing date, assuming no escrow claims.

For the foreseeable future, we expect to continue to incur losses as we continue our product development activities, seek regulatory approvals for our product candidates and begin to commercialize or partner them if they are approved by the Center for Veterinary Medicine branch, or CVM, of the FDA, the U.S. Department of Agriculture, or USDA, or the European Medicines Agency, or EMA. If we are required to further fund our operations, we expect to do so through public or private equity offerings, debt financings, corporate collaborations and licensing arrangements. We cannot assure you that such funds will be available on terms favorable to us, if at all. The strategic realignment of our business model whereby we rely more on a partnership-based model for commercialization strategy similar to the traditional human biotech commercialization strategy whereby pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales may require us to relinquish rights to certain of our technologies. In addition, we may never successfully

complete development of, obtain adequate patent protection for, obtain necessary regulatory approval, or achieve commercial viability for any other product candidates besides Miratazz and Zimeta. If we are not able to raise additional capital on terms acceptable to us, or at all, as and when needed, we may be required to curtail our operations, and we may be unable to continue as a going concern.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of our unaudited condensed consolidated financial statements and related disclosures requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue, costs and expenses and related disclosures during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those described below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies are described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 16, 2021.

Results of Operations

In March 2020, we announced a strategic realignment of our business model whereby we plan to rely more on a partnership-based model for commercialization strategy similar to the traditional human biotech commercialization strategy whereby pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales. Our focus is on accelerating our deep pipeline of late-stage biologics candidates in canine and feline markets and to strengthen our strategic position by prioritizing our most attractive late stage programs and substantially reducing our expenses to best position the company for success.

In May 2020, we entered into an agreement with Vaxart, Inc. for the manufacture of Vaxart's oral vaccine candidate for COVID-19. In October 2020, we announced the expansion of our manufacturing agreement with Vaxart for COVID-19 and other vaccine candidates. We recorded contract manufacturing revenue based on the percentage completion of specific milestones for the quarter. While our primary focus is on the development of our late-stage biologics candidates, we expect income from contract manufacturing to offset a portion of our operating expenses.

The following table summarizes the results of our operations for the periods indicated (in thousands):

	Three months ended March 31,	
	2021	2020
Revenues:		
Net product revenues	$ 227	$ 603
Partner royalty revenue	326	—
Contract manufacturing revenue	1,842	—
Total revenues	2,395	603
Operating costs and expenses:		
Cost of product revenues [1]	207	3,577
Contract manufacturing costs	383	—
Research and development	6,287	8,867
Selling, general and administrative	4,684	8,873
Restructuring costs	—	1,676
Total operating costs and expenses	11,561	22,993
Loss from operations	(9,166)	(22,390)
Interest and other income (expenses), net	(574)	(371)
Net loss	$ (9,740)	$ (22,761)

(1) Includes $3,494 Finished Goods write-off in the first quarter of 2020 related to the Dechra Asset Purchase Agreement, due to the transition to proprietary Dechra brand labelling on asset sale.

Revenues

We recorded $2.4 million in net revenues in the three months ended March 31, 2021 compared with $0.6 million for the same period in 2020. The increase in revenue was primarily due to $1.8 million in contract manufacturing revenue and royalty revenues of $0.3 million.

Our net product revenue was generated entirely from sales within the United States. As a result of our Distribution and Licensing Agreement with Dechra, we sold the remaining Zimeta inventory to them in the first quarter of 2021 and recorded $225,000 in net revenue, with the balance $2,000 to a distributor. Revenue of $603,000 for the same period in 2020 was mainly from Mirataz of which approximately 73% were shipped to three distributors.

Our partner royalty revenue for the quarter ended March 31, 2021 was $326,000, resulting from Dechra's net sales of Mirataz. There was no partner royalty revenue for the same period in 2020.

Our contract manufacturing agreement with Vaxart, Inc. for the manufacture of their oral vaccine candidate for COVID-19 generated revenue of $1.8 million for the first quarter of 2021. We did not have any contract manufacturing for the same period in 2020.

Our accounts receivable from amounts billed for contract manufacturing services require an up-front payment and installment payments during the service period. We perform periodic evaluations of the financial condition of our customers and generally do not require collateral, but we can terminate any contract if a material default occurs.

Cost of Product Revenues

Cost of product revenues consists primarily of the cost of direct materials, direct labor and overhead costs associated with manufacturing, inbound shipping and other third-party logistics costs.

For the quarter ended March 31, 2021, cost of Zimeta product sales was $207,000. The 8.8% gross margin was the result of an agreement to sell excess Zimeta inventory to Dechra at an amount close to cost. Cost of product sales for the same period in 2020 was primarily due to the write-off of approximately $3.5 million in obsolete Mirataz inventory.

Contract Manufacturing Costs

Contract manufacturing costs of $383,000 in the quarter ended March 31, 2021 consist primarily of the cost of direct materials, direct labor and overhead costs associated with manufacturing, rent, facility costs and related machinery depreciation. We did not have any contract manufacturing costs in the same year ago period.

Research and Development Expense

All costs of research and development are expensed in the period incurred. Research and development costs consist primarily of salaries and related expenses for personnel, stock-based compensation expense, fees paid to consultants, outside service providers, professional services, travel costs and materials used in clinical trials and research and development. We typically use our employee and infrastructure resources across multiple development programs.

Research and development expense was as follows for the periods indicated (in thousands, except for percentages):

	Three months ended March 31,		%
	2021	2020	Change
Payroll and related	$ 2,274	$ 3,817	(40)%
Consulting	61	164	(63)%
Field trial costs, including materials	889	1,127	(21)%
Biologics development and supplies	820	1,415	(42)%
Stock-based compensation	436	553	(21)%
Other	1,807	1,791	1%
	$ 6,287	$ 8,867	(29)%

During the three months ended March 31, 2021, research and development expense related primarily to advancing the development of KIND-030, CAD programs, KIND-510a and other early stage biologic programs.

Research and development expenses for the three months ended March 31, 2021, decreased by 29% to $6,287,000 compared with $8,867,000 for the same period in 2020. The $2,580,000 decrease was primarily due to lower costs across the board consistent with our decision to discontinue small molecule development in favor of late-stage biologics programs for dogs and cats. Outsourced research and development expenses related to KIND-030 Parvo Dog, CAD programs, KIND-510a, and other product development programs for three months ended March 31, 2021 were $709,000, $56,000, $46,000 and $49,000, respectively. Outsourced research and development expense consists primarily of costs related to CMC, clinical trial costs and consulting.

We expect research and development expense to increase for the rest of the year due to the pivotal studies on KIND-016 and KIND-030. Due to the inherently unpredictable nature of our development, we cannot reasonably estimate or predict the nature, specific timing or estimated costs of the efforts that will be necessary to complete the development of our product candidates.

Selling, General and Administrative Expense

Selling, general and administrative expense was as follows for the periods indicated (in thousands, except for percentages):

	Three months ended March 31,		%
	2021	2020	Change
Payroll and related	$ 1,020	$ 3,127	(67)%
Consulting, legal and professional services	684	1,754	(61)%
Stock-based compensation	2,060	1,511	36%
Corporate and marketing expenses	475	1,263	(62)%
Other	445	1,218	(63)%
	$ 4,684	$ 8,873	(47)%

Selling, general and administrative expenses for the three months ended March 31, 2021 decreased by 47% to $4,684,000, when compared to the same periods in 2020. The $4,189,000 year-over-year decrease was mainly due to the elimination of our companion animal sales force.

We expect selling, general and administrative expense to increase slightly going forward to put more focus on business development. We plan to rely more on a partnership-based model for commercialization whereby our pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales.

Restructuring costs

We did not record any restructuring charges for the three months ended March 31, 2021.

In March 2020, we announced a strategic realignment of our business model whereby KindredBio becomes a biologics-only company focused on accelerating our deep pipeline of late-stage biologics candidates in canine and feline markets, while discontinuing small molecule development for these species. We plan to rely more on a partnership-based model for commercialization strategy whereby pipeline assets are partnered with larger commercial partners that can maximize product opportunity in return for upfront payments, contingent milestones, and royalties on future sales. Accordingly, the companion animal commercial infrastructure will be substantially reduced. In connection with this strategic shift, we eliminated 53 positions, representing about one-third of our current workforce. The eliminated positions primarily relate to the companion animal sales force and research and development for small molecule programs. Restructuring expenses and retirement costs related to severance and health care benefits are expected to be approximately $1.7 million, exclusive of stock compensation.

In June 2020, we announced a plan to strengthen our strategic position by, among other things, prioritizing our most attractive late stage programs and substantially reducing our expenses to best position the Company for success with the previously announced business model. This restructuring reduced our workforce by approximately 24 employees and involved a restructuring charge of approximately $2.3 million related to severance payments and health care benefits, exclusive of stock compensation. We further eliminated another 5 positions and incurred a restructuring charge of approximately $0.3 million related to severance payments and health care benefits in the third quarter of 2020. We have completed our restructuring and do not anticipate any further reductions in our workforce for the foreseeable future.

Interest and Other Income, Net

(In thousands)

	Three months ended March 31,		
	2021	2020	Change
Interest and other (expense) income, net	$ (574)	$ (371)	$ (203)

The decrease of approximately $203,000 in the three months ended March 31, 2021 compared to the same period in 2020 was primarily due to $256,000 lower interest income from lower interest rate offset by lower other expense. During the same period in 2020, other expense included a charge of $100,000 in loan amendment fee.

Income Taxes

We have historically incurred operating losses and maintain a full valuation allowance against our net deferred tax assets. Our management has evaluated the factors bearing upon the realizability of our deferred tax assets, which are comprised principally of net operating loss carryforwards and concluded that, due to the uncertainty of realizing any tax benefits as of March 31, 2021, a valuation allowance was necessary to fully offset our deferred tax assets.

Liquidity and Capital Resources

We have incurred losses and negative cash flows from operations since our inception in September 2012 through March 31, 2021. As of March 31, 2021, we had an accumulated deficit of $254.6 million. Since inception and through March 31, 2021, we raised approximately $271.3 million in net proceeds. In April 2020, we entered into an At Market Offering ("ATM") whereby we may offer and sell shares of our common stock from time to time up to $25 million. Through December 31, 2020, 59,211 shares were sold through the ATM, for total gross proceeds of approximately $298,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $201,000. In January 2021, we sold another 1,456,497 shares, for total gross proceeds of approximately $7,059,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $6,876,000. On January 15, 2021, we entered into an amendment to the ATM. In accordance with the terms of the amended ATM, we may offer and sell shares of our common stock up to $24,366,000. From February 3, 2021 through March 31, 2021, 3,625,470 shares were sold through the amended ATM, for total gross proceeds of approximately $17,620,000. Net proceeds, after deducting underwriting discounts and commissions and offering expense, were approximately $17,167,000. Among them, 2,250,000 shares were sold on March 31, 2021 and settled on April 5, 2021, with gross proceeds of approximately $10,652,000. Net proceeds after deducting underwriting discounts and commissions and offering expense, were approximately $10,378,000, which has been recorded as an other receivable as of March 31, 2021.

On September 30, 2019, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Solar Capital Ltd., to make available to KindredBio an aggregate principal amount of up to $50 million under the Loan Agreement. The Loan Agreement provides for a term loan commitment of $50 million in three tranches: (1) a $20 million term A loan that was funded on September 30, 2019; (2) a $15 million term B loan that is to be funded at our request no later than December 31, 2020; and (3) a $15 million term C loan that is to be funded at our request on or before June 30, 2021. Each term loan has a maturity date of September 30, 2024. We elected not to draw down on the $15 million term B loan before December 31, 2020 deadline. Each term loan bears interest at a floating per annum rate equal to the one-month LIBOR rate (with a floor of 2.17%) plus 6.75%. We are permitted to make interest-only payments on each term loan through October 31, 2021. The interest-only period can be extended by six months upon our satisfaction of the minimum liquidity requirements described in the Loan Agreement.

Cash, cash equivalents and investments was $63.3 million as of March 31, 2021. We believe that our cash, cash equivalents and investments, remaining proceeds from the Mirataz sale, and revenues from royalties and contract manufacturing will be sufficient to fund our planned operations through the end of 2023. In addition, our January 2021 ATM facility will provide us with access to additional cash and extend our runway, if required.

Cash Flows

The following table summarizes our cash flows for the periods set forth below:

	Three months ended March 31,	
	2021	2020
	(In thousands)	
Net cash used in operating activities	$ (9,405)	$ (17,112)
Net cash (used in) provided by investing activities	$ (2,483)	$ 15,631
Net cash provided by (used in) financing activities	$ 13,179	$ (545)

Net cash used in operating activities

During the three months ended March 31, 2021, net cash used in operating activities was $9,405,000. The net loss of $9,740,000 for the three months ended March 31, 2021 included non-cash charges of $2,496,000 for stock-based compensation expense, $1,202,000 for depreciation and amortization, $128,000 for amortization of the debt discount of long-term loan, and further impacted by $73,000 for the amortization of discount on marketable securities. Net cash used in operating activities was further increased by net changes in operating assets and liabilities of $3,564,000.

During the three months ended March 31, 2020, net cash used in operating activities was $17,112,000. The net loss of $22,761,000 for the three months ended March 31, 2020 included non-cash charges of $2,064,000 for stock-based compensation expenses, $1,053,000 for depreciation and amortization, $85,000 for amortization of the debt discount of long-term loan, $3,494,000 for Mirataz finished goods write-off related to Dechra asset purchase, and partially offset by $109,000 for the amortization of premium on marketable securities. Net cash used in operating activities was further increased by net changes in operating assets and liabilities of $938,000.

Net cash (used in) provided by investing activities

During the three months ended March 31, 2021, net cash used in investing activities was $2,483,000, which resulted from proceeds from maturities of marketable securities of $16,246,000, offset by $18,469,000 related to purchases of marketable securities and $260,000 related to purchases of equipment.

During the three months ended March 31, 2020, net cash provided by investing activities was $15,631,000, due to proceeds from maturities of marketable securities of $33,769,000, offset by the purchases of marketable securities of $16,720,000 and purchases of property and equipment of $1,418,000.

Net cash provided by (used in) financing activities

During the three months ended March 31, 2021, net cash provided by financing activities of $13,179,000 was related to net proceeds of $13,665,000 from the sale of common stock from a public offering, offset by payment of $507,000 related to restricted stock awards and restricted stock units tax liability on net settlement, increased by proceeds of $21,000 from exercises of stock options.

During the three months ended March 31, 2020, net cash used in financing activities of $545,000 was related to proceeds of $124,000 from the purchases of common stock through exercise of stock options, offset by payment of $669,000 related to restricted stock awards and restricted stock units tax liability on net settlement.

Future Funding Requirements

We anticipate that we will continue to incur losses for the next several years due to expenses relating to:

- pivotal trials of our product candidates;
- toxicology (target animal safety) studies for our product candidates;
- biologic clinical material manufacturing; and
- maintain the operations of the biologics manufacturing plant in Kansas.

We believe that our cash, cash equivalents and investments, remaining proceeds from the Mirataz sale, and revenues from royalties and contract manufacturing will be sufficient to fund our planned operations through the end of 2023. In addition, our January 2021 amended ATM facility will provide us with access to additional cash and extend our runway, if required. However, our operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings or other sources, such as strategic collaborations. Such financing may result in dilution to stockholders, imposition of debt covenants and repayment obligations or other restrictions that may affect our business. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Our future capital requirements depend on many factors, including, but not limited to:

- the scope, progress, results and costs of researching and developing our current or future product candidates;
- the timing of, and the costs involved in, obtaining regulatory approvals for any of our current or future product candidates;
- the number and characteristics of the product candidates we pursue;
- the cost of manufacturing our current and future product candidates and any products we successfully commercialize, including the cost of internal biologics manufacturing capacity;
- the cost of commercialization activities if any of our current or future product candidates are approved for sale, including marketing, sales and distribution costs;
- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing possible patent claims, including litigation costs and the outcome of any such litigation.

Since inception, we have not engaged in the use of any off-balance sheet arrangements, such as structured finance entities, special purpose entities or variable interest entities.

Contractual Obligations

We have non-cancelable operating leases for two office spaces and expanded laboratory space under which we are obligated to make minimum lease payments totaling $3,888,000 through May 2025, the timing of which is described in more detail in the notes to the consolidated financial statements. In addition, we have five operating leases for equipment under which we are obligated to make minimum lease payments totaling $75,000 through 2027.

Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848)", changes to the interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR). The amendments provide optional expedients and exceptions for applying U.S. GAAP to contracts that reference LIBOR expected to be discontinued because of reference rate reform. The expedients and exceptions do not apply to contract modifications made after December 31, 2022. The following optional expedients are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: Modifications of contracts within the scope of Topics 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. The amendments also permit an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. When elected, the optional expedients for contract modifications must be applied consistently for all contracts. It applies to all entities within the scope of the affected accounting guidance and will take effect as of March 12, 2020 through

December 31, 2022. We have one loan contract which references LIBOR rate. We have not modified the contract with our lenders yet. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements.

We do not believe there are any other recently issued standards not yet effective that will have a material impact on our financial statements when the standards become effective.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve capital. We do not utilize hedging contracts or similar instruments.

We are exposed to certain market risks relating primarily to (1) interest rate risk on our cash and cash equivalents, (2) market price risk on our investments, and (3) risks relating to the financial viability of the institutions which hold our capital and through which we have invested our funds. We manage such risks by investing in short-term, liquid, highly-rated instruments. As of March 31, 2021, our cash equivalents and investments are invested in money market funds, U.S. treasury bills, U.S. federal agency notes, corporate notes, commercial paper and U.S treasury bonds. We do not believe we have any material exposure to interest rate risk due to the extremely low interest rate environment, the short duration of the securities we hold and our ability to hold our investments to maturity if necessary. Declines in interest rates would reduce investment income, but would not have a material effect on our financial condition or results of operations.

We do not currently have exposure to foreign currency risk.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, our management, with the participation of our Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”), evaluated the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the “Exchange Act”), such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure. Based on these evaluations, the Certifying Officers have concluded, that, as of the end of the period covered by this report:

(a) our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and

(b) our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during the period ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

You should consider the “Risk Factors” included under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 16, 2021. There have been no material changes to those Risk Factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description
10.1	Amendment No. 1 to the At The Market Offering Agreement between Kindred Biosciences, Inc. and H.C. Wainwright & Co., LLC dated January 15, 2021 (incorporated by reference to Exhibit 1.3 of the registrant's Registration Statement on Form S-3 (File No. 333-252173) filed with the SEC on January 15, 2021).
10.2	Exclusive License and Collaboration Agreement between Kindred Biosciences, Inc. and Elanco US Inc. dated May 5, 2021 (filed with this Quarterly Report on Form 10-Q; portions of the exhibit have been omitted because they are both (i) not material and (ii) is the type of information the issuer both customarily and actually treats as private and confidential.)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kindred Biosciences, Inc.

By: /s/ Wendy Wee
Wendy Wee
Chief Financial Officer

Date: May 11, 2021

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT BOTH (I) IS NOT MATERIAL AND (II) IS THE TYPE OF INFORMATION THAT THE REGISTRANT CUSTOMARILY AND ACTUALLY TREATS AS PRIVATE AND CONFIDENTIAL. SUCH EXCLUDED INFORMATION HAS BEEN MARKED WITH "[***]".

EXCLUSIVE LICENSE AND COLLABORATION AGREEMENT

This **Exclusive License and collaboration Agreement** (this "**Agreement**") is entered into as of May 5, 2021 (the "**Effective Date**") by and between **Kindred Biosciences Inc.**, a Delaware corporation, with its principal place of business at 1555 Bayshore Highway, Suite 200, Burlingame, CA 94010 ("**KindredBio**"), and **Elanco US Inc.**, a Delaware corporation, with its principal place of business at 2500 Innovation Way, Greenfield, IN 46140 ("**Elanco**"). KindredBio and Elanco are referred to herein individually as a "**Party**" and collectively as the "**Parties.**"

RECITALS

Whereas, KindredBio has developed, generated and produced a parvovirus monoclonal antibody known as KIND-030 and its [***]derivatives and owns intellectual property rights in such monoclonal antibody; and

Whereas, KindredBio desires to grant Elanco an exclusive license under such intellectual property rights, and Elanco desires to obtain a license under such intellectual property rights, to Develop and Commercialize the Licensed Products in the Field in the Territory (each capitalized term as defined below), subject to the terms and conditions set forth herein.

Now, Therefore, in consideration of the foregoing premises and the mutual promises, covenants and conditions contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

Article 1.
DEFINITIONS

For purposes of this Agreement, the following capitalized terms will have the following meanings. Capitalized terms used but not defined in this Agreement will have the meanings ascribed to them in the Master Supply Agreement, the Quality Agreement, and the Pharmacovigilance Agreement. All defined terms include the plural as well as the singular.

a. "**Act**" means, as applicable, the Virus-Serum-Toxin Act, 21 USC 151-159 et. seq. et seq., and all related rules, regulations and guidelines, as any of the foregoing may be amended from time to time.

b. "**Adverse Event**" means any untoward medical occurrence in a patient or a clinical investigation subject administered a Licensed Product, including occurrences that do not necessarily have a causal relationship with such Licensed Product, as further defined in the Quality Agreement and Pharmacovigilance Agreement.

c. "**Affiliate**" means, with respect to any Entity (including a Party to this Agreement), any other Entity controlled by, controlling, or under common control with such Entity. For the purposes of this definition, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") means direct or indirect ownership, including ownership by one or more trusts with substantially the same beneficial interests, of more than 50% of the outstanding voting and equity rights of such Entity, or possession of the power to direct the management and policies of such Entity.

d. "**Anti-Corruption Laws**" means the U.S. Foreign Corrupt Practices Act (15 U.S.C. §§78dd-1, et. seq.), as amended, the Organization for Economic Co-operation and Development (OECD) Convention on combating bribery of foreign public officials in international business transactions, and any other applicable anti-corruption laws.

e. "**APHIS**" means the Animal and Plant Health Inspection Service agency of the USDA or any successor agency thereto.

f. "**Applicable Laws**" mean all applicable federal, state and local laws, statutes, ordinances, rules, and regulations of any kind whatsoever, and any applicable orders, injunctions, or decrees of any court, administrative agency, or similar authority, whether federal, state or local, including the laws, rules and regulations and other applicable Regulatory Authority, including but not limited to the Virus-Serum-Toxin Act 21 USC 151-159 et. seq. and 9 CFR Subchapter E Parts 101 to 124.

g. "**Background IP**" means, in reference to KindredBio, the KindredBio Background IP and, in reference to Elanco, the Elanco Background IP.

h. "**Biosimilar Product**" means, with respect to a Licensed Product in a particular country, any product (other than such Licensed Product) that is a parvo monoclonal antibody that is labeled for the same indications as such Licensed Product and has highly similar structure, function, and clinical characteristics to those of such Licensed Product and is commercialized in such country by a Third Party (excluding Sublicensees).

i. "**Business Day**" means a day other than Saturday, Sunday or a day on which banking institutions in California are required or permitted to be closed.

j. "**Calendar Quarter**" means the period beginning on the Effective Date and ending on the last day of the Calendar Quarter in which the Effective Date falls, and thereafter each successive period of three (3) consecutive calendar months ending on the last day of March, June, September, or December, respectively; *provided* that the final Calendar Quarter ends on the last day of the Term.

k. "**Calendar Year**" means the period beginning on the Effective Date and ending on December 31 of the Calendar Year in which the Effective Date falls, and thereafter each successive period of twelve (12) consecutive calendar months beginning on January 1 and ending on December 31; provided that the final Calendar Year ends on the last day of the Term.

l. "**CDA**" means the Mutual Confidentiality Agreement signed between the Parties on [***]

m. "**Change of Control**" means with respect to either Party: (a) the acquisition by a Third Party, in one transaction or a series of related transactions, of direct or indirect beneficial ownership of more than fifty percent (50%) of the then outstanding voting equity securities or other voting interests of such Party (excluding, for clarity, an acquisition by a Third Party where the stockholders of such acquired Entity immediately prior to such transaction hold a majority of the voting shares of outstanding capital stock of the surviving entity immediately following such transaction); (b) any merger, reorganization, consolidation or business combinations involving such Party, as a result of which a Third Party acquires direct or indirect beneficial ownership of more than fifty percent (50%) of the voting power of the surviving entity immediately after such merger, reorganization or consolidation; or (c) a sale of all or substantially all of the assets of such Party in one transaction or a series of related transactions to a Third Party. The acquiring or combining Third Party in any of (a), (b) or (c), and any of such Third Party's Affiliates (whether in existence as of or any time following the applicable transaction, but other than the acquired Party and its Affiliates as in existence prior to the applicable transaction or Affiliates it controls after the applicable transaction) are referred to collectively herein as the "**Acquirer**".

n. "**Clinical Tests**" means any clinical tests, any study incorporating more than one of the critical periods, or any clinical tests commenced after Regulatory Approval.

o. "**Combination Product**" means any product containing both (a) a pharmaceutically active agent or ingredient which constitutes a Licensed Product and (b) one or more other pharmaceutical active agents or ingredients which do not constitute Licensed Products.

p. "**Commercialization**" means any and all activities undertaken before and after obtaining Regulatory Approvals relating specifically to the pre-launch, launch, promotion, detailing, medical education and medical liaison activities, marketing, pricing, reimbursement, sale, and distribution of Licensed Products, including strategic marketing, sales force detailing, advertising, Licensed Product support, all customer support, Licensed Product distribution and invoicing and sales activities; *provided, however*, "**Commercialization**" shall exclude any activities relating to the Manufacture of Product. "**Commercialize**" and "**Commercializing**" shall have the correlative meanings.

a. "**Commercially Reasonable Efforts**" means, with respect to a Party, that level of efforts and resources consistent with commercially reasonable practices of a similarly situated company in the animal health industry with respect to the Development, Commercialization, or supply of an animal health pharmaceutical product at a similar stage of research, development, or commercialization.

b. "**Confidential Information**" has the meaning as provided in Section 12.1 (Confidential Information) of this Agreement.

c. "**Control**" means, with respect to any Licensed Product, Know-How, Patents or other intellectual property rights, the [***] license granted to such Party under this Agreement) to grant access to, to grant use of, or to grant a license or a sublicense to the other Party, such Know-How, Patents or intellectual property rights without [***] or [***] any Third Party.

d. "**Cover**" means, with respect to a Patent in reference to a Licensed Product, that the manufacture, use, offer for sale, sale or import of the Licensed Product, absent a license to such Patent, would infringe a Valid Claim in such Patent [***] would be infringed, [***]. "**Covered**" and "**Covering**" have the correlative meanings.

e. "**Development**" means the discovery, research, preclinical, non-clinical and clinical development activities, including activities related to screening, assays, test method development and stability testing, toxicology, statistical analysis, process development and scale-up, pharmacokinetic studies, data collection and management, report writing and other pre-Regulatory Approval activities. "**Development**" shall exclude any activities relating to the Manufacture of Product. "**Develop**" and "**Developing**" shall have the correlative meanings.

f. "**Development Plan**" has the meaning set forth in Section 4.1(c) (Development Plan).

g. "**Dispute**" has the meaning set forth in Section 14.1 (Dispute Escalation).

h. "**Distributor**" means a Third Party distributor of Licensed Product that: (a) has no royalty or other payment obligations to Elanco or any of its Affiliates that are calculated based on amounts invoiced or received by such Third Party for sales of Licensed Product; or (b)(i) does not take title to a Licensed Product, (ii) does not invoice Licensed Product sales to Third Party customers, and (iii) is responsible only for inventory management and distribution with respect to Licensed Products on behalf of Elanco or its Affiliate.

i. "**Dollar**" means a U.S. dollar, and "**$**" shall be interpreted accordingly.

j. "**Efficacy Rate**" has the meaning as provided in Section 8.2 (U.S. Performance Milestone Payments).

k. "**Elanco Background IP**" has the meaning set forth in Section 9.1(a) (Background IP).

l. **"Elanco Competitor"** means any of the following companies: [***]any of their respective Affiliates and any other company in the animal health industry that [***].

m. "**Elanco Indemnitees**" has the meaning set forth in Section 11.1 (By Elanco).

n. "**Elanco Inventions**" means any New Invention made solely by or on behalf of Elanco, its employees, consultants or contractors, or any of its Affiliates or Sublicensees.

o. "**EMA**" means the European Medicines Agency or the equivalent Regulatory Authority with competent jurisdiction in the United Kingdom or any successor entity to either of the foregoing.

p. "**Entity**" means any corporation, general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization or entity.

q. "**EU**" means the European Union member states as then constituted. As of the Effective Date, the European Union member states are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.

r. "**Executive Officer**" means, with respect to KindredBio, its Chief Executive Officer, and with respect to Elanco, its Executive Vice President – Innovation, Regulatory & Business Development, or, in either case, a designee with senior decision-making authority.

s. "**FDA**" means the United States Food and Drug Administration, or any successor agency thereto in the United States.

t. "**Field"** means the treatment, prevention, or diagnosis of canine parvovirus disease.

a. "**First Commercial Sale**" means, with respect to a Licensed Product or a Biosimilar Product in the Field in the Territory, the first sale for end use or consumption of such Licensed Product or such Biosimilar Product in such country following Regulatory Approval; but excluding, as applicable, (a) sales for testing, marketing and promotional or clinical trial purposes, (b) transfer of the Licensed Product in such country by or on behalf of any selling Party, or (c) transfers of Licensed Products or Biosimilar Product for bona fide charitable purposes or for compassionate use or for Licensed Product or Biosimilar Product samples.

b. "**GLP**" means good laboratory practice.

c. "**GMP**" means good manufacturing practice.

d. "**Governmental Authority**" means any multi-national, national, federal, state, local, municipal, provincial or other governmental authority of any nature (including any governmental division, prefecture, subdivision, department, agency, bureau, branch, office, commission, council, court or other tribunal).

e. "**Indemnified Party**" has the meaning set forth in Section 11.3 (Procedure).

f. "**Indemnifying Party**" has the meaning set forth in Section 11.3 (Procedure).

g. "**Information**" means any data, results, technology, business or financial information or information of any type whatsoever, in any tangible or intangible form, including

know-how, trade secrets, practices, techniques, methods, processes, inventions, developments, specifications, formulations, formulae, software, algorithms, marketing reports, expertise, technology, test data (including pharmacological, biological and chemical, biochemical, clinical test data and data resulting from non-clinical studies), chemical, manufacturing and control information, stability data and other study data and procedures.

h. "**Infringement**" has the meaning set forth in Section 9.3(a) (Notice; Procedures).

i. "**Initiation**" means, with respect to a clinical trial, first dosing of the first subject in such clinical trial.

j. "**Intellectual Property Rights**" means and includes all rights of any of the following types anywhere in the world: (a) Patents; (b) (i) copyrights, moral rights, and rights in works of authorship and (ii) all registrations for any of the foregoing (i); and (c) Know-How (other than those rights subject to clauses (a) or (b) hereof).

k. "**Joint Invention**" means any New Invention made jointly by (a) on the one hand, one or more employees, consultants or contractors of Elanco or any of its Affiliates or Sublicensees, and (b) on the other hand, one or more employees, consultants or contractors of KindredBio or any of its Affiliates.

l. "**Joint Patents**" means Patents claiming Joint Inventions.

m. "**JSC**" has the meaning set forth in Section 3.1(a) (Formation and Role).

n. "**KIND-030** [***]**Formulation**" means any Licensed Product in a [***] formulation.

o. "**KIND-030** [***]**Formulation**" means any Licensed Product in the [***] formulation ("**[***]Formulation**").

p. "**KindredBio Background IP**" has the meaning set forth in Section 9.1(a) (Ownership of IP and New Inventions).

q. "**KindredBio Indemnitees**" has the meaning set forth in Section 11.1 (By Elanco).

r. "**KindredBio Inventions**" means any New Invention made solely by or on behalf of KindredBio, its employees, consultants or contractors, or any of its Affiliates or licensees (other than Elanco).

s. "**Know-How**" means any and all tangible and intangible trade secrets, know-how, expertise, discoveries, inventions, information, data or materials, including ideas, concepts, formulas, methods, procedures, designs, technologies, compositions, plans, applications, technical data, assays, manufacturing information or data, samples, chemicals, and biological materials and all derivatives, modifications, and improvements thereof, but excluding any Patents; that, in each case, are not in the public domain.

t. "**Letter Agreement**" means the Letter Agreement entered into between the Parties on December 11, 2020.

u. "**Licensed Know-How**" means all Know-How that (a) is Controlled by KindredBio or its Affiliates as of the Effective Date or during the Term and (b) is necessary or reasonably useful for the research, Development, Manufacture, or Commercialization of the Licensed Products in the Field in the Territory.

v. "**Licensed Patents**" means and includes (a) the Patents listed in Exhibit A (Licensed Patents) and (b) other Patents that are (i) Controlled by KindredBio or its Affiliates as of the Effective Date or during the Term and (ii) necessary or reasonably useful for the Development, Manufacture or Commercialization of any Licensed Product.

w. "**Licensed Product"** means any product in the Field which is, contains or comprises of the Monoclonal Antibody or any derivative of the Monoclonal Antibody in the Field, regardless of such product's methods of application (e.g., systemically, locally into tumors, intravenously, subcutaneously, or orally), forms (e.g., active pharmaceutical ingredient (API), finished dose forms, kits) or formulations or dosages.

x. "**Licensed Technology**" means the Licensed Patents and Licensed Know-How.

y. "**Master Supply Agreement**" means the supply agreement to be entered into between the Parties, which governs the manufacturing and supply of the Licensed Products in the Field in the Territory and other products and services that may be agreed on and added by the Parties, and which may be modified, amended or restated from time to time by the Parties.

z. "**Monoclonal Antibody**" means the parvovirus injectable monoclonal antibody known as KIND-030, as described in the patent application [***] filed by KindredBio [***] and its [***]derivatives.

aa. [***].

ab. "**Net Sales"** means, with respect to a Licensed Product, the gross sales amount invoiced by Elanco, its Affiliates, or any Sublicensee or Distributors thereof for the sale of the Licensed Product in the Territory to non-Affiliate Third Parties, less the following deductions to the extent actually incurred, allowed, paid, accrued or allocated in accordance with U.S. GAAP, consistently applied:

1. [***];

2. [***];

3. [***];

4. [***]; and

5. [***].

Such amounts shall be determined from the books and records of Elanco or Sublicensee, maintained in accordance with U.S. GAAP or, in the case of Sublicensees, such similar accounting principles, consistently applied. In no event shall a particular amount identified above to be deducted exceed the gross amount invoiced resulting in a negative royalty.

For clarity, [***].

ac. "**New Invention**" means any invention or discovery, whether or not patentable, that is made, conceived, generated or reduced to practice, in whole or in part, in the course and as a result of the conduct of the activities contemplated by this Agreement.

ad. **"Non-Royalty Income**" means any payment that Elanco or any of its Affiliates receives from a Sublicensee as consideration for a sublicense under the Licensed Technology for purposes of Developing or Commercializing Licensed Products, [***].

ae. "**Outline of Production**" is a detailed written description in outline format of how a serial of product is formulated, tested, packaged, dated and recommended for use that is filed with the APHIS pursuant to U.S. 9 C.F.R. §§ 114.8 (or its successor regulation) and U.S. 9 C.F.R. §§ 114.9 (or its successor regulation), or the equivalent filing filed with any equivalent regulatory agency or governmental authority outside the U.S. (including, without limitation, an authorization application or dossier filed with the applicable Regulatory Authority of a European Union member state or with the EMA for a biological product).

af. "**Patent**" means any (a) patent [***], (b) [***]any other patent application claiming priority, or entitled to claim priority, directly or indirectly to (i) any such patent or patent application or (ii) patent or patent application from which such patent or patent application claims, or is entitled to claim, direct or indirect priority, and (c) patent issuing on any of the foregoing anywhere in the world, together with any registration, reissue, re-examination, patent of addition, patent term extension, supplemental protection certificate, or extension of any of the foregoing in anywhere in the world.

ag. "**Pharmacovigilance Agreement**" means the agreement for the exchange of data relating to pharmacovigilance for the Licensed Products to be entered into between the Parties which may be modified, amended or restated from time to time by the Parties.

ah. "**Pivotal Trial**" has the meaning as provided in Section 8.2 (U.S. Performance Milestone Payments).

ai. "**Regulatory Approval**" means, with respect to a pharmaceutical product in a particular jurisdiction, all approvals or other permissions from the applicable Regulatory Authority in such jurisdiction necessary to market and sell such product in such jurisdiction, including pricing and reimbursement approvals if required prior to the first marketing or sale of such product in such jurisdiction.

aj. "**Regulatory Authority**" means any applicable Governmental Authority having the administrative authority to regulate the manufacturing, development, commercialization,

reimbursement or pricing, as applicable, for the Licensed Product, including Regulatory Approvals, including the FDA, USDA, APHIS and the EMA.

ak. "**Regulatory Exclusivity**" means any exclusive marketing rights or data exclusivity rights conferred by any Regulatory Authority with respect to a pharmaceutical product other than a Patent, including orphan drug exclusivity, new chemical entity exclusivity, data exclusivity, or pediatric exclusivity.

al. "**Regulatory Filings**" means all U.S. Veterinary Biologics Establishment License applications, U.S. Veterinary Biological Product License applications, U.S. Veterinary Biological Product Permit applications, Outlines of Productions, Regulatory Approvals, and other filings (including any formal submissions to, Regulatory Authorities), in each case, with respect to Licensed Products in any country or other jurisdiction.

am. "**Right of Reference**" means: (a) in the United States, a "right of reference or use," as such term is defined in 21 C.F.R. 314.3(b); or (b) in any other country or jurisdiction, the equivalent authority to rely upon, and otherwise use, an investigation for the purpose of filing, and conducting a clinical trial under, or obtaining approval of an U.S. Veterinary Biologics Establishment License, U.S. Veterinary Biological Product License, U.S. Veterinary Biological Product Permit or other Regulatory Approval, including the ability to make available the underlying raw data from the investigation for audit by the applicable Regulatory Authority in such country or other jurisdiction, if necessary.

an. "**Royalty Term**" has the meaning set forth in Section 8.5(b) (Royalty Term).

ao. "**Strategic Partnership**" means any agreement between Elanco or any of its Affiliates and a Third Party, under which such Third Party agrees to compensate Elanco or its Affiliates in exchange for Elanco's or Elanco's Affiliate's practice of the rights that are licensed to Elanco pursuant to Section 2.1 (License to Elanco) of this Agreement on behalf of or in collaboration with such Third Party, including without limitation, for Commercialization and Development activities with respect to Licensed Products.

ap. "**Sublicensee**" means any Affiliate or Third Party that has received a sublicense of the rights granted to Elanco under Section 2.1(a) (License to Elanco), directly or indirectly through one or more tiers, from Elanco or its Affiliate.

aq. "**Term**" has the meaning set forth in Section 13.1 (Term; Mutual Termination).

ar. "**Territory**" means worldwide.

as. "**Third Party**" means any Entity other than Elanco or KindredBio or an Affiliate of Elanco or KindredBio.

at. "**U.S.**" or "**United States**" means the United States of America, including all possessions and territories thereof.

au. "**USDA**" means the United States Department of Agriculture, or any successor agency thereto in the United States.

av. "**U.S. GAAP**" means United States generally accepted accounting principles, as consistently applied throughout the organization of a particular entity.

aw. "**U.S. Veterinary Biological Product License**" means a document issued pursuant to 9 C.F.R. Subchapter E §§ 102 (or its successor regulation) by APHIS, or the equivalent filing by with any equivalent regulatory agency or governmental authority outside the U.S., authorizing the production of specified biological products in such jurisdiction (including, without limitation, an application or filing filed with the applicable regulatory agency of a European Union member state or with the EMA for a biological product).

ax. "**U.S. Veterinary Biological Product Permit**" means a document issued pursuant to 9 C.F.R. Subchapter E §§ 102 (or its successor regulation) by APHIS, or the equivalent filing filed by any equivalent regulatory agency or governmental authority outside the U.S., authorizing the importation of biological products subject to restrictions and controls in such jurisdiction (including, without limitation, an application or filing filed with the applicable regulatory agency of a European Union member state or with the EMA for a biological product).

ay. "**U.S. Veterinary Biologics Establishment License**" means a document issued pursuant to 9 CFR Subchapter E § 102 (or its successor regulation) by APHIS, or the equivalent filing filed by any equivalent regulatory agency or governmental authority outside the U.S. authorizing the use of designated premises for production of biological products in such jurisdiction (including, without limitation, an application or filing filed with the applicable regulatory agency of a European Union member state or with the EMA for a biological product).

az. "**Valid Claim**" means (a) a claim of an [***]and (b) a claim of [***].

Article 2.
LICENSES AND EXCLUSIVITY

a. **License to Elanco**

6. **License to Elanco**. Subject to the terms and conditions of this Agreement, KindredBio hereby grants Elanco an exclusive (even as to KindredBio, other than for Development and Manufacturing activities, as provided below), royalty-bearing license, with the right to grant sublicenses, in accordance with Section 2.1(b) (Sublicenses), under the Licensed Technology, to use, Manufacture, Develop, and Commercialize the Licensed Products in the Field in the Territory.

1. Sublicenses

i.Elanco shall have a right to grant sublicenses under the Licensed Technology, to its Affiliates and to Third Parties.

ii. Each agreement in which Elanco grants a sublicense under the Licensed Technology shall be consistent with the terms and conditions of this Agreement applicable to the scope of the sublicense granted to a Sublicensee and Elanco shall ensure that its Sublicensees comply with the applicable terms and conditions of this Agreement.

iii. Notwithstanding any such sublicense, Elanco shall remain solely liable for the performance of its obligations hereunder, regardless of whether such obligation is delegated, subcontracted, or sublicensed to any of its Affiliates, Subcontractors or Sublicensees.

2. **Subcontractors**. Elanco may appoint Distributors and engage subcontractors (including contract research organizations) for the purpose of performing Elanco's obligations, subject to Section 2.1(b) (Sublicenses), with respect to the Development, Manufacture, and Commercialization of Product in the Field in the Territory provided, however, Elanco shall enter into agreements with such Distributors and subcontractors which contains confidentiality provisions which are at least as restrictive as the confidentiality provisions of this Agreement and the terms and conditions that enable KindredBio to exercise its rights, particularly in relation to intellectual property ownership and rights, under this Agreement.

b. **Rights Retained by KindredBio.** Except for the rights and licenses specified in Section 2.1 (License to Elanco), no license or other rights are granted to Elanco under any intellectual property of KindredBio, whether by implication, estoppel, or otherwise, whether any such intellectual property dominates or is dominated by the Licensed Technology. Notwithstanding anything to the contrary in this Agreement, KindredBio may use and permit others to use the Licensed Technology for any research, development, commercial, or other purposes, outside of the Field. For clarity, KindredBio retains the right, on behalf of itself and its Affiliates, to use the Licensed Technology to Develop and Manufacture the Licensed Products in the Field in the Territory pursuant to its obligations under this Agreement and the Master Supply Agreement.

c. **No Implied Licenses**. Except as explicitly set forth in this Agreement, neither Party shall be deemed by estoppel or implication to have granted the other Party any license or other right to any intellectual property of such Party.

d. **Access to Information**. KindredBio shall provide, or cause to be provided, to Elanco and its representatives, reasonable access to all of its offices, representatives and records to conduct such investigations and reviews relating to the Licensed Technology as Elanco may reasonably request from time to time.

e. **Non-Compete**. During the Term of this Agreement, Elanco may not directly or indirectly sell any product which is [***].

Article 3.
GOVERNANCE

a. **Joint Steering Committee**

3. **Formation and Role**. Promptly, and in any event within [***] days after the Effective Date, the Parties shall establish a joint steering committee (the "**JSC**") to coordinate, oversee, review and discuss the Parties' activities with respect to [***]. For that purpose and to the extent reasonably necessary, the JSC will:

iv. discuss the [***];

v. [***];

vi. [***];

vii. [***];

viii. [***];

ix. [***] and

x. perform such other functions as appropriate to further the purposes of this Agreement, as expressly set forth in this Agreement or as determined by the Parties in writing.

The JSC shall have only the powers expressly assigned to it in this Section 3.1 (Joint Steering Committee) and elsewhere in this Agreement, and shall have no power to amend, modify, or waive compliance with this Agreement.

4. **Members**. The JSC shall have [***] members. Elanco shall appoint [***] representatives to the JSC, and KindredBio shall appoint [***] representatives to the JSC. Each JSC representative may be an officer, employee, or representative of the applicable Party having sufficient experience and knowledge of matters arising within the scope of the JSC's responsibilities to make decisions with respect thereto. Each Party may replace its representatives at any time upon written notice to the other Party. [***]. The role of the chairperson shall be [***].

5. **Meetings**. The JSC shall meet [***], unless the Parties mutually agree in writing to a different frequency for such meetings or no further development is contemplated. Either Party may also call a special meeting of the JSC (by videoconference or teleconference) by [***]Business Days' prior written notice to the other Party in the event such Party reasonably believes that a significant matter must be addressed prior to the next regularly scheduled meeting no later than [***] Business Days prior to the special meeting, with materials [***].

6. **Decision-Making**. The JSC shall act by [***]of the Parties. The representatives from each Party will each have [***]. If after reasonable discussion and good faith consideration of each Party's view on a particular matter before the JSC, [***]. If the issue is not resolved [***], then (i) [***]

b. **Scope of Authority**. Notwithstanding the establishment and existence of the JSC or any subcommittee, each Party shall retain the rights, powers and discretion granted to it

hereunder, and neither the JSC nor any subcommittee is delegated or vested with rights, powers or discretion unless such delegation or vesting is expressly provided herein [***].

c. **Subcommittees**. From time to time, the JSC may establish additional subcommittees to oversee [***]within the scope of authority of the JSC, as it deems necessary or advisable. Each subcommittee will be composed of an [***].

Article 4.
DEVELOPMENT

a. **Development**

7. **KindredBio's Development Obligations**. KindredBio shall be responsible for [***] the Development of the Licensed Products developed by KindredBio including conducting [***]for such Licensed Products[***].

8. **Elanco's Development Obligations**. Elanco shall be responsible for [***], including conducting [***]for the Licensed Products[***]. As between the Parties, Elanco shall bear all of its costs and expenses incurred in connection with such Development activities[***].

9. **Development Plan**. Each Party shall Develop Licensed Products in the Field in accordance with their obligations indicated above, [***]. Each Party shall provide the other with an initial, high level development plan (the "**Initial Development Plan**") [***].

10. **Amendments to the Development Plan**. Each Party agrees to keep the other Party informed of material amendments to its Development Plan via the JSC, which may review and discuss such amendments in accordance with Section 3.1(a)(iii) (Formation and Role). References to the "Development Plan" in this Agreement refer to the Development Plan as then in effect (including all amendments thereto). A Party, without notice to or review by the JSC, may make non-substantive changes to such Party's Development Plan as long as such changes do no alter or adversely affect the other Party's rights and obligations as provided under this Agreement and as provided under the Development Plan.

b. **Development Diligence**

11. Elanco, itself or through its Affiliates, Sublicensees, or Subcontractors, shall use Commercially Reasonable Efforts, at its sole cost and expense, to Develop the Licensed Products [***]. Elanco shall, and Elanco shall cause its Affiliates, Sublicensees and its Subcontractors to conduct all Development under this Agreement in a professional manner and in compliance with all Applicable Laws, including applicable GLP and GMP.

12. [***].

c. **Development Updates**. Each Party shall keep the other Party reasonably informed, through the JSC, of the status, progress, and results of all Development activities for

Licensed Products in the Territory. Each Party shall promptly respond to reasonable requests of the other Party for additional Information with respect to such other Party's Development activities for Licensed Products in the Territory.

d. **Records and Reports**. Each Party shall prepare and maintain, or shall cause to be prepared and maintained, in conformity with standard animal health industry practices and the terms and conditions of this Agreement, complete and accurate written records, accounts, notes, reports and data with respect to all Development activities with respect to Licensed Products. Such records shall fully and properly reflect, in good scientific manner appropriate for regulatory and patent purposes, all work done and results achieved in the performance of all Development activities for Licensed Products, in the Territory. Each Party shall document all non-clinical studies and clinical trials in formal written study records, and shall document all manufacturing activities for Licensed Products, in each case in accordance with Applicable Laws, including applicable national and international guidelines such as GLP and GMP. The Parties shall discuss the status, progress and results of all Development activities with respect to Licensed Products, in the Territory at such JSC meetings, as required.

e. **Development Data**

13. Each Party shall solely own all data, records and reports generated by or on behalf of such Party or its Affiliates, in the non-clinical and clinical Development of the Licensed Products (the "**Product Data**"); *provided*, that neither Party is deemed to conduct Development of the Licensed Products on behalf of the other Party. Notwithstanding any provision of this Agreement to the contrary, the Product Data that a Party is required to deliver to the other Party under this Agreement shall be limited to the Product Data that is (i) Controlled by such Party and (ii) that is necessary or reasonably useful to support the Development, Regulatory Approval or Commercialization of the Licensed Products.

14. Each Party, shall, on a [***]basis and at no charge to the other Party, as permitted under Applicable Law, provide the other Party with a summary of all Product Data not previously transferred under this Section 4.5(b) (Development Data). KindredBio may disclose and provide copies of such Product Data Controlled by Elanco to KindredBio's Affiliates and Third Party licensees that have a need to know the Product Data to comply with obligations under this Agreement and that have agreed in writing to share development data with KindredBio and Elanco on terms substantially similar to the terms of this Section 4.5 (Development Data). Elanco may disclose and provide copies of such Product Data Controlled by KindredBio to Elanco's Affiliates and Sublicensees that have agreed in writing to share development data with KindredBio and Elanco on terms substantially similar to the terms of this Section 4.5 (Development Data).

f. **Standards of Conduct**. Each Party shall perform, and shall ensure that its Affiliates, Sublicensees and Third Party contractors perform, the Development activities with respect to Licensed Products in good scientific manner, and in compliance in all material respects with the requirements of Applicable Law.

Article 5.
REGULATORY

a. **Overview**

15. **Licensed Products**

xi.In the United States. [***]has the exclusive right to conduct, and subject to the remainder of this Article 5 (Regulatory), is solely responsible for all aspects of, activities related to (i) setting the regulatory strategy for seeking Regulatory Approvals upon consultation with [***], for Licensed Products in the Field in the United States, and (ii) seeking and obtaining Regulatory Approvals in the Field in the United States. As between the Parties, [***]shall bear all of its costs and expenses incurred in connection with such regulatory activities.

xii.Outside the United States. [***]has the exclusive right to conduct, and subject to the remainder of this Article 5 (Regulatory), is solely responsible for all aspects of, activities related to (i) setting the regulatory strategy for seeking Regulatory Approvals (including any pricing approvals) for Licensed Products in the Field outside the United States, and (ii) seeking and obtaining Regulatory Approvals in the Field outside the United States. As between the Parties, [***]shall bear all of its costs and expenses incurred in connection with such regulatory activities.

b. **Regulatory Responsibilities and Rights of Reference**

16. **In the United States**. [***] shall prepare, submit, and own all Regulatory Filings for Licensed Products in the Field in the United States, at [***]'s sole cost and expense. [***] hereby grants to [***]an irrevocable, permanent Right of Reference to all Regulatory Filings pertaining to Licensed Products submitted by or on behalf of [***], including any such Regulatory Filings that are in the possession of any Third Party, subject to the prior written consent of such Third Party. [***]may use such Right of Reference to [***]'s Regulatory Filings solely for the purpose of seeking, obtaining, and maintaining Regulatory Approval of a Licensed Product in Field outside the United States, including in interactions with any Regulatory Authority in connection with Development or Regulatory Approval of a Licensed Product outside the United States.

17. **Outside the United States**. As between the Parties, [***]shall prepare, submit, and own all Regulatory Filings for Licensed Products in the Field outside the United States, at [***]sole cost and expense. Elanco shall support [***]in seeking, obtaining, and maintaining Regulatory Approvals in the Field in the United States, including by providing necessary documents or other materials required by Applicable Law to seek, obtain, or maintain Regulatory Approval in the Field, all in accordance with the terms and conditions of this Agreement. [***]shall lead all interactions with Regulatory Authorities with respect to Licensed Products in the Field outside the United States.

c. **Regulatory Authority Inspection**

18. **Inspections of [***]**. [***]shall immediately notify [***]as soon as [***]becomes aware of any Regulatory Authority inspections relating to any Licensed Product in the Field outside the U.S. [***]may be present at any such inspections and [***]shall provide [***]the opportunity to review and comment on any responses that may be required to the extent practically possible. If [***]does not receive prior notice of any such inspection, [***]shall notify [***]as soon as practicable after such inspection and shall provide [***]with copies of all relevant materials, correspondence, statements, forms, and records received or generated pursuant to any such inspection.

19. **Inspections of [***]**. [***]shall immediately notify [***]as soon as [***]becomes aware of any Regulatory Authority inspections relating to any Licensed Product in the Field in the United States. [***]may be present at any such inspections and [***]shall provide [***]the opportunity to review and comment on any responses that may be required to the extent practically possible. If [***]does not receive prior notice of any such inspection, [***]shall notify [***]as soon as practicable after such inspection and shall provide [***]with copies of all relevant materials, correspondence, statements, forms, and records received or generated pursuant to any such inspection relating to such Licensed Product.

d. **Regulatory Cooperation**

20. Each Party shall use Commercially Reasonable Efforts to provide the other Party with all reasonable assistance and take all actions reasonably requested by such other Party, without changing the allocation of responsibilities set forth in this Article 5 (Regulatory), that are necessary or desirable to enable: (i) [***]to seek, obtain, and maintain Regulatory Approvals for Licensed Products in the Field outside the United States; and (ii) [***]to seek, obtain, and maintain Regulatory Approvals for Licensed Products in the Field in the United States. Each Party shall cooperate with any inspection by any Regulatory Authority relating to Licensed Products, including any inspection prior to approval of an application for Regulatory Approval for Licensed Products.

21. The Parties shall share on a timely basis through the JSC (or an applicable subcommittee) significant correspondence to or from a Regulatory Authority (including submissions of Regulatory Filings) that are relevant to Licensed Products. The Parties shall share and review such correspondence to or from a Regulatory Authority to assure that the Parties provide consistent responses to the Regulatory Authorities with respect to inquiries relevant to Licensed Products. Additionally, to the extent that KindredBio prepares an Outline of Production for the Licensed Product, then KindredBio shall provide Elanco with a draft of such Outline of Production at least [***] days prior to completion thereof (as well as a final copy of such Outline of Production upon completion), as well as any modifications or amendments thereto. Elanco shall have the right to review and comment on any draft of the Outline of Production (as well as any modifications or amendments thereto) and shall provide KindredBio with such comments within [***]days of receipt thereof. KindredBio shall consider any such comments in good faith.

e. **Notice of Regulatory Action**. If any Third Party, including a Regulatory Authority, takes or gives notice of its intent to take any regulatory action with respect to any activity of a Party pursuant to this Agreement, which regulatory action could reasonably be

expected to materially adversely affect any Development, Manufacture, or Commercialization activities with respect to Licensed Products in the Field in the United States or outside the United States, then such Party's obligations shall be in accordance with the terms and provisions of the Master Supply Agreement.

f. **Remedial Actions**. If either Party obtains information indicating that any Licensed Product may be subject to any recall, corrective action, or other regulatory action by any Governmental Authority or Regulatory Authority, then such Party's subsequent obligations shall be governed by the Master Supply Agreement and the Quality Agreement.

g. **Adverse Event Reporting; SDEA; Global Pharmacovigilance Database**. The Parties' obligations with regard to the timely reporting to the appropriate Regulatory Authorities of Adverse Events and the Parties' responsibilities to protect patients and promote their well-being in connection with the use of the Licensed Products will be governed by the Pharmacovigilance Agreement.

Article 6.
COMMERCIALIZATION

a. **Commercialization Responsibilities**

22. Elanco's Responsibilities. Elanco has the exclusive right to conduct, and is solely responsible for all aspects of, the Commercialization of Licensed Products in the Field in the Territory under its own brand(s) and trademarks, including: (i) developing and executing a commercial launch and pre-launch plan (ii) marketing and promotion; (iii) booking sales and distribution and performance of related services; (iv) handling all aspects of order processing, invoicing and collection, inventory and receivables; and (v) providing customer support, including handling medical queries, and performing other related functions, in each case of (i)–(v) with respect to the Field; *provided*, that such decisions are consistent with the express terms and conditions of this Agreement. As between the Parties, Elanco shall bear all of its costs and expenses incurred in connection with such Commercialization activities.

b. **Commercial Diligence.** Elanco shall use Commercially Reasonable Efforts to (i) Commercialize Licensed Products [***].

c. **Commercialization Plans**. Elanco shall establish plans for Commercialization of Licensed Products in the Field in accordance with its normal business practices and consistent with the form and detail that Elanco normally provides for its internal products at a similar stage and shall provide the final version of such commercialization plan (the "**Commercialization Plan**") [***]. After establishment of the initial commercialization plan for Licensed Products in the Field, Elanco shall [***] establish such other plans for Commercialization of Licensed

Products in other countries of the Territory in accordance with its normal business practices and in compliance with the Commercialization Plan [***].

a. **Standards of Conduct**. Elanco shall perform, and shall ensure that its Affiliates, Sublicensees and Third Party contractors perform, all Commercialization activities in a good scientific and ethical business manner and in compliance with Applicable Laws. Elanco represents that it has established or will establish, and shall follow, its own internal policies, procedures, and standards for promotion, Clinical Tests, medical education activities and other sales and marketing activities for Licensed Products in the Field, to ensure compliance with Applicable Laws.

Article 7.
MANUFACTURING

KindredBio will be responsible for Manufacturing globally and Elanco will be responsible for purchasing all of its requirements for Licensed Products in the Field in the Territory. The manufacturing of the Licensed Products will be governed by the terms and provisions of the Master Supply Agreement. KindredBio is responsible for obtaining GMP certification for its site at its own cost. [***]. The Master Supply Agreement shall provide for Elanco to have the right to conduct regular audits and inspections to ensure compliance with regulatory and quality requirements.

Article 8.
COMPENSATION

a. **Upfront Payments**. As part of the consideration for the license and rights granted hereunder by KindredBio, Elanco agrees to pay to KindredBio a one-time [***] upfront payment of Five Hundred Thousand Dollars ($500,000) (the "**Upfront Payment**") and the Parties acknowledge that the Upfront Payment was paid to and received by KindredBio prior to the date of this Agreement.

b. **U.S. Performance Milestone Payments**. During the Term of this Agreement, Elanco shall pay to KindredBio the amounts set forth below upon the [***]achievement of the corresponding milestone events in the U.S. (each, a "**U.S. Performance Milestone Event**") by Elanco or its Affiliates (or their respective Sublicensees) hereunder with respect to the Licensed Product, or as otherwise set forth in the Master Supply Agreement (each, a "**U.S. Performance Milestone Payment**"). Elanco shall notify KindredBio within [***] days after the first achievement by Elanco, its Affiliates, or Sublicensees of the following U.S. Performance Milestone Event. Elanco shall make the corresponding milestone payment [***] days following the respective U.S. Performance Milestone Event. [***]. For the avoidance of doubt, each milestone shall only be payable only once.

[***]

c. **EU Performance Milestones**. During the Term of this Agreement, Elanco shall pay to KindredBio the amounts set forth below upon the first achievement of the corresponding milestone events in the EU (each, an "**EU Performance Milestone Event**") by Elanco or its Affiliates (or their respective Sublicensees) hereunder with respect to the Licensed Product (each, a "**EU Performance Milestone Payment**"). Elanco shall notify KindredBio within [***]days after the first achievement by Elanco, its Affiliates, or Sublicensees of the following EU Performance Milestone Events. Elanco shall make the corresponding EU Performance Milestone Payment [***] days following the EU Performance Milestone Event. For the avoidance of doubt, each milestone shall only be payable only once.

[***]

d. **[***]Milestones**. Elanco shall notify KindredBio within [***] Sales of all Licensed Products [***]by Elanco, its Affiliates, and their respective Sublicensees in the Territory [***]first reaches [***]. Elanco shall make the corresponding [***]Milestone Payments [***] days upon such notice.

[***]

Each such [***]Sales Milestone Payment is payable one time only.

e. **Royalties**

23. **Royalty Rates**. Subject to Sections 8.5(a) (Royalty Rates), 8.5(c) (No Valid Claim) and 8.6 (Third Party Payments), Elanco shall pay to KindredBio royalties on aggregate Net Sales of all KIND-030 [***] Formulations in the U.S., KIND-030 [***]Formulations in the U.S., and of all Licensed Products in the Field in the Territory during the applicable Royalty Term in accordance with the [***]royalty rates set forth in the table below:

[***]

The specific royalty rates on Net Sales in the United States of Licensed Products which are neither KIND-030 [***]Formulations nor KIND-030 [***]Formulations shall be agreed by both Parties in writing and Elanco, its Affiliates, and Sublicensees shall not sell, distribute or otherwise commercialize such Licensed Products until both Parties have reached an agreement on royalty rates that are acceptable to KindredBio.

24. **Royalty Term**. The royalties under this Section 8.5 (Royalties) shall be calculated based on aggregate Net Sales of all applicable Licensed Products and the Net Sales of each Licensed Product shall be calculated on a country-by-country and Licensed-Product-by-Licensed-Product basis during the period of time beginning on the First Commercial Sale of such

Licensed Product in such country and continuing until the later of: (i) the expiration or abandonment of the last-to-expire Licensed Patent Covering such Licensed Product in the respective country and (ii) [***](the "**Royalty Term**"). Within [***] days following the end of a Calendar Quarter during the Royalty Term, Elanco shall provide KindredBio a report containing the following information for the applicable Calendar Quarter on a Licensed-Product-by-Licensed-Product basis: (i) the amount of gross sales of such Royalty-Bearing Product in the applicable countries in the Territory; (ii) an itemized calculation of Net Sales in the applicable countries in the Territory showing actual sales prices and deductions provided for in the definition of Net Sales; and (iii) a calculation of the royalty payment due on such Net Sales. Within [***] days of the delivery of the applicable quarterly report, Elanco shall pay KindredBio in Dollars all undisputed amounts due to KindredBio pursuant to Section 8.5 (Royalties).

25. **No Valid Claim**. During the Royalty Term, on a country-by-country basis, if Licensed Product is not Covered by a Valid Claim of a Licensed Patent in such country, then the [***].

26. **Biosimilar Products.** On a country-by-country and Licensed-Product-by-Licensed-Product basis, following the First Commercial Sale of one (1) or more Biosimilar Products with respect to any Licensed Product in any country in the Territory during the Royalty Term, the royalty rates provided in Section 8.5 (Royalties) for such Licensed Product will be permanently reduced in such country by [***]percent [***] in such country during the Royalty Term once such Biosimilar Product(s) has or have a combined market share of [***]percent [***] or more of the market in the Field in such country from and after the date of such First Commercial Sale. The determination of market share for the purpose of this Section 8.5(d) (Biosimilar Products) shall be measured in local currency, over each Calendar Quarter, using relevant market based animal health sales data including, but not necessarily limited to, CEESA reporting.

27. **Royalty Reports and Payments**. Within [***] days after the end of each Calendar Quarter during the Royalty Term, Elanco shall deliver to KindredBio a written royalty report specifying, on a country-by-country and Product-by-Product basis, the amount of gross sales and Net Sales of Products during the applicable Calendar Quarter, a calculation of the amount of royalty payment due on such sales for such Calendar Quarter, any applicable royalty offsets under Section 8.6 (Third Party Payments), and a revised calculation of the payment due after the application of such offsets. Within [***] days of the delivery of such royalty report, Elanco shall pay all royalties due to KindredBio with respect to Net Sales by Elanco, its Affiliates or their respective Sublicensees for each such Calendar Quarter.

f. **Third Party Payments**. If Elanco, in good faith and acting reasonably, determines that it is necessary to pay royalties to a Third Party for an intellectual property right that is necessary or reasonably useful to Develop or Commercialize any Licensed Product, then, during the respective Calendar Quarter, Elanco may deduct from any royalty payments to KindredBio under Section 8.5 (Royalties) up to [***] percent ([***]%) of any payments

otherwise due by Elanco or its Affiliates or Sublicensees to Third Parties for any such license or grant of rights**.**

g. **Royalty Floor**. Notwithstanding Sections 8.5(c) (No Valid Claim) and 8.5(d) (Biosimilar Products) with respect to any Licensed Product in any Calendar Quarter, the royalties that would otherwise have been due under Section 8.5(a) (Royalty Rates) with respect to Net Sales of such Licensed Product in the applicable country(ies) during such Calendar Quarter shall not be reduced by more than [***] percent ([***]%) as a result of such reductions. The foregoing royalty floor shall not apply to reductions applicable pursuant to Section 8.6 (Third Party Payment).

h. **Non-Royalty Income**. Within [***] days following receipt of any Non-Royalty Income,

i. **Foreign Exchange**. The rate of exchange to be used in computing the amount of currency equivalent in Dollars of Net Sales invoiced in other currencies shall be the rate used by Elanco in its financial reporting in accordance with U.S. GAAP, as applicable.

j. **Manner and Place of Payment**. All payments owed by Elanco under this Agreement shall be made by wire transfer in immediately available funds to a bank and account designated in writing by KindredBio.

k. **Records; Audits**. Elanco and its Affiliates and their Sublicensees and Distributors will maintain complete and accurate records in reasonably sufficient detail to permit KindredBio to confirm the accuracy of the calculation of royalty payments and the achievement of sales milestone events. Upon reasonable prior notice, such records shall be available during regular business hours for a period of [***] years from the end of the Calendar Year to which they pertain for examination, not more often than once each Calendar Year, by an independent certified public accountant selected by the auditing Party and reasonably acceptable to the audited Party, for the sole purpose of verifying the accuracy of the financial reports furnished by the other Party pursuant to this Agreement. Any such auditor shall enter into a confidentiality agreement with the audited Party and shall not disclose the audited Party's Confidential Information, except to the extent, such disclosure is necessary to verify the accuracy of the financial reports furnished by the audited Party or the amount of payments due by one Party to the other Party under this Agreement. Any amounts shown to be owed but unpaid shall be paid, and any amounts showed to be overpaid will be refunded, within [***] days from the accountant's report. The auditing Party shall bear the full cost of such audit unless such audit discloses an underpayment or overcharge by the audited Party of more than [***] percent ([***]%) of the amount due, in which case the audited Party shall bear the full cost of such audit.

l. **Taxes**

28. Taxes on Income. Except as otherwise provided in this Section 8.12 (Taxes), each Party shall be solely responsible for the payment of all taxes imposed on its share

of income arising directly or indirectly from the efforts of the Parties under this Agreement, including taxes asserted or collected through withholding.

1. **Withholding Tax**. The Parties agree to cooperate with one another and use reasonable efforts to reduce or eliminate tax withholding or similar obligations in respect of royalties, milestone payments, and other payments made by Elanco to KindredBio under this Agreement. To the extent Elanco is required to deduct and withhold taxes on any payment to KindredBio, Elanco shall pay the amounts of such taxes to the proper Governmental Authority in a timely manner and promptly transmit to KindredBio an official tax certificate or other evidence of such withholding sufficient to enable KindredBio to claim such payment of taxes. Any such amounts deducted or withheld by Elanco shall be treated as having been paid to KindredBio for purposes of this Agreement. On or prior to the Effective Date, KindredBio shall deliver to Elanco a properly completed Internal Revenue Service Form W-8BEN-E. Each Party shall provide the other with reasonable assistance to enable the recovery, as permitted by applicable Laws, of withholding taxes, value added taxes, or similar obligations resulting from payments made under this Agreement, such recovery to be for the benefit of the Party bearing such withholding tax or value added tax.

Article 9.
INTELLECTUAL PROPERTY MATTERS

a. **Ownership of IP and New Inventions**

2. **Background IP**. As between the Parties, KindredBio will exclusively own and retain exclusive ownership of all right, title, and interest in and to all Intellectual Property Rights (i) owned by KindredBio (or its Affiliates) prior to the Effective Date and (ii) created, conceived, developed, invented, reduced to practice, or otherwise acquired by or on behalf of KindredBio (or its Affiliates) during the Term of this Agreement outside of the activities outlined provided in this Agreement, (collectively, "**KindredBio Background IP**"). As between the Parties, Elanco will exclusively own and retain exclusive ownership of all right, title, and interest in and to all Intellectual Property Rights (i) owned by Elanco (or its Affiliates) prior to the Effective Date and (ii) created, conceived, developed, invented, reduced to practice, or otherwise acquired by or on behalf of Elanco (or its Affiliates) during the Term of this Agreement outside of the activities outlined provided in this Agreement (collectively, "**Elanco Background IP**").

3. **New Inventions**. As between the Parties, (i) title to (1) all Monoclonal Antibody Improvements created, developed, reduced to practice during the Term of this Agreement, and (2) all New Inventions created, developed, reduced to practice, invented solely by or on behalf of KindredBio or its Affiliates shall be owned by KindredBio ("**KindredBio New IP**") and licensed to Elanco pursuant to Section 2.1 (License to Elanco) to the extent such New Inventions constitute Licensed Patents, Licensed Know-How or are otherwise reasonably necessary or useful for the Development and Commercialization of Licensed Products; and (ii) title to all New Inventions (other than [***]) created, developed, reduced to practice, or invented (1) solely by or on behalf of Elanco or its Affiliates shall be owned by Elanco ("**Elanco New IP**"); and (2) shall be jointly owned by both Parties if such New Inventions are Joint Inventions

("**Joint IP**"); provided, however, that in no event shall any New Inventions (including any New Invention that is [***]) be deemed to include or grant rights to use a Party's Background IP. KindredBio's right, title and interest in and to such Joint IP shall be licensed to Elanco pursuant to Section 2.1 (License to Elanco) only to the extent such Joint IP qualifies as Licensed Patents or Licensed Know-How under this Agreement. Inventorship shall be determined by applying the patent laws of the United States, including, in the case of New Inventions jointly invented outside of the United States, as if such New Inventions were invented in the United States, and in no event shall any activities conducted by a Party under or related to the subject matter of this Agreement be deemed to be "on behalf of" the other Party. Subject to the rights and licenses granted under this Agreement (including the exclusive rights and licenses granted to Elanco pursuant to Article 2 (Licenses and Exclusivity)), each Party shall have the right to practice and use, grant licenses to practice and use, any Joint IP without the other Party's consent and has no duty to account to the other Party for such practice, use and license. Elanco hereby assigns and agrees to assign to KindredBio any right or interest Elanco has in and to any [***], and if such assignment is not enforceable, Elanco shall grant to KindredBio [***]license to use and exploit Elanco's rights or interests in any such [***].

4. **Disclosure**. KindredBio agrees to keep Elanco informed of all New Inventions that are within the scope of Licensed Know-How or that, if the subject of a Patent, are within the scope of Licensed Patents, and Elanco agrees to keep KindredBio informed of all New Inventions that are in the nature of [***], via the JSC, and as otherwise required pursuant to Section 9.2 (Patent Prosecution and Maintenance) below, including to enable the non-Prosecuting Party to review and provide comments prior to the filing of any new Licensed Patent application or Joint Patent application. Each Party shall also promptly respond to reasonable requests from the other Party for additional information relating to any such New Inventions.

5. **Improvements**. For purposes hereof, [***] means any New Invention (including any Joint Invention) that is [***].

b. **Patent Prosecution and Maintenance**. For purposes of this Section 9.2 (Patent Prosecution and Maintenance), the terms "prosecution" and "maintenance" (including variations such as "prosecute" and "maintain") means, with respect to a Patent, the preparation, filing, prosecution (including conducting all correspondence and interactions with any patent office and seeking, conducting and defending all and any interferences, inter partes reviews, reissue proceedings, reexaminations, and oppositions and similar proceedings) and maintenance (including payment of any patent annuity fees) of such Patent, as well as re-examinations, reissues, appeals, post grant reviews (PGR), inter partes reviews (IPR) and requests for patent term adjustments, patent term extensions, supplementary protection certificates, or their equivalents with respect to such Patent, together with the initiation or defense of interferences, oppositions and other similar proceedings with respect to the particular Patent, and any appeals therefrom. For clarity, "prosecution" and "maintenance" (including variations such as "prosecute" and "maintain") exclude any enforcement action with respect to a Patent.

6. **Prosecution of Licensed Patents**. Unless and until assumed by Elanco, as provided below, KindredBio shall have the first right (but not the obligation) to control the filing,

prosecution of maintenance and using patent counsel of any patents and patent applications for the Licensed Technology. KindredBio shall keep Elanco reasonably informed of progress with regard to its prosecution and maintenance of any Licensed Patents and filing of any new patent applications directed to Licensed Know-How, including by providing Elanco with drafts of all proposed substantive filings and correspondence to any relevant patent authority for KindredBio's review and comment prior to the submission of such proposed filings and correspondence. KindredBio shall consider in good faith Elanco's comments related to such Patents prior to submitting such filings and correspondence, provided that Elanco provides such comments to KindredBio within [***]days (or a shorter period reasonably designated by KindredBio if [***]days is not practicable given the filing deadline) of receiving the draft filings and correspondence from Elanco. If KindredBio: (i) seeks to abandon or cease the prosecution or maintenance of any Licensed Patent in a particular jurisdiction (without initiation of the prosecution and maintenance of a substitution therefor) or to not file a utility application prior claiming priority to a provisional patent application prior to expiration of such provisional application, (ii) elects not to file a foreign counterpart to a Licensed Patent in a particular jurisdiction within [***]days of Elanco's request for such filing (or such shorter period has may be necessary to enable such filing within applicable filing deadlines) or (iii) elects not to file a patent application directed to a particular invention that is Licensed Know-How within [***]days of Elanco's request for such filing (or such shorter period as may be necessary to enable such filing within applicable filing deadlines), then KindredBio shall provide reasonable prior written notice to Elanco of such intention to abandon or cease such prosecution or maintenance or election not to file (which notice shall be given no later than [***]days prior to the final, non-extendable deadline for any action that must be taken with respect to any such Licensed Patent or invention, as applicable, with the patent office). In such case, then Elanco will have the right, by written notice to KindredBio, to take over, be responsible for, and control all patent preparation, filing, prosecution, and maintenance for Licensed Technology or any New Inventions under such Licensed Technology. Until Elanco expressly assumes such responsibility, KindredBio shall continue to prosecute, maintain and enforce all Licensed Patents and will keep Elanco informed of all such matters and give due consideration to any input or suggestions of Elanco, as provided above. Elanco shall have the first right to defend the Licensed Patents and other intellectual property rights included in the Licensed Technology (other than Joint Patents, which are addressed in Section 9.2(b) (Joint Patents)). Each Party shall bear the cost of prosecuting, maintaining, and defending related to its own IP. To the extent Elanco has assumed responsibility for patent preparation, prosecution, maintenance and enforcement, Elanco shall (i) use diligent and commercially reasonable efforts, keeping KindredBio fully informed of all such matters and give due consideration to any input and suggestions of KindredBio and not make any settlements without KindredBio's prior approval and (ii) bear the cost of prosecuting, maintaining and defending such Licensed Patents.

7. **Joint Patents**. The Parties shall establish the patent strategy for the prosecution and maintenance of any Joint Patents, and shall determine, on an Invention-by-Invention basis, which Party shall be responsible for the prosecution and maintenance of such Patents (such Party, the "**Prosecuting Party**"). In determining the Prosecuting Party, the Parties shall take into account each Party's intellectual property or Patent position with respect to the relevant New Invention; provided, however, that if the Parties are unable to agree, Elanco shall

be the Prosecuting Party. The Prosecuting Party shall keep the other Party reasonably informed of progress with regard to its prosecution and maintenance of any Patents described in this Section 9.2(b) (Joint Patents), including by providing such other Party with drafts of all proposed substantive filings and correspondence to any relevant patent authority for such other Party's review and comment prior to the submission of such proposed filings and correspondence. The Prosecuting Party shall consider in good faith the other Party's comments related to such Patents prior to submitting such filings and correspondence, provided that the other Party provides such comments to the Prosecuting Party within [***] days (or a shorter period reasonably designated by the Prosecuting Party if thirty [***] days is not practicable given the filing deadline) of receiving the draft filings and correspondence from the Prosecuting Party. If the Prosecuting Party seeks to abandon or cease the prosecution or maintenance of any Patent described in this Section 9.2(b) (Joint Patents) (without initiation of the prosecution and maintenance of a substitution therefor), then the Prosecuting Party shall provide reasonable prior written notice to the other Party of such intention to abandon or cease such prosecution or maintenance (which notice shall be given no later than [***] days prior to the final, non-extendable deadline for any action that must be taken with respect to any such Joint Patent with the patent office). In such case, at the other Party's sole discretion, upon written notice to the Prosecuting Party, such other Party may elect to continue the prosecution and maintenance of any such Patent described in this Section 9.2(b) (Joint Patents), and will thereafter be the Prosecuting Party with respect to such Joint Patent. The Parties shall mutually agree on the percentage of expenses that each Party shall bear with respect to the prosecution of Joint Patents (which in the absence of any other agreement between the Parties shall be borne by the Prosecuting Party).

8. **Cooperation of the Parties**. Each Party shall cooperate fully in the preparation, filing, prosecution and maintenance of the Licensed Patents and Joint Patents pursuant to this Section 9.2 (Patent Prosecution and Maintenance). Such cooperation includes (i) executing all papers and instruments, or requiring its employees or contractors, to execute such papers and instruments, so as to effectuate the ownership of New Inventions as set forth in Section 9.1 (Ownership of IP and New Inventions), and Patents claiming or disclosing such New Inventions, and as to enable the other Party to apply for and to prosecute patent applications in any country as permitted by Section 9.2 (Patent Prosecution and Maintenance), and (ii) promptly informing the other Party of any matters coming to such Party's attention that may affect the prosecution and maintenance of any such patent applications. KindredBio shall, at its own expense, cooperate with Elanco.

c. **Enforcement**

9. **Notice; Procedures**. Each Party shall notify the other Party promptly after becoming aware of any alleged or threatened infringement by a Third Party of (i) Joint Patents anywhere in the world or (ii) Licensed Patents (other than Joint Patents) if infringement of such Licensed Patents adversely affects or is expected to adversely affect any Licensed Product the Territory, and in each case of (i) and (ii), any related declaratory judgment or equivalent action alleging the invalidity, unenforceability or non-infringement of such Patents (collectively "**Infringement**"). For clarity, any Infringement excludes those adversarial proceedings that are addressed in Section 9.2 (Patent Prosecution and Maintenance).

10. **Enforcement Rights**

xiii.Licensed Technology. As between the Parties, Elanco has the first right but not the obligation to bring and control any legal action to enforce any Licensed Technology against any Infringement in the Field in the Territory, as it reasonably determines appropriate, and Elanco shall consider in good faith the interests of KindredBio in such enforcement of any such Licensed Technology. If KindredBio or its designee does not exercise its right to enforce, if Elanco fails to file an action to abate such Infringement within [***]days after a written request from KindredBio to do so, or if Elanco discontinues the prosecution of any such action after filing without abating such infringement, then if such Infringement has not otherwise been abated by Elanco or its designee, KindredBio may enforce any Licensed Patent against the relevant Infringement in the Territory, at its own expense.

11. **Joint Patents**. If either Party becomes aware of any alleged or threatened Infringement by a Third Party of any Joint Patent, then such Party shall so notify the other Party, and the Parties shall promptly confer and determine (a) whether to bring such an enforcement action against such Third Party, (b) the strategy to be employed in connection with any such action, or (c) the manner in which to settle such action. Unless otherwise agreed, Elanco has the first right, but not the obligation, to bring and control any legal action to enforce any Joint Patents against any Infringement in the Field, at its own expense as it reasonably determines appropriate, and Elanco shall consider in good faith the interests of KindredBio in such enforcement of any such Patents. Unless otherwise agreed, if Elanco or its designee fails to file an action to abate such Infringement within [***] days after a written request from KindredBio to do so, or if Elanco discontinues the prosecution of any such action after filing without abating such infringement, then if such Infringement has not otherwise been abated by Elanco or its designee, KindredBio may enforce any Joint Patent against the relevant Infringement, at its own expense as it reasonably determines appropriate. The Party not bringing an action under this Section 9.3(c) (Joint Patents) will be entitled to separate representation in such proceeding by counsel of its own choice and at its own expense and will cooperate fully with the Party bringing such action.

12. **Cooperation**. If a Party brings an infringement action in accordance with this Section 9.3 (Enforcement) (such Party, the "**Enforcing Party**"), the other Party shall cooperate fully, including, if required to bring such action, furnishing a power of attorney or being named as a party to such infringement action. The Enforcing Party shall not enter into any settlement or compromise of any action under this Section 9.3 (Enforcement): (i) in a manner that would diminish the rights or interests of the other Party without the written consent of such other Party, not be unreasonably withheld, conditioned, or delayed; or (ii) that would impose any cost or liability on the other Party, or admit the invalidity or unenforceability of any Patent Controlled by the other Party, without such other Party's prior written consent, which may be withheld in such other Party's sole discretion.

d. **Recovery**. Except as otherwise agreed by the Parties in connection with a cost-sharing arrangement, any recovery as a result of any action or proceeding pursuant to Section 9.3(b) (Enforcement Rights), whether by way of settlement or otherwise, will be first

used to reimburse the Enforcing Party for its documented, out-of-pocket costs and expenses (including court, attorneys' and professional fees) incurred in connection with such action or proceeding, and then to reimburse the other Party for its documented, out-of-pocket costs and expenses (including court, attorneys' and professional fees) incurred in connection with such action or proceeding (to the extent not previously reimbursed by the Enforcing Party), and any remainder of the recovery after reimbursement of the litigation costs and expenses of the Parties, will be divided among the Parties with [***] percent ([***]%) of such funds retained by the Enforcing Party and [***] percent ([***]%) of such funds retained by the non-Enforcing Party.

e. **Infringement of Third Party Rights**. Each Party shall promptly notify the other in writing of any allegation by a Third Party that Manufacture, use or sale of a Licensed Product infringes or misappropriate or may infringe or misappropriate the intellectual property rights of such Third Party. Except to the extent subject to a Party's indemnification obligations, as provided in Article 11 (Indemnification) or in this Section 9.5 (Infringement of Third Party Rights), in which case the provisions of Section 11.3 (Procedure) shall control, (a) Elanco has the first right to control any defense of any such claim involving alleged infringement or misappropriation of Third Party rights by Elanco's activities at its own expense and by counsel of its own choice, and KindredBio may, at its own expense, be represented in any such action by counsel of its own choice if such intellectual property rights pertain to the Territory, and (b) KindredBio has the sole right to control any defense of any such claim involving alleged infringement of Third Party rights by KindredBio's activities at its own expense and by counsel of its own choice, and Elanco may, at its own expense, be represented in any such action by counsel of its own choice. With respect to any Third Party claim of intellectual property infringement or misappropriation of a Third Party's Intellectual Property Rights which arises from the use by Elanco of the Licensed Technology within the scope of the license grant as permitted under this Agreement and in compliance with the terms of this Agreement, then if KindredBio knows (or should have known, following due inquiry) of such infringement or misappropriation, KindredBio shall also reimburse Elanco for its reasonable costs and expenses directly arising from such defense and shall otherwise indemnify Elanco in respect of such claim. To the extent that Third Party claims of infringement or misappropriation arise from Elanco's uses of or modification of the Licensed Technology outside of the uses permitted under this Agreement, KindredBio shall not be obligated to reimburse or indemnify Elanco, and Elanco shall reimburse KindredBio for its reasonable costs and expense arising from such defense and shall otherwise indemnify and hold KindredBio harmless in respect of such claims. Neither Party may settle any patent infringement litigation under this Section 9.5 (Infringement of Third Party Rights) in a manner that materially diminishes the rights or interests of the other Party in the Licensed Technology (if such other Party is KindredBio) and the rights and interests under the license grant hereunder (if such other Party is Elanco) without the written consent of the other Party.

f. **Patent Term Extensions**. KindredBio will cooperate with Elanco, at Elanco's request, in seeking and obtaining patent term extensions (including any pediatric exclusivity extensions as may be available) or supplemental protection certificates or their equivalents in any country with respect to any Licensed Patents and Licensed Products. If elections with respect to

obtaining such patent term extensions are to be made, Elanco shall have the right to make such elections with respect to the applicable Licensed Product.

Article 10.
REPRESENTATIONS AND WARRANTIES; COVENANTS

a. **Mutual Representations and Warranties**. Each Party represents and warrants to the other Party, as of the Effective Date, that: (a) it is duly incorporated or formed, validly existing, and in good standing; (b) it has taken all necessary actions on its part to authorize the execution, delivery, and performance of the obligations undertaken in this Agreement, and no other corporate actions are necessary with respect thereto; (c) it is not a party to any agreement or understanding, and knows of no applicable law or third party rights, that would prohibit it from entering into and/or performing this Agreement, or that would conflict with its performance of its obligations or the other Party's exercise of its rights under this Agreement; (d) when executed and delivered by it, the Agreement will constitute a legal, valid, and binding obligation of it, enforceable against it in accordance with the terms and conditions hereof; and (e) it shall perform its obligations hereunder in a timely, skillful, professional, scientific and workmanlike manner, in compliance with all applicable laws and applicable industry standards, by qualified personnel exercising care, skill and diligence consistent with commercially reasonable practices in the industry, and will devote commercially reasonable resources to meet its obligations hereunder.

b. **KindredBio Representations and Warranties**. KindredBio hereby represents and warrants to Elanco as follows, as of the Effective Date:

13. **Control**. [***].

14. **No Conflicts**. KindredBio has not entered into any agreement with any Third Party that is in conflict or inconsistent with the rights granted to Elanco under this Agreement or would impede the performance of its obligations hereunder;

15. **Intellectual Property Rights**. The Licensed Technology includes all intellectual property rights [***] that are reasonably necessary or useful [***] in accordance with the terms of this Agreement [***];

16. **Compliance with Laws**. To KindredBio's Knowledge, all Development of the Licensed Products conducted by or on behalf of KindredBio prior to the Effective Date has been conducted in compliance with all Applicable Laws;

17. **No Litigation**. KindredBio is not a party to any legal action, suit or proceeding relating to the Licensed Products in the Territory and has not received any written notice threatening such litigation or any other written notice to such effect;

18. **[***]**;

19. **[***]**.

20. Third Party Rights. KindredBio has not received notice and is not aware of any valid claim or demand which leads it to believe that the Parties' exercise of any rights under the Licensed Technology as contemplated by this Agreement will infringe any patent rights or other intellectual property right of any Third Party.

21. KindredBio has taken reasonable steps to protect the confidentiality of Licensed Know-How.

22. For purposes of this Section 10.2 (KindredBio Representations and Warranties), KindredBio's Knowledge means the actual knowledge after due inquiry of the executive officers of KindredBio.

c. **Representations and Warranties of Elanco**. Elanco represents and warrants to KindredBio that as of the Effective Date:

23. [***];

24. Elanco has sufficient financial wherewithal to (i) perform all of its obligations pursuant to this Agreement, and (ii) meet all of its obligations that come due in the ordinary course of business; and

25. Elanco has, or can readily obtain, sufficient technical, clinical, and regulatory expertise to perform all of its obligations pursuant to this Agreement, including its obligations relating to the Products in the Field in the Territory.

d. **Mutual Covenants**

26. **No Debarment**. In the course of Development of the Licensed Products, neither Party shall use any employee or consultant who has been debarred by any Regulatory Authority or, to such Party's knowledge, is the subject of debarment proceedings by a Regulatory Authority. Each Party shall notify the other Party promptly upon becoming aware that any of its employees or consultants has been debarred or is the subject of debarment proceedings by any Regulatory Authority.

27. **Compliance**

xiv. Each Party and its Affiliates shall comply in all material respects with all Applicable Laws in the Development, Manufacture, and Commercialization of Products and performance of its obligations under this Agreement, including, to the extent applicable to such Party and its activities hereunder, the statutes, regulations and written directives of the FDA, USDA, APHIS, the EMA and any Regulatory Authority having jurisdiction in the Territory, Without limiting the foregoing, each Party shall comply with Anti-Corruption Laws, and shall not cause the other Party or its Affiliates, directors, officers, shareholders, employees or agents to be in violation of any Anti-Corruption Laws. Without limiting the foregoing, neither Party shall, directly or indirectly, pay any money to, or offer or give anything of value to, any "foreign official" as that term is used in the FCPA or any "foreign public official" as that term is used in

the FCPA, in order to obtain or retain business or to secure any commercial or financial advantage for the other Party or for itself or any of their respective Affiliates or Sublicensees. Each Party understands that if it fails to comply with the provisions of Anti-Corruption Laws, then such failure shall automatically be deemed a breach that allows the other Party to terminate this Agreement in accordance with Section 13.5 (Termination by Either Party for Bankruptcy), provided that, the other Party will in such case not have to allow the infringing Party any notice period or cure period.

e. **Disclaimer**. EXCEPT AS EXPRESSLY STATED IN THIS AGREEMENT, NO REPRESENTATIONS OR WARRANTIES WHATSOEVER, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, OR NON-MISAPPROPRIATION OF THIRD PARTY INTELLECTUAL PROPERTY RIGHTS, ARE MADE OR GIVEN BY OR ON BEHALF OF A PARTY, AND ALL REPRESENTATIONS AND WARRANTIES, WHETHER ARISING BY OPERATION OF LAW OR OTHERWISE, ARE HEREBY EXPRESSLY EXCLUDED**.** EACH PARTY ACKNOWLEDGES AND AGREES THAT THE OTHER PARTY HAS NOT MADE ANY REPRESENTATIONS, EXPRESS OR IMPLIED WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT, OTHER THAN THOSE CONTAINED IN THIS AGREEMENT.

Article 11.
INDEMNIFICATION

a. **By Elanco**. Elanco shall and hereby does save, defend and hold KindredBio and its Affiliates and their respective directors, officers, employees and agents (each, a "**KindredBio Indemnitee**") harmless from and against any and all claims, suits, actions, demands, liabilities, expenses and loss, including reasonable legal expense and attorneys' fees (collectively, "**Losses**") to which any KindredBio Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise directly or indirectly out of: (a) the [***] of Licensed Products by or on behalf of Elanco or any of its Affiliates or Sublicensees; (b) the breach by Elanco of any provision of this Agreement; or (c) the gross negligence or willful misconduct of any Elanco Indemnitee; except, in each case, to the extent such Losses result from the gross negligence or willful misconduct of any KindredBio Indemnitee or the breach by KindredBio of any provision of this Agreement, or to the extent KindredBio is obligated to indemnify such Loss, as provided in Section 9.5 (Infringement of Third Party Rights) above.

b. **By KindredBio**. KindredBio shall and hereby does save, defend and hold Elanco and its Affiliates and their respective directors, officers, employees and agents (each, an "**Elanco Indemnitee**") harmless from and against any and all Losses to which any Elanco Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise directly or indirectly out of: (a) [***] of Licensed Products by or on behalf of KindredBio or any of its Affiliates or licensees (other than Elanco); (b) the breach by KindredBio of any provision of this Agreement, including KindredBio's obligations with respect to [***] pursuant to [***]; or (c) the gross negligence or willful misconduct of any

KindredBio Indemnitee; except, in each case, to the extent such Losses result from the gross negligence or willful misconduct of any Elanco Indemnitee or the breach by Elanco of any provision of this Agreement, or to the extent Elanco is obligated to indemnify such Loss, as provided in Section 9.5 (Infringement of Third Party Rights) above.

c. **Procedure**. If a Party (the "**Indemnified Party**") seeks indemnification under Section 11.1 (By Elanco) or 11.2 (By KindredBio), the Indemnified Party shall: (a) inform the other Party (the "**Indemnifying Party**") of a claim as soon as reasonably practicable after it receives notice of the claim (it being understood and agreed, however, that the failure by an Indemnified Party to give notice of a claim as provided in this Section 11.3 (Procedure) shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except and only to the extent that such Indemnifying Party is actually and materially damaged as a result of such failure to give notice); (b) permit the Indemnifying Party to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration) using counsel reasonably satisfactory to the Indemnified Party; and (c) cooperate as requested (at the expense of the Indemnifying Party) in the defense of the claim. If the Indemnifying Party does not assume control of such defense within [***]days after receiving notice of the claim from the Indemnified Party, the Indemnified Party shall control such defense and, without limiting the Indemnifying Party's indemnification obligations, the Indemnifying Party shall reimburse the Indemnified Party for all costs, including reasonable attorney fees, incurred by the Indemnified Party in defending itself within [***]days after receipt of any invoice therefor from the Indemnified Party. The Party not controlling such defense may participate therein at its own expense. The Party controlling such defense shall keep the other Party advised of the status of such action, suit, proceeding or claim and the defense thereof and shall consider recommendations made by the other Party with respect thereto. The Indemnified Party shall not agree to any settlement of such action, suit, proceeding or claim without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld, delayed or conditioned. The Indemnifying Party shall not agree to any settlement of such action, suit, proceeding or claim or consent to any judgment in respect thereof that does not include a complete and unconditional release of the Indemnified Party from all liability with respect thereto, that imposes any liability or obligation on the Indemnified Party or that acknowledges fault by the Indemnified Party without the prior written consent of the Indemnified Party.

d. **Insurance**. Each Party, at its own expense, shall maintain product liability and other appropriate insurance (or self-insure) in an amount consistent with industry standards during the Term. Each Party shall provide a certificate of insurance (or evidence of self-insurance) evidencing such coverage to the other Party upon request.

e. **Limitation of Liability**. NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, PUNITIVE, OR INDIRECT DAMAGES ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF ANY NOTICE OF THE POSSIBILITY OF SUCH DAMAGES. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS SECTION 11.5 (LIMITATION OF LIABILITY) IS INTENDED TO OR SHALL LIMIT OR RESTRICT (A) THE INDEMNIFICATION RIGHTS OR OBLIGATIONS OF ANY PARTY UNDER

SECTION 11.1 (BY ELANCO) OR 11.2 (BY KINDREDBIO), OR (B) DAMAGES AVAILABLE FOR A PARTY'S BREACH OF ITS CONFIDENTIALITY AND NON-USE OBLIGATIONS UNDER ARTICLE 12 (CONFIDENTIALITY).

Article 12.
CONFIDENTIALITY

a. **Confidential Information**. "**Confidential Information**" means any non-public Information disclosed by one Party, directly or through its Affiliates or subcontractors (the "**Disclosing Party**"), to the other Party, directly or through its Affiliates or subcontractors (the "**Receiving Party**"), in connection with this Agreement and the Ancillary Agreements including scientific, technical, manufacturing, or business information, regardless of whether marked "confidential" or "proprietary" or communicated to the other by the Disclosing Party in oral, written, graphic, or electronic form. The Parties acknowledge that KindredBio's Confidential Information includes all Licensed Know-How, Licensed Patents and any other Information, works in progress and any other documents or materials related to the Licensed Products that are not generally known to the public and disclosed to Elanco pursuant to this Agreement and the Ancillary Agreements. The Parties acknowledge that Disclosing Party's Confidential Information includes all Information related to the business technology, products, systems, formulas, practices, processes, customers or projects of Disclosing Party including, without limitation, its Patents, Material and Supplier Technical Information (as each term is defined in the Master Supply Agreement) that are not generally disclosed to the public, and disclosed by Disclosing Party to Receiving Party during the Term of this Agreement.

b. **Restrictions on Use and Permitted Disclosures**. The Receiving Party will not use Confidential Information of the Disclosing Party for any purpose other than to exercise its rights and perform its obligations under this Agreement and the Ancillary Agreements (the "**Purpose**"). The Receiving Party will not disclose Confidential Information of the Disclosing Party to any other Parties except as expressly permitted hereunder. The Receiving Party may disclose Confidential Information of the Disclosing Party to the extent expressly permitted by the Disclosing Party in advance in writing and otherwise only to those employees, trustees, directors, Affiliates, Sublicensees, and subcontractors of the Receiving Party who have a need to know such Confidential Information for the Purpose and who are bound by restrictions on use and disclosure under provisions no less strict than those required hereunder. To the extent that these confidentiality obligations conflict with any other rights under this Agreement, such other rights will prevail. The Receiving Party will maintain Confidential Information of the Disclosing Party with at least the same degree of care it uses to protect its own proprietary information of a similar nature or sensitivity, but no less than reasonable care under the circumstances. Upon any expiration or termination of this Agreement or upon the request of the Disclosing Party, the Receiving Party must return or destroy, at the Disclosing Party's option, all Confidential Information of the Disclosing Party and any copies thereof, except to the extent that the Receiving Party requires such Confidential Information to exercise any surviving rights under this Agreement and except that one copy thereof may be maintained in the file of the Receiving Party's law department (subject to Receiving Party's on-going compliance with the obligations

set forth herein) to document information developed. This provision shall supersede and replace any previous confidentiality or non-disclosure agreements between the Parties with respect to the subject matter hereof and be deemed to cover all information disclosed thereunder.

c. **Exceptions**. The restrictions on use and disclosure in this Agreement will not apply to any Information that (a) is already in the Receiving Party's possession at the time of disclosure to the Receiving Party without an obligation of confidentiality owed to the Disclosing Party, as evidenced by prior written documentation of the Receiving Party; (b) is or becomes part of public knowledge other than as a result of any action or inaction of the Receiving Party; (c) is obtained by the Receiving Party from an unaffiliated third party without a duty of confidentiality owed to the Disclosing Party; or (d) was independently developed by the Receiving Party without use of the Disclosing Party's Confidential Information as can be shown by documentary evidence. In addition, this Agreement will not prevent the Receiving Party from disclosing Confidential Information of the Disclosing Party to the extent required by a judicial order or other legal obligation, provided that, in such event, the Receiving Party will, if permitted under Applicable Law or judicial order, promptly notify the Disclosing Party to allow intervention. The Receiving Party will advise the Disclosing Party in writing of any misappropriation or misuse of Confidential Information of such Disclosing Party of which the Receiving Party becomes aware.

d. **Public Announcements**

28. Except to the extent already disclosed in a press release or other public communication issued in accordance with this Agreement, no public announcement concerning this Agreement, its subject matter or the transactions described herein shall be made, either directly or indirectly, by either Party or its Affiliates, except as may be required, in the good faith discretion of such Party's counsel, by Applicable Law (including disclosure requirements of the U.S. Securities and Exchange Commission ("**SEC**")), judicial order, or stock exchange or quotation system rule without first obtaining the approval of the other Party and agreement upon the nature, text and timing of such announcement, which approval and agreement shall not be unreasonably withheld or delayed. The Party desiring to make any such voluntary public announcement shall provide the other Party with a written copy of the proposed announcement in reasonably sufficient time prior to public release to allow the other Party to comment upon such announcement, prior to public release. In the case of press releases or other public communications required to be made by law, judicial order or stock exchange or quotation system rule, the Party making such press release or public announcement shall provide to the other Party a copy of the proposed press release or public announcement in written or electronic form upon such advance notice as is practicable under the circumstances for the purpose of allowing the notified Party to review and comment upon such press release or public announcement. Under such circumstances, the releasing Party shall not be obligated to delay making any such press release or public communication beyond the time when the same is required to be made. Neither Party shall be required to seek the permission of the other Party to repeat any information regarding the terms of this Agreement or any amendment hereto that has already been publicly disclosed by such Party or by the other Party in accordance with this Section 12.4(a) (Public Announcements); *provided* that such information remains accurate as of such time and provided the frequency and form of such disclosure are reasonable.

29. Each Party may make public statements regarding this Agreement in response to questions by the press, analysts, investors or those attending industry conferences or financial analyst calls, *provided* that any such public statement or press release: (i) is not inconsistent with prior public disclosures or public statements made in accordance with Section 12.4(a) (Public Announcements); and (ii) does not reveal (A) information regarding the terms of this Agreement that have not previously been disclosed in accordance with Section 12.4(a) (Public Announcements) or (B) nonpublic information about the other Party.

30. The Parties shall reasonably coordinate in advance with each other in connection with the filing of this Agreement (including redaction of certain provisions of this Agreement) with the SEC or other governmental agency or any stock exchange on which securities issued by a Party or its Affiliate are traded. Each Party shall use reasonable efforts to seek and obtain confidential treatment for the provisions of this Agreement that the Parties mutually agree to redact from such filing; provided that each Party shall ultimately retain ultimate discretion to disclose such information to the SEC or any stock exchange or other governmental agency (as the case may be) as such Party determines, based on advice of legal counsel, is required to be so disclosed. Except as expressly set forth in this Article 12 (Confidentiality), neither Party (or its Affiliates) shall be obligated to consult with or obtain approval from the other Party with respect to any filings with the SEC or any stock exchange or other governmental agency where such filings do not disclose Confidential Information of the other Party.

e. **Publications**. Each Party recognizes that the publication of scientific and medical papers regarding results of and other information regarding Licensed Products, including oral presentations and abstracts, may be beneficial to both Parties provided such publications are subject to reasonable controls to protect Confidential Information. Accordingly, a Party may review and comment on any material proposed for disclosure or publication by the other Party, such as by oral presentation, manuscript or abstract, relating to the Development, Manufacture or Commercialization Products or that includes Confidential Information of the other Party. Before any such material is submitted for publication or disclosure (other than oral presentation materials and abstracts, which are addressed below), the Party proposing publication shall deliver a complete copy to the other Party at least [***]days prior to submitting the material to a publisher or initiating such other disclosure, and such other Party shall review any such material and give its comments to the Party proposing publication within [***]days of the delivery of such material to such other Party. With respect to oral presentation materials and abstracts, the Party proposing publication shall deliver a complete copy to the other Party at least [***]days prior to the anticipated date of the presentation, and such other Party shall make reasonable efforts to expedite review of such materials and abstracts, and shall return such items as soon as practicable to the Party proposing publication with appropriate comments, if any, but in no event later than [***]days from the date of delivery to the non-publishing Party. The publishing Party shall comply with the other Party's request to delete references to the other Party's Confidential Information in any such material and shall delay any submission for publication or other public disclosure for a period of up to an additional [***]days for the purpose of preparing and filing appropriate patent applications. For clarity, this Section 12.5 (Publications) is intended to set forth the procedures for scientific and medical presentations and publications, and other public

disclosures (e.g., press releases, investor presentations and the like) are addressed in Section 12.4 (Public Announcements).

f. **Change of Control**. Upon the occurrence of an upcoming Change of Control of KindredBio that involves an Elanco Competitor: (a) KindredBio and/or the Elanco Competitor shall not disclose any Confidential Information of Elanco, and shall ensure that no Confidential Information of Elanco (including but not limited to information regarding Development Updates, regulatory information regarding the Licensed Products and Commercialization Plans) is disclosed, to employees or any other third parties other than those employees who were employed by KindredBio prior to such Change of Control and who were directly involved with fulfilling KindredBio's obligations under this Agreement; provided that any such employee receiving such Confidential Information following such occurrence or announcement of an upcoming Change of Control is made aware of the confidential nature and the competitive sensitivity of such Confidential Information and is subject to a confidentiality agreement with KindredBio and/or the Elanco Competitor, as applicable; (b) Elanco shall have no obligation to share any Confidential Information with KindredBio and/or the Elanco Competitor, other than to effect the financial, regulatory, and intellectual property provisions of this Agreement[***].

Article 13.
TERM AND TERMINATION

a. **Term; Mutual Termination**. This Agreement shall become effective on the Effective Date and, unless earlier terminated pursuant to this Article 13 (Term and Termination) or upon mutual agreement of both Parties, shall remain in effect until the date of expiration of the last Royalty Term of the last Licensed Product (such period, the "**Term**"). Upon the expiration of the Term as provided in the foregoing, the license grant in Section 2.1 (License to Elanco) will become [***].

b. **Unilateral Termination by Elanco**.

31. If the submission of the Pivotal Trial to the USDA for the first Licensed Product is not achieved by [***] or the Efficacy Rate related to the Pivotal Trial of the first Licensed Product is below [***] percent ([***]%) [***], Elanco shall have right to terminate the Agreement upon [***]days' notice. If Elanco chooses not to terminate the Agreement under such conditions, the Parties will agree to enter into good faith negotiations to discuss and renegotiate the terms of this Agreement. If USDA Full Approval does not occur by [***], Elanco may terminate this Agreement subject to [***]days' written notice to KindredBio. If Elanco chooses not to terminate the Agreement, the USDA Full Approval milestone as provided in Section 8.2 (U.S. Performance Milestone Payments) will be reduced by [***].

32. In addition, if there is a Change of Control of KindredBio where the acquirer or the buyer of KindredBio or its assets is an Elanco Competitor, Elanco may terminate this Agreement subject to thirty [***]days' written notice to KindredBio.

c. **Termination by Either Party for Breach**

33. **Breach.** Subject to Section 13.3(b) (Disputed Breach), the non-breaching Party will have the right (but not the obligation to) terminate this Agreement upon written notice to the other Party if such other Party materially breaches its obligations under this Agreement and, after receiving written notice from the non-breaching Party identifying such material breach in reasonable detail, fails to cure such material breach within [***]days from the date of such notice ("**Termination for Breach**"); provided that if such breach is not reasonably capable of cure within such [***] period and the breaching Party initiates good faith actions to cure such breach, the period to cure such breach shall be extended for so long as such good faith actions are being diligently pursued by the breaching Party, up to an additional [***]days.

34. **Disputed Breach.** If the alleged breaching Party disputes in good faith the existence or materiality of a breach specified in a notice provided by the other Party in accordance with Section 13.3(a) (Breach), and such alleged breaching Party provides the other Party notice of such dispute within such sixty (60)-day period, then the non-breaching Party shall not have the right to terminate this Agreement under Section 13.3(a) (Breach) unless and until the arbitrators, in accordance with Article 14 (Dispute Resolution), has determined that the alleged breaching Party has materially breached this Agreement and that such Party fails to cure such breach within [***]days following such arbitrators' decision. During the pendency of such dispute, all of the terms and conditions of this Agreement shall remain in effect and the Parties shall continue to perform all of their respective obligations hereunder.

d. **Termination for Patent Challenge.** KindredBio may terminate this Agreement in its entirety immediately if Elanco directly or indirectly commences a legal action anywhere in the world challenging the validity, enforceability or scope of any Licensed Patent that is included in the license granted hereunder at such time ("**Patent Challenge**"). The royalty rate specified in Article 8 (Compensation) will be [***] with respect to Net Sales with respect to Licensed Products invoiced during the pendency of such Patent Challenge. If the outcome of such Patent Challenge is a determination against the challenging party, (a) the royalty rate specified in Article 8 (Compensation) shall [***] and (b) Elanco shall [***] in connection with such Patent Challenge. If the outcome of such Patent Challenge is a determination in favor of the challenging party, Elanco will have [***] royalties paid before or during the pendency of such Patent Challenge.

e. **Termination by Either Party for Bankruptcy**. Either Party may terminate this Agreement if, at any time, the other Party (a) files in any court or agency pursuant to any statute or regulation of any state, country or jurisdiction, a petition in bankruptcy or insolvency or for reorganization or for an arrangement or for the appointment of a receiver or trustee of such other Party or of its assets, (b) proposes a written agreement of composition or extension of its debts, (c) is served with an involuntary petition against it, filed in any insolvency proceeding that is not dismissed within [***]days after the filing thereof, (d) proposes or is a party to any dissolution or liquidation, or (e) makes an assignment for the benefit of its creditors ("**Termination for Bankruptcy**").

f. **Full Force and Effect during Notice Period.** This Agreement shall remain in full force and effect until the expiration of the applicable termination notice period. For clarity, if any Performance Milestone Event or Sales Milestone Event is achieved during the termination notice period, then the corresponding milestone payment in respect of such Performance Milestone Event or Sales Milestone Payment (as applicable) is accrued and Elanco shall remain responsible for the payment of such milestone payment even if the due date of such milestone payment may come after the effective date of the termination.

g. **Effect of Termination**

35. Upon termination of this Agreement in its entirety or with respect to one or more countries or one or more Licensed Products pursuant to Sections 13.1 (Term; Mutual Termination), 13.2 (Unilateral Termination by Elanco), 13.3 (Termination by Either Party for Breach), 13.4 (Termination for Patent Challenge), or 13.5 (Termination by Either Party for Bankruptcy), then as more specifically set forth below, one or more of the following shall apply in accordance with the terms thereof:

xv.Reversion of Rights. In case of any termination of this Agreement provided in the foregoing sentence of Section 13.7(a) (Effect of Termination), and except as otherwise expressly provided in this Agreement, all rights, licenses and obligations of the Parties under this Agreement shall terminate and the license granted to Elanco pursuant to Section 2.1 (License to Elanco) shall revert to KindredBio; provided that if this Agreement is only terminated with respect to one or more countries, only the rights and licenses with respect to such country or countries shall terminate and revert to KindredBio; and provided further that if the Agreement expires, then the license grant in Section 2.1 (License to Elanco) shall survive such expiration, as provided in Section 13.1 (Term; Mutual Termination) above.

xvi.Assignment of Regulatory Approvals.

a. Upon termination of this Agreement by KindredBio for material breach of Elanco pursuant to Sections 13.3 (Termination by Either Party for Breach), 13.4 (Termination for Patent Challenge), or 13.5 (Termination by Either Party for Bankruptcy) (a "**KindredBio For Cause Termination**"), [***].

b. If this Agreement is terminated by Elanco for material breach of KindredBio pursuant to Section 13.3 (Termination by Either Party for Breach) or 13.5 (Termination by Either Party for Bankruptcy) (an "**Elanco For Cause Termination**"), Elanco shall have no obligations to transfer any Regulatory Approvals under this Section 13.7(a)(ii) (Assignment of Regulatory Approvals).

c. If this Agreement terminates by mutual written agreement of the Parties pursuant to Section 13.1 (Term; Mutual Termination), [***].

d. Notwithstanding the foregoing, if Elanco is restricted under Applicable Laws from transferring ownership of any of such Regulatory Approvals to KindredBio under any circumstance in which it is obligated to do so, as provided above, Elanco

will have no obligation to transfer ownership of such Regulatory Approvals but will grant to KindredBio a Right of Reference or use to such item, [***], and shall take all permitted actions reasonably necessary to effect such transfer or grant of Right of Reference or use to KindredBio or its designee.

e. In addition, upon KindredBio's written request, [***] Elanco shall, [***]provide to KindredBio copies of all [***], to the extent relating to a Licensed Product. The Parties shall discuss and establish appropriate arrangements with respect to [***]. For clarity, upon termination of this Agreement other than expiration of the term, [***].

xvii.Inventory. In the event that this Agreement is terminated in its entirety for any reason (but, for clarity, not upon expiration of this Agreement), Elanco shall discontinue the sale of the Licensed Products and shall have the right to sell its remaining inventory of Licensed Products following the termination of the Agreement so long as Elanco [***].

xviii.Intellectual Property. Upon a KindredBio For Cause Termination or upon mutual termination of this Agreement:

f. **Elanco IP**. Elanco shall, and shall cause its Affiliates and Sublicensees to, disclose to KindredBio (1) any and all Product Data and Information Controlled by Elanco, its Affiliates, or Sublicensees as of the effective date of termination of this Agreement that has been generated by or on behalf of Elanco, its Affiliates or Sublicensees with respect to and that relates exclusively to Licensed Products and (2) any Patents Controlled by Elanco or its Affiliates that Cover a Licensed Product in the Field in the Territory, in each case that are necessary to enable KindredBio to [***] (collectively, the "**Elanco IP**"); notwithstanding that such disclosure may occur after termination of this Agreement, KindredBio acknowledges and agrees that all such [***] disclosed by Elanco, if qualified as "Confidential Information" under Article 12 (Confidentiality), shall be deemed to be Elanco's Confidential Information for purposes of Article 12 (Confidentiality). After receipt of the Elanco IP, KindredBio may notify Elanco that it wishes to obtain a license to the Elanco IP to [***], as applicable. The Parties shall negotiate the terms of such license in good faith for a period not to exceed [***]days. [***].

36. KindredBio will not have any rights with respect to any Information generated by Elanco with respect to such terminated Licensed Product and such country, to any Elanco Inventions, or to any Patents Controlled by Elanco or its Affiliates, and Elanco will have no further obligations to KindredBio with respect to any such terminated Licensed Product and such country. Upon expiration or termination of this Agreement for any reason, each Party, at the request of the other Party, shall return, or at the election of the other Party, destroy, and thereafter provide the other Party written certification evidencing such destruction, all data, files, records and other materials in its or its Affiliates' or, with respect to Elanco, Sublicensees, possession or control containing or comprising such other Party's Confidential Information.

h. **Survival**. Termination or expiration of this Agreement shall not affect any rights or obligations of the Parties under this Agreement that have accrued prior to the date of termination or expiration. Notwithstanding anything to the contrary, the following provisions shall survive any expiration or termination of this Agreement: Sections 9.1 (Ownership of IP and

New Inventions), 9.2(b) (Joint Patents), 9.2(c) (Cooperation of the Parties), 13.7 (Effect of Termination), and 13.8 (Survival), Article 1 (Definitions), Article 11 (Indemnification), Article 12 (Confidentiality), Article 13 (Term and Termination), Article 14 (Dispute Resolution), Article 15 (Miscellaneous), and other provisions shall survive if and to the extent set out in this Agreement, as applicable based on the nature of and basis for termination or expiration of this Agreement.

Article 14.
DISPUTE RESOLUTION

a. **Dispute Escalation**. Except as provided in Section 3.1(d) (Decision-Making) and Section 14.5 (Patent and Trademark Disputes), upon the written request of either Party to the other Party, either Party may refer any claim, dispute, or controversy or claim arising out of or related to this Agreement (a "**Dispute**") to the Executive Officer of Elanco and the Executive Officer of KindredBio for resolution. If the Executive Officers are unable to resolve such matter within [***]days after the initial written request, then, upon the written demand of either Party, the Parties shall resolve such matter by binding arbitration, as provided in Section 14.2 (Arbitration). Any disputes about the propriety of commencing arbitration or the scope or applicability of the agreement to arbitrate shall be finally settled by the arbitral tribunal.

b. **Arbitration**

37. Any Dispute shall be resolved by final and binding arbitration under the rules of the International Chamber of Commerce as then in effect (the "**Rules**"), except as they be modified herein or by mutual agreement of the Parties.

38. The arbitration shall be conducted by one or more arbitrator(s) appointed in accordance with the Rules; *provided* that: (i) such arbitrator(s) is not a current or former employees or directors, or current stockholders, of either Party, any of their respective Affiliates or any Sublicensee; and (ii) each arbitrator(s) has experience and familiarity with commercial licensing practices in the pharmaceutical and biotechnology industries. The seat, or legal place, of arbitration shall be Delaware, USA, and all proceedings and communications shall be in the English language.

39. The arbitral tribunal shall permit discovery (including both the production of documents and deposition testimony) as reasonably necessary for an understanding of any legitimate issue raised in the arbitration, while also taking into account the desirability of making discovery efficient and cost-effective, and, in addition to the authority conferred upon the arbitral tribunal by such Rules, the arbitral tribunal shall have the authority to order production of documents in accordance with the IBA Rules on the Taking of Evidence in International Arbitration as current on the commencement of the arbitration.

40. The arbitral tribunal shall have the power to grant any remedy or relief that it deems appropriate, whether provisional or final, including but not limited to conservatory relief and injunctive relief, provided that the arbitral tribunal's authority to award special, incidental, consequential or punitive damages is subject to the limitation set forth in Section 11.5

(Limitation of Liability), except to the extent the substantive laws of the State of [***], USA, do not permit such limitation. The award shall be rendered within five (5) months of the appointment of the arbitral tribunal unless the Parties jointly request an extension, or the arbitral tribunal determines, in a reasoned decision that the interest of justice or the complexity of the case requires that such limit be extended.

41. The arbitration award shall be final and binding on the Parties, and the Parties undertake to carry out the award without delay. Judgment upon the award may be entered in any court of competent jurisdiction.

42. During the pendency of the arbitration, each Party shall bear its own attorneys' fees, costs, and disbursements arising out of the arbitration, and shall pay an equal share of the fees and costs of the arbitration and the arbitral tribunal shall fix costs in the arbitral award in accordance with the Rules.

c. **Confidentiality of Arbitration**. The existence and content of the arbitral proceedings and any rulings or awards shall be kept confidential by the Parties and the arbitral tribunal except (a) to the extent that disclosure may be required of a Party to fulfill a legal duty, protect or pursue a legal right, or enforce or challenge an award in bona fide legal proceedings before a state court or other judicial authority, (b) with the consent of all Parties, (c) where needed for the preparation or presentation of a claim or defense in this arbitration, (d) where such information is already in the public domain other than as a result of a breach of this clause, or (e) by order of the arbitral tribunal upon application of a Party.

d. **Injunctive Relief; Court Actions**. Either Party may apply to the arbitrators for interim injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved. Either Party also may, without waiving any remedy under this Agreement, seek from any court having jurisdiction any interim injunctive or other interim relief in the context of a *bona fide* emergency or prospective irreparable harm, and such an action may be filed and maintained notwithstanding any ongoing discussions between the Parties or any ongoing arbitration proceeding. In addition, either Party may bring an action in any court of competent jurisdiction to resolve disputes pertaining to the validity, construction, scope, enforceability, infringement or other violations of Patents or other intellectual property rights, and no such claim shall be subject to arbitration pursuant to Section 14.2 (Arbitration).

e. **Patent and Trademark Disputes.** Any dispute, controversy or claim relating to the scope, validity, enforceability or infringement of any patents or trademarks covering the Manufacture, use, importation, offer for sale or sale of a Licensed Product shall be submitted to a court of competent jurisdiction in the country in which such patent or trademark rights were granted or arose.

Article 15.
MISCELLANEOUS

a. **Rights upon Bankruptcy**. All rights and licenses granted under or pursuant to this Agreement to Elanco or KindredBio are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the United States Bankruptcy Code and other similar foreign laws, licenses of rights to "intellectual property" as defined under Section 101 of the United States Bankruptcy Code or other similar foreign laws. The Parties shall retain and may fully exercise all of their rights and elections under the United States Bankruptcy Code (or any comparable provision of the laws applicable to bankruptcies or insolvencies), and other similar foreign laws. The Parties further agree that, in the event of the commencement of a bankruptcy proceeding by or against a Party under the United States Bankruptcy Code, or other similar foreign laws, the nondebtor Party shall be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property and the same, which, if not already in the nondebtor Party's possession, shall be promptly delivered to it (a) upon any such commencement of a bankruptcy proceeding upon the nondebtor Party's written request therefor, unless the debtor Party continues to perform all of its obligations under this Agreement or (b) if not delivered under clause (a) above, following the rejection of this Agreement by or on behalf of the debtor Party upon written request therefor by the nondebtor Party.

b. **Governing Law**. This Agreement and any disputes, claims, or actions related thereto shall be governed by and construed in accordance with the laws of the State of [***], USA, without regard to any conflicts of law provisions thereof that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The Parties agree to exclude the application to this Agreement of the United Nations Convention on Contracts for the International Sale of Goods.

c. **Entire Agreement; Amendment; Priority**. This Agreement, including the Exhibits hereto, together with the Master Supply Agreement, Quality Agreement, and the Pharmacovigilance Agreement (collectively, the "**Ancillary Agreements**"), is both a final expression of the Parties' agreement and a complete and exclusive statement with respect to all of its terms. This Agreement supersedes and replaces all prior and contemporaneous agreements and communications, whether oral, written or otherwise, concerning any and all matters contained herein, including the CDA and the Letter Agreement. This Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by an authorized representative of each Party. If any of the terms and conditions of this Agreement conflict with any Exhibit or Ancillary Agreement, this Agreement will control and prevail unless such Exhibit or Ancillary Agreement references the provisions of this Agreement with which it conflicts or is inconsistent.

d. **Relationship Between the Parties**. The Parties' relationship, as established by this Agreement, is solely that of independent contractors. This Agreement does not create any partnership, joint venture or similar business relationship between the Parties. Neither Party is a legal representative of the other Party, and neither Party can assume or create any obligation, representation, warranty or guarantee, express or implied, on behalf of the other Party for any purpose whatsoever. The Parties (and any successor, assignee, transferee, or Affiliate of a Party) shall not treat or report the relationship between the Parties arising under this Agreement as a

partnership for United States tax purposes, without the prior written consent of the other Party unless required by Applicable Law.

e. **Non-Waiver**. The failure of a Party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement shall neither impair that provision or right nor constitute a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver by a Party of a particular provision or right shall be in writing, shall be as to a particular matter and, if applicable, for a particular period of time and shall be signed by an authorized representative of such Party.

f. **Assignment**. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either Party without the prior written consent of the other Party (which consent shall not be unreasonably withheld); *provided*, *however*, that either Party may assign this Agreement and its rights and obligations hereunder without the other Party's consent (a) to an Affiliate of such Party, provided that the assigning Party shall remain liable and responsible to the nonassigning Party hereto for the performance and observance of all such duties and obligations by such Affiliate, and (b) in connection with the transfer or sale of all or substantially all of the assets of such Party to a Third Party, whether by merger, sale of stock, sale of assets or otherwise (regardless of whether this Agreement is actually assigned or is assumed by the acquiring Party by operation of law (*e.g.*, in the context of a reverse triangular merger)). Any attempted assignment not in accordance with this Section 15.6 (Assignment) shall be null and void and of no legal effect. The rights and obligations of the Parties under this Agreement are binding upon and inure to the benefit of the successors and permitted assigns of the Parties, and the name of a Party appearing herein shall be deemed to include the name of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this section. Any assignment not in accordance with this Agreement is void.

g. **No Third Party Beneficiaries**. This Agreement is neither expressly nor impliedly made for the benefit of any Party other than those executing it.

h. **Severability**. If, for any reason, any part of this Agreement is adjudicated invalid, unenforceable or illegal by a court of competent jurisdiction, such adjudication shall not affect or impair, in whole or in part, the validity, enforceability or legality of any remaining portions of this Agreement. All remaining portions shall remain in full force and effect as if the original Agreement had been executed without the invalidated, unenforceable or illegal part.

i. **Notices**. All notices and consents required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if and when (a) delivered personally, (b) mailed by first class certified mail, return receipt requested, postage prepaid, on the date certified by the U.S. Postal Service to have been received by the addressee, (c) by facsimile, provided the sender personally calls the recipient and confirms receipt of such facsimile, or (d) on the date certified by a nationally recognized overnight express courier service to have been received by the recipient, as follows:

If to KindredBio:	Kindred Biosciences, Inc. 1555 Bayshore Highway, Suite 200 Burlingame, CA 94010 Attention: [***] Phone: [***]
With a copy (which shall not constitute notice) to:	Morrison & Foerster LLP 200 Clarendon Street, Floor 20 Boston, MA 02116 Attention: [***] Phone: 617-648-[***]
If to Elanco:	Elanco US Inc. 2500 Innovation Way Greenfield, Indiana 46140 Attention: [***]
With a copy to:	Elanco US Inc. 2500 Innovation Way Greenfield, Indiana 46140 Attention: General Counsel

If more than one (1) method for sending notice as set forth above is used, the earliest notice date established as set forth above shall control. It is understood and agreed that this Section 15.9 (Notices) is not intended to govern the day-to-day business communications necessary between the Parties in performing their duties, in due course, under the terms of this Agreement.

j. **Force Majeure**. Each Party shall be excused from the performance of their obligations under this Agreement to the extent that such performance is prevented by force majeure and the nonperforming Party promptly provides notice of the prevention to the other Party. Such excuse shall be continued only for so long as (a) the condition constituting force majeure, (b) the nonperforming Party takes all reasonable efforts to remove the condition, and (c) the nonperforming Party provides written notice to the other Party within fifteen (15) Business Days following the occurrence of such condition and gives the other Party a good faith estimate of the continuing effect of the condition constituting force majeure and the duration of the nonperforming Party's nonperformance. For purposes of this Agreement, force majeure includes conditions beyond the reasonable control of the applicable Party, which may include an act of God, war, civil commotion, terrorist act, accidents, riot, labor dispute or lock-out, epidemic, pandemic, failure or default of public utilities or common carriers, destruction of production facilities or materials by fire, flood, explosion, earthquake, storm or like catastrophe, action or inaction of any Governmental Authority, and failure of plant or machinery (but excluding any event caused by or attributable to economic hardship or insufficiency of funds) ("**Force Majeure Event**"). Notwithstanding the foregoing, a Party shall not be excused from making payments owed hereunder because of a Force Majeure Event affecting such Party. If a Force Majeure Event persists for more than ninety (90) days, the Parties shall discuss in good faith the modification of the Parties' obligations under this Agreement in order to mitigate the delays caused by such force majeure. For clarity, this Agreement has been negotiated during the global

pandemic existing as of the Effective Date of this Agreement, and as such, such pandemic and any potential Force Majeure Event that is reasonably foreseeable as of the Effective Date as a result of such pandemic, is not a Force Majeure Event for purposes of this Agreement and shall only become a Force Majeure Event when and if the U.S. government or any state or local government imposes obligations on a Party that requires such Party to suspend its business operations and such impacted Party cannot reasonably implement workarounds or alternatives to continue to perform its obligations under this Agreement.

k. **Interpretation**. The headings of clauses contained in this Agreement preceding the text of the sections, subsections and paragraphs hereof are inserted solely for convenience and ease of reference only and shall not constitute any part of this Agreement, or have any effect on its interpretation or construction. All references in this Agreement to the singular shall include the plural where applicable. Unless otherwise specified, references in this Agreement to any Article shall include all Sections, subsections and paragraphs in such Article, references to any Section shall include all subsections and paragraphs in such Section, and references in this Agreement to any subsection shall include all paragraphs in such subsection. All references to days in this Agreement means calendar days, unless otherwise specified. Ambiguities and uncertainties in this Agreement, if any, shall not be interpreted against either Party, irrespective of which Party may be deemed to have caused the ambiguity or uncertainty to exist. This Agreement has been prepared in the English language and the English language shall control its interpretation. In addition, all notices required or permitted to be given hereunder, and all written, electronic, oral or other communications between the Parties regarding this Agreement shall be in the English language.

l. **Construction**. Except where the context expressly requires otherwise, (a) the use of any gender herein encompasses references to either or both genders, and the use of the singular shall be deemed to include the plural (and vice versa), (b) the words “include”, “includes” and “including” are deemed followed by the phrase “without limitation”, (c) any definition of or reference to any agreement, instrument or other document herein refers to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (d) any reference herein to any person includes the person’s successors and assigns, (e) the words “herein”, “hereof” and “hereunder”, and words of similar import, refer to this Agreement in its entirety and not to any particular provision hereof, (f) all references herein to Sections or Exhibits refer to Sections or Exhibits of this Agreement, and references to this Agreement include all Exhibits hereto, and (g) the word “or” is disjunctive but not necessarily exclusive.

m. **Performance by Affiliates**. Each Party may discharge any obligations and exercise any right hereunder through any of its Affiliates. Each Party hereby guarantees the performance by its Affiliates of such Party’s obligations under this Agreement, and shall cause its Affiliates to comply with the provisions of this Agreement in connection with such performance. Any breach by a Party’s Affiliate of any of such Party’s obligations under this Agreement shall be deemed a breach by such Party, and the other Party may proceed directly against such Party without any obligation to first proceed against such Party’s Affiliate.

n. **Counterparts**. This Agreement may be executed in counterparts, including by transmission of facsimile or PDF copies of signature pages to the Parties or their representative legal counsel, each of which shall be deemed an original document, and all of which, together with this writing, shall be deemed one instrument.

[Remainder of this page intentionally left blank.]

In Witness Whereof, the Parties have executed this Exclusive License and Collaboration Agreement by their duly authorized officers as of the Effective Date.

Kindred Biosciences Inc.

By: /s/ Richard Chin

Name: Richard Chin

Title: CEO

Date: May 5, 2021

Elanco US Inc.

By: /s/ Aaron Schacht

Name: Aaron Schacht

Title: Exec Vice President – Innovation/Regulatory/Business Development

Date: May 5, 2021

EXHIBIT A

LICENSED PATENTS

[***]

Exhibit 31.1

Certification of the Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act

I, Richard Chin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kindred Biosciences, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2021

By: /s/ Richard Chin

Name: Richard Chin, MD
Title: Chief Executive Officer

Exhibit 31.2

Certification of the Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act

I, Wendy Wee, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kindred Biosciences, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d- 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2021

By: /s/ Wendy Wee

Name: Wendy Wee
Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AND THE CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Kindred Biosciences, Inc. (the "Company") hereby certifies that, to his or her knowledge:

(i) The quarterly report on Form 10-Q for the period ended March 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2021

By: /s/ Richard Chin
Name: Richard Chin, MD
Title: Chief Executive Officer

By: /s/ Wendy Wee
Name: Wendy Wee
Title: Chief Financial Officer