UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 October 31, 2018

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 No. 001-36830

KALVISTA PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0915291**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
55 Cambridge Parkway Suite 901E Cambridge, Massachusetts	**02142**
(Address of principal executive offices)	**(Zip Code)**

857-999-0075
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 period 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, 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 standard 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 December 10, 2018 the registrant had 17,225,667 shares of common stock, $0.001 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

KalVista Pharmaceuticals, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	October 31, 2018	April 30, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 121,116	$ 51,055
Research and development tax credit receivable	7,032	6,834
Prepaid expenses and other current assets	1,922	1,491
Total current assets	130,070	59,380
Other assets	173	173
Property and equipment, net	2,316	1,836
Total assets	**$ 132,559**	**$ 61,389**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,018	$ 1,433
Accrued expenses	2,994	3,087
Deferred revenue - current portion	14,769	18,475
Capital lease liability - current portion	157	221
Total current liabilities	20,938	23,216
Long-term liabilities:		
Deferred revenue - net of current portion	4,670	10,862
Capital lease liability - net of current portion	-	58
Total long-term liabilities	4,670	10,920
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock, $0.001 par value, 100,000,000 authorized		
Shares issued and outstanding: 17,225,167 at October 31, 2018 and 10,799,895 at April 30, 2018	17	11
Additional paid-in capital	189,164	100,011
Accumulated deficit	(79,994)	(71,660)
Accumulated other comprehensive loss	(2,236)	(1,109)
Total stockholders' equity	106,951	27,253
Total liabilities and stockholders' equity	**$ 132,559**	**$ 61,389**

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

KalVista Pharmaceuticals, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2018	2017	2018	2017
Revenue	$ 5,592	$ 1,127	$ 9,311	$ 1,223
Operating expenses:				
Research and development	7,876	4,361	16,232	7,837
General and administrative	2,609	2,703	4,979	4,776
Total operating expenses	10,485	7,064	21,211	12,613
Operating loss	**(4,893)**	**(5,937)**	**(11,900)**	**(11,390)**
Other income:				
Interest income	204	1	293	3
Foreign currency exchange gain (loss)	(231)	83	(165)	51
Other income	1,616	867	3,438	1,422
Total other income	1,589	951	3,566	1,476
Net loss	**$ (3,304)**	**$ (4,986)**	**$ (8,334)**	**$ (9,914)**
Other comprehensive loss:				
Foreign currency translation adjustments	193	(43)	(1,127)	72
Comprehensive loss	**$ (3,111)**	**$ (5,029)**	**$ (9,461)**	**$ (9,842)**
Net loss per share to common stockholders, basic and diluted	$ (0.22)	$ (0.50)	$ (0.64)	$ (1.01)
Weighted average common shares outstanding, basic and diluted	15,108,272	10,003,963	12,954,083	9,858,502

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

KalVista Pharmaceuticals, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(in thousands, except share amounts)
(Unaudited)

	Six Months Ended October 31, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at April 30, 2018	10,799,895	$ 11	$ 100,011	$ (71,660)	$ (1,109)	$ 27,253
Cash received pursuant to common stock subscription agreement	—	—	5,000	—	—	5,000
Stock-based compensation expense	—	—	347	—	—	347
Net loss	—	—	—	(5,030)	—	(5,030)
Foreign currency translation	—	—	—	—	(1,320)	(1,320)
Balance at July 31, 2018	**10,799,895**	**11**	**105,358**	**(76,690)**	**(2,429)**	**26,250**
Issuance of common stock from public offerings, net of issuance costs	6,378,320	6	82,805	—	—	82,811
Issuance of common stock from exercise of stock options	4,452	—	25	—	—	25
Issuance of common stock from vesting of performance stock units	42,500	—	—	—	—	—
Stock-based compensation expense	—	—	976	—	—	976
Net loss	—	—	—	(3,304)	—	(3,304)
Foreign currency translation	—	—	—	—	193	193
Balance at October 31, 2018	**17,225,167**	**$ 17**	**$ 189,164**	**$ (79,994)**	**$ (2,236)**	**$ 106,951**

	Six Months Ended October 31, 2017					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at April 30, 2017	9,713,042	$ 10	$ 89,815	$ (55,855)	$ (2,643)	$ 31,327
Stock-based compensation expense	—	—	221	—	—	221
Net loss	—	—	—	(4,928)	—	(4,928)
Foreign currency translation	—	—	—	—	115	115
Balance at July 31, 2017	**9,713,042**	**10**	**90,036**	**(60,783)**	**(2,528)**	**26,735**
Issuance of common stock	1,070,589	1	9,099			9,100
Stock-based compensation expense			273			273
Net loss				(4,986)		(4,986)
Foreign currency translation					(43)	(43)
Balance at October 31, 2017	**10,783,631**	**$ 11**	**$ 99,408**	**$ (65,769)**	**$ (2,571)**	**$ 31,079**

KalVista Pharmaceuticals, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Six Months Ended October 31,	
	2018	**2017**
Cash Flows from Operating Activities		
Net loss	$ (8,334)	$ (9,914)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	153	79
Stock-based compensation expense	1,323	494
Foreign currency remeasurement loss	226	31
Changes in operating assets and liabilities:		
Research and development tax credit receivable	(692)	(1,397)
Prepaid expenses and other current assets	(517)	(636)
Grants and other receivables	-	(590)
Accounts payable	2,088	(139)
Accrued expenses	66	365
Deferred revenue	(9,311)	—
Net cash used in operating activities	(14,998)	(11,707)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(786)	(161)
Net cash used in investing activities	(786)	(161)
Cash Flows from Financing Activities		
Capital lease principal payments	(104)	(49)
Issuance of common stock from stock option exercises	25	—
Issuance of common stock, net of offering expenses	87,811	9,100
Net cash from financing activities	87,732	9,051
Effect of exchange rate changes on cash and cash equivalents	(1,887)	(5)
Net increase (decrease) in cash and cash equivalents	70,061	(2,822)
Cash and cash equivalents at beginning of period	51,055	30,950
Cash and cash equivalents at end of period	$ 121,116	$ 28,128
Supplemental Disclosures of Non-cash Financing Activities		
Capital leases	$ —	$ 513

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

1. The Company

KalVista Pharmaceuticals, Inc. ("KalVista" or the "Company") is a clinical stage pharmaceutical company focused on the discovery, development and commercialization of small molecule protease inhibitors for diseases with significant unmet need. The Company's first product candidates are inhibitors of plasma kallikrein being developed for two indications: hereditary angioedema ("HAE") and diabetic macular edema ("DME"). The Company applies its insights into the chemistry of proteases and, with current programs, the biology of the plasma kallikrein system, to develop small molecule inhibitors with high selectivity, potency and bioavailability that it believes will make successful treatments for disease.

KalVista has created a structurally diverse portfolio of oral plasma kallikrein inhibitors and advanced multiple drug candidates into Phase 1 clinical trials for HAE in order to create what it believes will be best-in-class oral therapies. The Company has decided to advance one of these candidates, KVD900, into later stage clinical development as a potential on-demand therapy for HAE attacks, with a Phase 2 clinical trial expected to initiate in late 2018 and complete in late 2019. The Company anticipates that this trial will evaluate the safety and efficacy of KVD900 as an on-demand treatment for HAE attacks in approximately 50 type 1 and 2 HAE patients. In the case of DME, the Company is initially developing a plasma kallikrein inhibitor which is administered directly into the eye and anticipates ultimate development of orally delivered drugs. KalVista is currently enrolling a Phase 2 clinical trial of KVD001, the Company's most advanced DME drug candidate, which it anticipates will be completed in the second half of 2019.

The Company's headquarters is located in Cambridge, Massachusetts, with research activities located in Porton Down, United Kingdom and Boston, Massachusetts.

The Company has devoted substantially all of its efforts to research and development, including clinical trials of its product candidates. The Company has not completed the development of any product candidates or commenced commercial operations. Pharmaceutical drug product candidates, like those being developed by the Company, require approvals from the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies prior to commercial sales. There can be no assurance that any product candidates will receive the necessary approvals and any failure to receive approval or delay in approval may have a material adverse impact on the business and financial results. The Company is subject to a number of risks and uncertainties similar to those of other life science companies developing new products, including, among others, the risks related to the necessity to obtain adequate additional financing, to successfully develop product candidates, to obtain regulatory approval of product candidates, to comply with government regulations, to successfully commercialize its potential products, to the protection of proprietary technology and to the dependence on key individuals.

The Company has funded operations primarily through the issuance and sale of capital stock, the option agreement that a subsidiary of the Company entered into with Merck Sharp & Dohme Corp. (the "Merck Option Agreement") and grant income. As of October 31, 2018, the Company had an accumulated deficit of $80.0 million and $121.1 million of cash and cash equivalents. To date, the Company has not generated any product sales revenues and does not have any products that have been approved for commercialization. The Company does not expect to generate significant revenue unless and until it obtains regulatory approval for, and commercializes, one of its current or future product candidates. The Company anticipates that it will continue to incur losses for the foreseeable future, and it expects those losses to increase as it continues the development of, and seek regulatory approvals for, product candidates, and begins to commercialize any approved products. The Company is subject to all of the risks inherent in the development of new therapeutic products, and it may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect its business. The Company currently anticipates that, based upon its operating plans and existing capital resources, it has sufficient funding to operate for at least the next twelve months.

Until such time, if ever, as the Company can generate substantial revenues, it expects to finance its cash needs through a combination of equity or debt financings, collaborations, strategic partnerships or licensing arrangements. To the extent that additional capital is raised through the sale of stock or convertible debt securities, the ownership interest of existing stockholders will be diluted, and the terms of these newly issued securities may include liquidation or other preferences that adversely affect the rights of common stockholders. Debt financing, if available, may involve agreements that include increased fixed payment obligations and covenants limiting or restricting the Company's ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends, selling or licensing intellectual property rights and other operating restrictions that could adversely impact its ability to conduct business. Additional fundraising through collaborations, strategic partnerships or licensing arrangements with third parties may require the Company to relinquish valuable rights to product candidates, including other technologies, future revenue streams or research programs, or grant licenses on terms that may not be favorable to it. If the Company is unable to raise additional funds when needed, it may be required to delay, limit, reduce or terminate product development or future commercialization efforts or grant rights to develop and commercialize our other product candidates even if it would otherwise prefer to develop and commercialize such product candidates internally.

2. Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Such financial statements reflect all adjustments that are, in management's opinion, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, and cash flows. There were no adjustments other than normal recurring adjustments. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements. These unaudited interim condensed consolidated financial results are not necessarily indicative of the results to be expected for the year ending April 30, 2019, or for any other future annual or interim period. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited financial statements as of and for the year ended April 30, 2018.

Segment Reporting: The Company's Chief Operating Decision Maker, the CEO, manages the Company's operations as a single operating segment for the purposes of assessing performance and making operating decisions.

Net Loss per Share: Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options.

Potential dilutive common share equivalents consist of:

	October 31,	
	2018	2017
Stock Options	1,745,942	261,432

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. As a result, there is no difference between the Company's basic and diluted loss per share for the periods presented.

Revenue Recognition: The Company recognizes revenue from research and development arrangements and grant income. In accordance with Accounting Standards Codification ("ASC") 606,"Revenue from Contracts with Customers," revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods and services.

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods and services, the Company must apply judgment to determine whether promised goods and services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods and services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period for any changes.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated

entirely to a performance obligation or to a distinct service that forms part of a single performance obligation. The consideration to be received is allocated among the separate performance obligations based on relative standalone selling prices.

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized over time if either 1) the customer simultaneously receives and consumes the benefits provided by the entity's performance, 2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. If the entity does not satisfy a performance obligation over time, the related performance obligation is satisfied at a point in time by transferring the control of a promised good or service to a customer. Examples of control are using the asset to produce goods or services, enhance the value of other assets, settle liabilities, and holding or selling the asset. ASC 606 requires the Company to select a single revenue recognition method for the performance obligation that faithfully depicts the Company's performance in transferring control of the goods and services. The guidance allows for two methods to measure progress toward complete satisfaction of a performance obligation, depending on the facts and circumstances:

Output methods - recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract (e.g., surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed, and units of produced or units delivered); and

Input methods - recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (e.g., resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to the satisfaction of that performance obligation.

Licenses of intellectual property: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company must consider the nature of the intellectual property to which the customer will have rights (i.e., access at a point in time or benefit of intellectual property enhancements over time). The Company recognizes revenue from non-refundable, up-front fees allocated to the license at a point in time/over the period the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Milestone payments: At the inception of each arrangement that includes development and regulatory milestone payments for promised goods and services, the Company evaluates the circumstances of whether the milestones will be reached and estimates the amount to be included in the transaction price that will not cause a significant revenue reversal. The Company will evaluate these types of payments for customer options once those options have been exercised. ASC 606 suggests two alternatives to use when estimating the amount of variable consideration: the expected value method and the most likely amount method. Under the expected value method, an entity considers the sum of probability-weighted amounts in a range of possible consideration amounts. Under the most likely amount method, an entity considers the single most likely amount in a range of possible consideration amounts. The Company will use the most likely amount method for development and regulatory milestone payments. Management believes the most likely amount method is the better predictor as the Company expects to be entitled to only one of two possible amounts. Additionally, management believes that the most likely amount of milestone consideration is its stated amount. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. The transaction price is then allocated to performance obligations on a specific basis or on a relative standalone selling price basis. The Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates whether it is probable that a significant revenue reversal will not occur in future periods, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenues and earnings in the period of adjustment.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Up-front payments: Up-front payments and fees are recorded as deferred revenue upon receipt or when due and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts payable to the Company are recorded as accounts receivable when the Company's right to consideration is unconditional. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that

the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

Contract Balances: The Company recognizes a contract asset when the Company transfers goods or services to a customer before the customer pays consideration or before payment is due, excluding any amounts presented as a receivable (i.e., accounts receivable). A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The contract liabilities (i.e. deferred revenue) primarily relate to contracts where we have received payment but we have not yet satisfied the related performance obligations. The advance consideration received from customers for R&D services and/or licenses is a contract liability, recorded as deferred revenue, until the underlying performance obligations are transferred to the customer.

Fair Value Measurement: The Company classifies fair value measurements using a three level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows: Level 1, quoted market prices in active markets for identical assets or liabilities; Level 2, observable inputs other than quoted market prices included in Level 1, such as quoted market prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data; and Level 3, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recently Issued Accounting Pronouncements Not Yet Adopted: In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, "Leases" (Topic 842). Under the new guidance, lessees will be required to recognize for all leases (with the exception of short term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right of use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted, however, the Company does not intend to early adopt. See Note 4 for additional information regarding the Company's lease obligations.

Recently Adopted Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") 2014-09, "Revenue from Contracts with Customers," requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP when it became effective and permits the use of either the retrospective or cumulative effect transition method. The Company adopted the updated standard May 1, 2018 using the modified retrospective method of adoption for all open contracts. The Company's only significant revenue generating arrangement is the arrangement with Merck. The adoption of this guidance on the consolidated financial statements had no impact on the date of adoption and through October 31, 2018, other than the enhanced footnote disclosures.

3. Accrued Expenses

Accrued expenses consisted of the following as of October 31, 2018 and April 30, 2018 (in thousands):

	October 31, 2018	April 30, 2018
Compensation expense	$ 845	$ 1,393
Research expense	1,885	1,192
Professional fees	122	164
Other expenses	142	338
	$ 2,994	$ 3,087

4. Commitments and Contingencies

Clinical Studies: The Company enters into contractual agreements with contract research organizations in connection with preclinical and toxicology studies and clinical trials. Amounts due under these agreements are invoiced to the Company on predetermined schedules during the course of the toxicology studies and clinical trials and are not refundable regardless of the outcome. The Company has contractual obligations related to the expected future costs to be incurred to complete the ongoing toxicology studies and clinical trials. The remaining commitments, which have cancellation provisions, total $5.7 million at October 31, 2018.

Lease Commitments: The Company is party to several operating leases for office and laboratory space as well as certain lab equipment. Rent expense was $334,000 and $286,000 for the six months ended October 31, 2018 and 2017. Rent expense is reflected in general and administrative expenses and research and development expenses as determined by the underlying activities.

Future minimum lease payments under these leases as of October 31, 2018 are as follows (in thousands):

Fiscal Year	Capital Leases	Operating Leases
2019	$ 106	$ 191
2020	53	321
2021		324
2022	—	327
2023 and thereafter	—	697
Total minimum lease payments	159	$ 1,860
Less amounts representing interest	(2)	
Present value of minimum payments	$ 157	

Contingencies: From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable and that such expenditures can be reasonably estimated. There are no contingent liabilities requiring accrual at October 31, 2018.

As a result of the terms of grant income received in prior years, upon successful regulatory approval and following the first commercial sale of certain products, the Company will be required to pay royalty fees of up to $1.0 million within 90 days of the first commercial sale of the product subject to certain limitations, and follow on payments depending upon commercial success and type of product. Given the stage of development of the current pipeline of products it is not possible to predict with certainty the amount or timing of any such liability.

5. Merck Arrangement

On October 6, 2017, the Company's wholly-owned U.K. based subsidiary KalVista Pharmaceuticals Limited ("KalVista Limited) and Merck Sharp & Dohme Corp. ("Merck") entered into an option agreement (the "Merck Option Agreement"). The Company is the guarantor of KalVista Limited's obligations under the Merck Option Agreement. Under the terms of the Merck Option Agreement, the Company, through KalVista Limited, has granted to Merck an option to acquire KVD001 through a period following completion of a Phase 2 clinical trial. The Company, through KalVista Limited, has also granted to Merck a similar option to acquire investigational orally delivered molecules for DME that the Company will continue to develop as part of its ongoing research and development activities, through a period following the completion of a Phase 2 clinical trial. The Company, through KalVista Limited, also granted to Merck a non-exclusive license to use the compounds solely for research purposes, and is required to use its diligent efforts to develop the two compounds through the completion of Phase 2 clinical trials. The Company will fund and retain control over the planned Phase 2 clinical trial of KVD001 as well as development of the investigational oral DME compounds through Phase 2 clinical trials unless Merck determines to exercise its options earlier, at which point Merck will take responsibility for all development and commercialization activities for the compounds. The Company's development efforts under the Merck Option Agreement are governed by a joint steering committee consisting of equal representatives from the Company and Merck.

Under the terms of the Merck Option Agreement, Merck paid a non-refundable upfront fee of $37.0 million to KalVista Limited in November 2017. If Merck exercises both options under the Merck Option Agreement, KalVista Limited could receive up to an additional $715.0 million composed of option exercise payments and clinical, regulatory, and sales-based milestone payments. In addition, the Company is eligible for tiered royalties on global net sales ranging from mid-single digits to double digit percentages.

Merck may terminate the Merck Option Agreement at any time upon written notice to the Company. KalVista Limited may terminate the Merck Option Agreement in the event of Merck's material breach of the Merck Option Agreement, subject to cure.

Concurrent with the Merck Option Agreement, the Company and Merck also entered into a stock purchase agreement (the "Stock Purchase Agreement") pursuant to which Merck paid approximately $9.1 million to purchase 1,070,589 new shares of the Company's common stock at a price of $8.50 per share.

The Company determined that the Merck Option Agreement and the Stock Purchase Agreement were negotiated and executed contemporaneously, are for a single commercial objective and therefore should be combined as one arrangement for accounting purposes. The aggregate proceeds from the arrangement were allocated to the equity arrangement and to the revenue arrangement.

The Company evaluated the revenue arrangement in accordance with the provisions of ASC 606 upon the adoption of this guidance on May 1, 2018. The Company determined that the revenue arrangement contains the following promised services: (i) a non-exclusive license to use the two compounds solely for research purposes, (ii) research and development services related to the development of KVD001 through completion of a Phase 2 clinical trial, and (iii) research and development services related to the development of the Oral DME Compounds.

The Company has determined that Merck's options to acquire KVD001 and the Oral DME Compounds are customer options. Merck is not contractually obligated to exercise the options. The Company has determined that Merck's options to acquire KVD001 and the Oral DME Compounds are not priced below their standalone selling prices and do not grant the customer a material right. Consequently, the Company determined that Merck's options are not performance obligations at the inception of the arrangement.

The Company further determined that the research license granted is not distinct from the respective research and development services, as the license could not be used on its own by Merck for its intended purpose of developing and commercializing KVD001 and the Oral DME Compounds and is significantly interdependent with the respective research and development services. As a result, the research license has been combined with the respective research and development services for KVD001 and the Oral DME Compounds as two performance obligations (the "KVD001 Performance Obligation" and the "Oral DME Performance Obligation").

Therefore, the Company has identified two performance obligations under the revenue arrangement as follows: (i) the KVD001 Performance Obligation, and (ii) the Oral DME Performance Obligation. The transaction price that is allocable at inception of the arrangement is comprised of the non-refundable upfront payment of $37.0 million and the payment for the common stock of $9.1 million. The Company allocated the $9.1 million payment to the common stock, as this represented the fair value of the shares issued based on arms length negotiations between the Company and Merck. The amount allocated to the common stock was recorded in stockholders' equity at the date of issuance. The Company allocated the remaining transaction price of $37.0 million to the remaining performance obligations using the relative standalone selling price.

There is uncertainty that the events to obtain and the development and regulatory milestones will be achieved given the nature of clinical development and the stage of the research. The development and regulatory milestones will be constrained until the Company is sure that a significant revenue reversal will not occur. The royalties and sales-based milestones relate predominantly to a license of intellectual property and are determined by sales or usage-based thresholds. The royalties and sales-based milestones will be accounted for the under sales-based royalty recognition exception and will not recognize revenue until the subsequent sale of a licensed product (achievement of sales-based milestone) occurs.

The Company developed the stand-alone selling price for the KVD001 Performance Obligation and Oral DME Performance by applying an analysis of discounted cash flows and the transaction price was allocated among the separate performance obligations using the relative standalone selling price method. The amount allocated to each Performance Obligation will be recognized as revenue using an input method of performance completed to date comparing the total effort incurred with the Company's estimate of total effort required to perform the R&D services for each respective performance obligation. For the three and six month periods ended October 31, 2018, the Company recognized approximately $5.6 million and $9.3 million of revenue with respect to the arrangement with Merck, all of which was recognized from the deferred revenue balance. As of October 31, 2018, deferred revenue on the consolidated balance sheet is $19.4 million, which is related to the remaining unsatisfied performance obligations in this arrangement. Approximately $14.8 million related to the unsatisfied performance obligation is expected to be satisfied in the next 12 months and the remaining $4.6 million will be satisfied in the 4 years thereafter.

Upon adoption of ASC 606 on May 1, 2018, the Company concluded that there was no change in the amount or timing of revenue recognition as compared to its historical practices for this arrangement. Accordingly, there was no adjustment upon adoption.

6. Financing

On August 2, 2018 the Company issued 1,778,320 new shares of common stock at a price of $8.21 per share. The total net proceeds to the Company were $14.5 million.

On September 10, 2018 the Company issued 4,600,000 new shares of common stock at a price of $17.00 in a public offering, including the underwriters' full exercise of the over-allotment option. The total net proceeds to the Company were $73.3 million, after deducting underwriting discounts, commissions and offering expenses payable by the Company. Certain of the Company's stockholders affiliated with its directors purchased an aggregate of 1,117,648 shares of common stock in this offering at the public offering price.

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

You should read the following discussion in conjunction with our unaudited interim condensed financial statements and related notes included elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts contained in this report are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "could," "will," "would," "should," "expect," "plan," "anticipate," "believe," "estimate," "intend," "predict," "seek," "contemplate," "potential" or "continue" or the negative of these terms or other comparable terminology. These forward-looking statements, include, but are not limited to, the success, cost and timing of our product development activities and clinical trials as well as other activities we may undertake. Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or our future financial performance, are based on assumptions, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under "Risk Factors" in our Annual Report on Form 10-K or described elsewhere in this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. Unless the context indicates otherwise, in this Quarterly Report on Form 10-Q, the terms "KalVista," "Company," "we," "us" and "our" refer to KalVista Pharmaceuticals, Inc. and, where appropriate, its consolidated subsidiary.

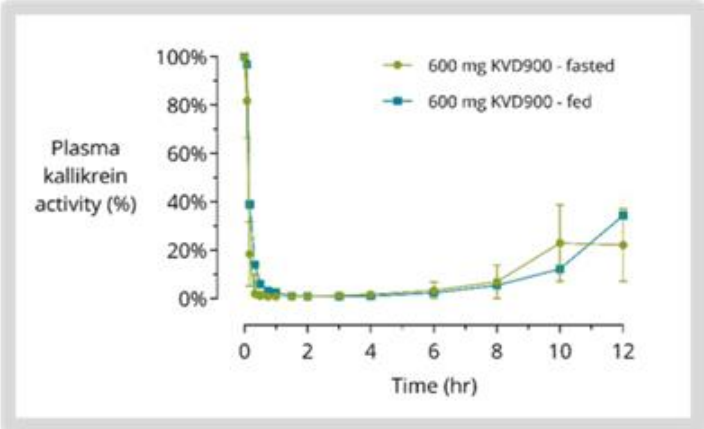
Management Overview

We are a clinical stage pharmaceutical company focused on the discovery, development and commercialization of small molecule protease inhibitors for diseases with significant unmet need. Our first product candidates are inhibitors of plasma kallikrein being developed for two indications: hereditary angioedema ("HAE") and diabetic macular edema ("DME"). We apply our insights into the chemistry of proteases and, with our current programs, the biology of the plasma kallikrein system, to develop small molecule inhibitors with high selectivity, potency and bioavailability that we believe will make them successful treatments for disease.

We have created a structurally diverse portfolio of oral plasma kallikrein inhibitors and advanced multiple drug candidates into Phase 1 clinical trials for HAE in order to create what we believe will be best-in-class oral therapies. Based on the results of a first-in-human study conducted in early 2018, we have decided to advance one of these candidates, KVD900, into later stage clinical trials as a potential on-demand therapy for HAE attacks. We currently are planning a Phase 2 clinical trial of KVD900 that is expected to initiate in late 2018 and complete in late 2019. In the case of DME, we are initially developing a plasma kallikrein inhibitor which is administered directly into the eye and we anticipate ultimate development of orally delivered drugs. We are currently enrolling a Phase 2 clinical trial of KVD001, our most advanced DME drug candidate, which we anticipate will be completed in the second half of 2019.

The first-in-human study of KVD900 included a total of 68 subjects on active drug, of which 18 received the top dose of 600mg. Included in the study was a cohort that evaluated the effect of food on the pharmacokinetic profile of KVD900 in healthy volunteers. This cohort showed that dosing following a standardized high calorie and high fat meal had little impact on the pharmacodynamic profile of KVD900 tablets, which continued to result in 95% inhibition of plasma kallikrein within 30 minutes, a timeframe that we believe potentially compares favorably to approved injected therapies. We believe that KVD900 displays a profile well-suited for use as an on-demand therapy for HAE attacks, with a combination of rapid and high uptake into the plasma resulting in fast and strong inhibition of plasma kallikrein. To date, KVD900 has shown no dose-limiting safety signals, and based upon the food effect cohort we do not expect food to impose any limitations as to when a patient can take the drug. The Phase 1 trial of KVD900 reported no serious adverse events as well as no clinically significant changes in vital signs, ECG, or safety labs.

The figure below shows the effect of 600 mg of KVD900 on plasma kallikrein activity in both fasted and fed healthy volunteers.



Based upon the data from the first-in-human study, we have determined to conduct a larger Phase 2 trial than originally anticipated to generate a more robust data set that may enable a more aggressive development plan for KVD900. The Phase 2 trial evaluating the utility of KVD900 as a potential on-demand treatment for HAE attacks is expected to initiate before the end of 2018 and is intended to investigate efficacy in approximately 50 type 1 and 2 HAE patients. This two part study will include an in-patient investigation of the safety, pharmacokinetic and pharmacodynamic profile of KVD900 and an out-patient crossover phase to investigate the safety and efficacy of KVD900 versus placebo in the treatment of HAE attacks. In this study, KVD900 or placebo will be dosed within one hour of the start of an attack, with symptom severity and other parameters monitored for at least 24 hours following administration. Patients will use their normal, on-demand treatment if the attacks worsen. Data is expected from this trial in late 2019, and we will provide more information on the details of the trial design once the trial has initiated.

We have devoted substantially all of our efforts to research and development, including clinical trials of our product candidates. We have not completed the development of any product candidates. Pharmaceutical drug product candidates, like those being developed by us, require approvals from the FDA or foreign regulatory agencies prior to commercial sales. There can be no assurance that any product candidates will receive the necessary approvals and any failure to receive approval or delay in approval may have a material adverse impact on our business and financial results. We are subject to a number of risks and uncertainties similar to those of other life science companies developing new products, including, among others, the risks related to the necessity to obtain adequate additional financing, to successfully develop product candidates, to obtain regulatory approval of product candidates, to comply with government regulations, to successfully commercialize our potential products, to the protection of proprietary technology and to our dependence on key individuals.

Financial Overview

Revenue

Our revenue consists primarily of a portion of the upfront fees from the Merck Option Agreement, which is recognized as revenue using an input method of performance completed to date comparing the total effort incurred with the Company’s estimate of total effort required to perform the R&D activities. All of the revenues recognized in the accompanying financial statements have been recognized from deferred revenue that existed at the beginning of the period.

Research and Development Expenses

Research and development expenses primarily consist of costs associated with our research activities, including the preclinical and clinical development of product candidates. We contract with clinical research organizations to manage our clinical trials under agreed upon budgets for each study, with oversight by our clinical program managers. We account for all goods and services, including non-refundable advance payments, as expenses, and all research and development costs are expensed as incurred.

We expect to continue to incur substantial expenses related to development activities for the foreseeable future as we conduct clinical development, manufacturing and toxicology studies. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials, additional drug manufacturing requirements, and later stage toxicology studies such as carcinogenicity studies. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time consuming.

The probability of success for each product candidate is affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. Accordingly, we may never succeed in achieving marketing approval for any of our product candidates.

Completion dates and costs for clinical development programs as well as our research program can vary significantly for each current and future product candidate and are difficult to predict. As a result, we cannot estimate with any degree of certainty the costs associated with development of our product candidates at this point in time. We anticipate making determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, our ability to enter into collaborative agreements with respect to programs or potential product candidates, as well as ongoing assessments as to the commercial potential of each current or future product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of the costs associated with general management, obtaining and maintaining our patent portfolio, professional fees for accounting, auditing, consulting and legal services, and general overhead expenses.

We expect ongoing general and administrative expenses to increase in the future as we expand our operating activities, maintain and expand the patent portfolio, incur additional costs associated with the management of a public company and maintain compliance with exchange listing and requirements of the Securities and Exchange Commission. These potential increases will likely include management costs, legal fees, accounting fees, directors' and officers' liability insurance premiums, and expenses associated with investor relations, among others.

Other Income

Other income consists of bank interest, research and development tax credits from the United Kingdom government's tax incentive programs set up to encourage research and development in the United Kingdom and realized and unrealized exchange rate gains/losses on cash held in foreign currencies.

Income Taxes

We historically have incurred net losses and have no corporation tax liabilities. We file U.S. federal tax returns, as well as certain state returns. We also file returns in the United Kingdom. Under the U.K. government's research and development tax incentive scheme, we have incurred qualifying research and development expenses and filed claims for research and development tax credits in accordance with the relevant tax legislation. The research and development tax credits are paid out to us in cash and reported as other income. Because of the operating losses and the full valuation allowance provided on all deferred tax assets, including the net operating losses, no tax provision has been recognized in the periods presented.

Results of Operations

Comparison of three months ended October 31, 2018 and 2017

The following table sets forth the key components of our results of operations for the three months ended October 31, 2018 and 2017 (in thousands):

	Three Months Ended October 31,		Increase (decrease)
	2018	2017	
Revenue	$ 5,592	$ 1,127	$ 4,465
Operating expenses			
Research and development expenses	7,876	4,361	3,515
General and administrative expenses	2,609	2,703	(94)
Other income			
Interest, exchange rate loss and other income	1,589	951	638

Revenue. Revenue was $5.6 million in the three months ended October 31, 2018 compared to $1.1 million for the same period in the prior year. The increase of $4.5 million was due primarily to an increase of $4.8 million of revenue from the Merck Option Agreement recognized in the three months ended October 31, 2018 compared to the same period in the prior year, which was offset by a decrease in grant revenue of $0.3 million. We expect that our reported revenues will increase in future periods as the proceeds from the Merck Option Agreement are recognized as services are performed. There was no impact on the amount of revenue recognized under ASC 606 as compared to our prior revenue recognition policies as a result of adoption of ASC 606.

Research and Development Expenses. Research and development expenses were $7.9 million for the three months ended October 31, 2018 compared to $4.4 million for the same period in the prior year, primarily due to an increase in early stage research activities, the ongoing Phase 2 clinical trial for KVD001 and an increase in activity related to the additional oral programs. The impact of exchange rates on research and development expenses was a decrease to expenses of approximately $0.1 million in the three months ended October 31, 2018 compared to the same period in the prior year.

Research and development expenses by major programs or categories were as follows (in thousands):

	Three Months Ended October 31,	
	2018	2017
Intravitreal	$ 2,482	$ 598
Clinical stage oral programs	360	205
Additional oral programs	1,484	935
Early stage research activities	3,550	2,623
Total	**$ 7,876**	**$ 4,361**

Expenses for the intravitreal program were $2.5 million for the three months ended October 31, 2018 compared to $0.6 million for the same period in the prior year due to the ongoing Phase 2 clinical trial for KVD001. We anticipate that expenses will continue at or above current levels as the clinical trial for KVD001 progresses this year.

Expenses for the clinical stage oral programs were $0.4 million in the three months ended October 31, 2018 compared to $0.2 million for the same period in the prior year due to the ongoing first-in-human study for KVD900 in the three months ended October 31, 2018. We anticipate that these expenses will increase significantly above current levels as we begin later stage development of KVD900 and additional programs enter clinical development.

Expenses for the additional oral programs were $1.5 million in the three months ended October 31, 2018 compared to $0.9 million for the same period in the prior year due to an increase in preclinical development activity in the three months ended October 31, 2018. We anticipate that expenses will continue to increase as we advance additional preclinical programs towards clinical development.

Expenses for early stage research activities were $3.6 million for the three months ended October 31, 2018 compared to $2.6 million for the same period in the prior year due to additional projects compared to the same period in the prior year. We anticipate that expenses will continue to increase as multiple candidates are assessed in discovery and advanced into early stage development.

General and Administrative Expenses. General and administrative expenses were $2.6 million for the three months ended October 31, 2018 compared to $2.7 million for the same period in the prior year. The decrease of $0.1 million was substantially due to a decrease in incentive compensation of $0.6 million and an offsetting increase in stock based compensation of $0.5 million. We anticipate that expenses will continue at or above current levels.

Other Income. Other income was $1.6 million for the three months ended October 31, 2018 compared to $1.0 million for the same period in the prior year. The increase of $0.6 million was primarily due to an increase of $0.7 million in income from research and development tax credits and an increase in interest income of $0.2 million offset by an increase in unrealized foreign currency exchange rate losses of $0.3 million from transactions denominated in foreign currencies in our U.K. subsidiary.

Comparison of six months ended October 31, 2018 and 2017

The following table sets forth the key components of our results of operations for the six months ended October 31, 2018 and 2017 (in thousands):

	Six Months Ended October 31,		Increase (decrease)
	2018	2017	
Revenue	$ 9,311	$ 1,223	$ 8,088
Operating expenses			
Research and development expenses	16,232	7,837	8,395
General and administrative expenses	4,979	4,776	203
Other income			
Interest, exchange rate gain (loss) and other income	3,566	1,476	2,090

Revenue. Revenue was $9.3 million in the six months ended October 31, 2018 compared to $1.2 million for the same period in the prior year. The increase of $8.1 million was due primarily to an increase of $8.5 million of revenue from the Merck Option Agreement recognized in the six months ended October 31, 2018, which was partially offset by a decrease in grant revenue of $0.4 million compared to the same period in the prior year. We expect that our reported revenues will increase in future periods as the proceeds from the Merck Option Agreement are recognized as services are performed. There was no impact on the amount of revenue recognized under ASC 606 as compared to our prior revenue recognition policies as a result of adoption of ASC 606.

Research and Development Expenses. Research and development expenses were $16.2 million for the six months ended October 31, 2018 compared to $7.8 million for the same period in the prior year, primarily due to an increase in early stage research activities, the ongoing Phase 2 clinical trial for KVD001 and an increase in activity related to the additional oral programs. The impact of exchange rates on research and development expenses was an increase to expenses of approximately $0.2 million in the six months ended October 31, 2018 compared to the same period in the prior year.

Research and development expenses by major programs or categories were as follows (in thousands):

	Six Months Ended October 31,	
	2018	2017
Intravitreal	$ 5,831	$ 766
Clinical stage oral programs	1,451	918
Additional oral programs	2,643	1,436
Early stage research activities	6,307	4,717
Total	**$ 16,232**	**$ 7,837**

Expenses for the intravitreal program were $5.8 million for the six months ended October 31, 2018 compared to $0.8 million for the same period in the prior year due to the initiation of the Phase 2 clinical trial for KVD001 in the latter half of the prior fiscal year. We anticipate that expenses will continue at or above current levels as the clinical trial for KVD001 progresses this year.

Expenses for the clinical stage oral programs were $1.5 million in the six months ended October 31, 2018 compared to $0.9 million for the same period in the prior year due to the initiation of the first-in-human study for KVD900 in the latter half of the prior fiscal year. We anticipate that expenses will continue above current levels as we begin later stage development of KVD900 and additional programs enter the clinical testing phase.

Expenses for the additional oral programs were $2.6 million in the six months ended October 31, 2018 compared to $1.4 million for the same period in the prior year due to an increase in preclinical development activity in the six months ended October 31, 2018. We anticipate that expenses will continue to increase as the level of activity increases in our additional oral programs this year.

Expenses for early stage research activities were $6.3 million for the six months ended October 31, 2018 compared to $4.7 million for the same period in the prior year due to increased research activity on additional projects compared to the same period in the prior year. We anticipate that expenses will continue to increase as multiple candidates are assessed in discovery and advanced into early stage development.

General and Administrative Expenses. General and administrative expenses were $5.0 million for the six months ended October 31, 2018 compared to $4.8 million for the same period in the prior year. The increase of $0.2 million was substantially due to an increase of $0.3 million in travel, facilities and technology related expenses which were partially offset by a decrease of $0.2 million in professional fees. We anticipate that expenses will continue at or above current levels.

Other Income. Other income was $3.6 million for the six months ended October 31, 2018 compared to $1.5 million for the same period in the prior year. The increase of $2.1 million was primarily due to an increase of $2.0 million in income from research and development tax credits compared to the same period in the prior year. Also, an increase in interest income of $0.3 million was mostly offset by an increase in foreign currency exchange rate losses from transactions denominated in foreign currencies in our U.K. subsidiary.

Liquidity and Capital Resources

We have funded operations primarily through the issuance and sale of capital stock, the Merck Option Agreement, and grant income. As of October 31, 2018, we have received cumulative equity funding totaling $160.5 million, $37.0 million from the Merck Option Agreement, grant income of $8.9 million and we have an accumulated deficit of $80.0 million. Our working capital, primarily cash, is anticipated to fund our operations for at least the next twelve months from the date these unaudited interim condensed consolidated financial statements are issued.

We will need to expend substantial resources for research and development, including costs associated with the clinical testing of our product candidates and will need to obtain additional financing to fund our operations and to conduct trials for our product candidates. We will seek to finance future cash needs through equity offerings, future grants, corporate partnerships and product sales.

We have never been profitable and have incurred significant operating losses in each year since inception. Cash requirements may vary materially from those now planned because of changes in our focus and direction of our research and development programs, competitive and technical advances, patent developments, regulatory changes or other developments. Additional financing will be required to continue operations after we exhaust our current cash resources and to continue our long-term plans for clinical trials and new product development. There can be no assurance that any such financing can be obtained by us, or if obtained, what the terms thereof may be, or that any amount that we are able to raise will be adequate to support our working capital requirements until we achieve profitable operations. If adequate additional working capital is not secured when it becomes needed, we may be required to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail planned research programs. Any of these actions could materially harm our business and prospects.

Cash Flows

The following table shows a summary of the net cash flow activity for the six months ended October 31, 2018 and 2017 (in thousands):

	Six Months Ended October 31,	
	2018	**2017**
Cash flows used in operating activities	$ (14,998)	$ (11,707)
Cash flows used in investing activities	(786)	(161)
Cash flows provided by financing activities	87,732	9,051
Effect of exchange rate changes on cash and cash equivalents	(1,887)	(5)
Net increase (decrease) in cash and cash equivalents	**$ 70,061**	**$ (2,822)**

Net cash used in operating activities

Net cash used in operating activities of $15.0 million for the six months ended October 31, 2018 primarily consisted of a net loss of $8.3 million, a decrease in deferred revenue of $9.3 million and a $0.7 increase in the research and development tax credit receivable. These unfavorable adjustments were partially offset by favorable net working capital movements of $2.1 million from accounts payable, which increased as a result of amounts due to clinical research organizations outstanding at October 31, 2018. Compared to the prior year, the decrease in cash flows used in operating activities was primarily due to the increased activity in the ongoing clinical trials in the six months ended October 31, 2018.

Net cash used in investing activities

Net cash used in investing activities for the six months ended October 31, 2018 was $0.8 million compared to $0.2 million used in investing activities during the same period in the prior year and primarily consisted of the acquisition of laboratory equipment and leasehold improvements related to the new office in Porton Down, United Kingdom. Cash used in investing activities for the six months ended October 31, 2017 was primarily due to the acquisition of lab equipment.

Net cash provided by financing activities

The net cash provided by financing activities during the six months ended October 31, 2018 was $87.7 million compared to $9.1 million in the same period in the prior year due primarily to the proceeds received from the sale of common stock through a private placement transaction in August 2018 and a public offering in September 2018.

Operating Capital Requirements

To date, we have not generated any product sales revenues and we do not have any products that have been approved for commercialization. We do not expect to generate significant revenue unless and until we obtain regulatory approval for, and commercialize, one of our current or future product candidates. We anticipate that we will continue to incur losses for the foreseeable future, and we expect those losses to increase as we continue the development of, and seek regulatory approvals for, product candidates, and begin to commercialize any approved products. We are subject to all of the risks inherent in the development of new therapeutic products, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. We currently anticipate that, based upon our operating plans and existing capital resources, we have sufficient funding to operate for at least the next twelve months.

Until such time, if ever, as we can generate substantial revenues, we expect to finance our cash needs through a combination of equity or debt financings, collaborations, strategic partnerships or licensing arrangements. To the extent that additional capital is raised through the sale of stock or convertible debt securities, the ownership interest of existing stockholders will be diluted, and the terms of these newly issued securities may include liquidation or other preferences that adversely affect the rights of common stockholders. Debt financing, if available, may involve agreements that include increased fixed payment obligations and covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends, selling or licensing intellectual property rights and other operating restrictions that could adversely impact our ability to conduct business. Additional fundraising through collaborations, strategic partnerships or licensing arrangements with third parties may require us to relinquish valuable rights to product candidates, including other technologies, future revenue streams or research programs, or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate product development or future commercialization efforts or grant rights to develop and commercialize our other product candidates even if we would otherwise prefer to develop and commercialize such product candidates internally.

Contractual Obligations and Commitments

We enter into contracts in the normal course of business with contract research organizations and clinical trial sites for the conduct of clinical trials, preclinical and clinical studies, professional consultants and other vendors for clinical supply manufacturing or other services. These contracts generally provide for termination on notice, and therefore are cancelable contracts and not included in the table of contractual obligations and commitments. We are party to several operating leases for office and laboratory space as well as a capital lease for certain laboratory equipment as of October 31, 2018. See the minimum lease payments schedule in Note 4 to these unaudited interim condensed consolidated financial statements.

Off-Balance Sheet Arrangements

At October 31, 2018 we were not a party to any off-balance sheet arrangements as defined in the rules and regulations of the SEC.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. GAAP. The preparation of our financial statements requires us 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 our financial statements and the reported revenue and expenses during the reported periods. We evaluate these estimates and judgments on an ongoing basis. We base our estimates on historical experience, known trends and events, contractual milestones and 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. See Note 2 to the unaudited interim condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of our significant accounting policies and assumptions used in applying those policies. While the accounting policies and estimates that we deem to be critical are discussed in more detail in the Annual Report on Form 10-K filed on July 30, 2018, the revenue recognition policy has been updated upon the adoption of ASC 606 on May 1, 2018, which did not have a material impact to our financial statements. Please refer to Note 2 for the updated policy and application of ASC 606 to our revenue arrangement discussed in Note 5.

Recently Issued Accounting Pronouncements

See discussion in Note 2 to these unaudited interim condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

We have exposure to market risk in interest income sensitivity, which is affected by changes in the general level of interest rates. However, because of the short-term nature of the bank deposit arrangements and the very low interest rates prevailing in the United Kingdom and the United States, a sudden change in market interest rates would not be expected to have a material impact on our financial condition and/or results of operations. We do not believe that our cash or cash equivalents have significant risk of default or illiquidity.

Foreign Exchange Rate Risk

We maintain cash balances primarily in both U.S. Dollars ("USD") and British Pound Sterling ("GBP") to fund ongoing operations. Cash and cash equivalents as of October 31, 2018 was $121.1 million and consisted of readily available checking and bank deposit accounts held primarily in both USD and GBP. As of October 31, 2018, 86% of cash and cash equivalents were held in USD and 14% in GBP. We currently incur significant expenses in GBP and convert USD as needed to fund those expenses. We do not believe our cash and cash equivalents are exposed to significant exchange rate risk, though we do not currently engage in exchange rate hedging or other similar activities. A 10% change in the exchange rate would result in an immaterial net gain or loss.

Effects of Inflation

We do not believe that inflation and changing prices had a significant impact on the results of operations for any periods presented herein.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 31, 2018.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended October 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors described in the section captioned “Part I, Item 1A, Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018 and in our Quarterly Report on Form 10-Q for the quarter ended July 31, 2018. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the section captioned “Part I, item 1A, Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018 and in our Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2018, which could materially affect our business, financial condition, or future results. The risks described here and in our Annual Report on form 10-K and in our Quarterly Report on Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition, or operating results.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibits

31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

KALVISTA PHARMACEUTICALS, INC.

Date: December 14, 2018

By: /s/ T. Andrew Crockett
T. Andrew Crockett
Chief Executive Officer
(Principal Executive Officer)

Date: December 14, 2018

By: /s/ Benjamin L. Palleiko
Benjamin L. Palleiko
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, T. Andrew Crockett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KalVista Pharmaceuticals, 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.

Dated: December 14, 2018

/s/ T. Andrew Crockett
T. Andrew Crockett
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin L. Palleiko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KalVista Pharmaceuticals, 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.

Dated: December 14, 2018

/s/ Benjamin L. Palleiko
Benjamin L Palleiko
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of KalVista Pharmaceuticals Inc. (the "Company") on Form 10-Q for the fiscal quarter ended October 31, 2018 (the "Report"), I, T. Andrew Crockett, as Chief Executive Officer of the Company, and Benjamin L. Palleiko, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: December 14, 2018

/s/ T. Andrew Crockett
T. Andrew Crockett
Chief Executive Officer
(Principal Executive Officer)

Dated: December 14, 2018

/s/ Benjamin L. Palleiko
Benjamin L. Palleiko
Chief Financial Officer
(Principal Financial and Accounting Officer)