

ARENA PHARMACEUTICALS INC
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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: 000-31161

ARENA PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

23-2908305
(I.R.S. Employer
Identification No.)

6154 Nancy Ridge Drive, San Diego, CA
(Address of principal executive offices)

92121
(Zip Code)

858.453.7200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock outstanding as of the close of business on April 30, 2013:

Class	Number of Shares Outstanding
Common Stock, \$0.0001 par value	217,777,073

ARENA PHARMACEUTICALS, INC.

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In this Quarterly Report on Form 10-Q, Arena Pharmaceuticals, Arena, we, us and our refer to Arena Pharmaceuticals, Inc., and our wholly owned subsidiaries on a consolidated basis, unless the context otherwise provides. APD is an abbreviation for Arena Pharmaceuticals Development.

Arena Pharmaceuticals®, Arena® and our corporate logo are registered service marks of Arena. CART and BRL Screening are unregistered service marks of Arena. BELVIQ® is a registered trademark of Arena Pharmaceuticals GmbH. Any other brand names or trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

BELVIQ is the trade name for lorcaserin hydrochloride in the United States. While BELVIQ (lorcaserin HCl) may in the future be marketed outside of the United States as BELVIQ or under a different trade name, we use BELVIQ in this report to refer to the finished drug product for lorcaserin hydrochloride or, depending on the context, lorcaserin hydrochloride or other solid state forms of lorcaserin.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****Arena Pharmaceuticals, Inc.****Condensed Consolidated Balance Sheets****(In thousands)**

	March 31, 2013 (Unaudited)	December 31, 2012¹
Assets		
Current assets:		
Cash and cash equivalents	\$ 136,250	\$ 156,091
Accounts receivable	1,484	5,556
Inventory	7,179	6,058
Prepaid expenses and other current assets	3,756	3,454
Total current assets	148,669	171,159
Land, property and equipment, net	73,869	75,417
Acquired technology and other intangibles, net	10,068	10,611
Other non-current assets	4,051	4,019
Total assets	\$ 236,657	\$ 261,206
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 6,135	\$ 7,123
Accrued compensation	2,901	3,087
Current portion of deferred revenues	15,449	15,453
Current portion of derivative liabilities	993	2,587
Current portion of lease financing obligations	1,758	1,664
Total current liabilities	27,236	29,914
Deferred rent	149	122
Deferred revenues, less current portion	46,332	47,282
Derivative liabilities, less current portion	10,190	12,455
Lease financing obligations, less current portion	72,328	72,794
Commitments and contingencies and subsequent events		
Stockholders' equity:		
Common stock	22	22
Additional paid-in capital	1,283,672	1,281,426
Accumulated other comprehensive income	3,902	5,489
Accumulated deficit	(1,207,174)	(1,188,298)
Total stockholders' equity	80,422	98,639
Total liabilities and stockholders' equity	\$ 236,657	\$ 261,206

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- ¹ The balance sheet data at December 31, 2012, has been derived from audited financial statements at that date. It does not include, however, all of the information and notes required by US generally accepted accounting principles for complete financial statements.
See accompanying notes to unaudited condensed consolidated financial statements.

Arena Pharmaceuticals, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share data)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Revenues:		
Manufacturing services	\$ 765	\$ 1,292
Collaborative agreements	1,608	897
Total revenues	2,373	2,189
Operating Expenses:		
Cost of manufacturing services	1,645	791
Cost of products sold	473	0
Research and development	14,008	14,470
General and administrative	7,251	6,355
Amortization of acquired technology and other intangibles	0	176
Total operating expenses	23,377	21,792
Loss from operations	(21,004)	(19,603)
Interest and Other Income (Expense):		
Interest income	24	15
Interest expense	(1,787)	(3,031)
Gain (Loss) from valuation of derivative liabilities	3,859	(2,375)
Loss on extinguishment of debt	0	(1,670)
Other	32	87
Total interest and other income (expense), net	2,128	(6,974)
Net loss	(18,876)	(26,577)
Deemed dividend related to beneficial conversion feature of convertible preferred stock	0	(2,824)
Net loss allocable to common stockholders	\$ (18,876)	\$ (29,401)
Net loss per share allocable to common stockholders:		
Basic	\$ (0.09)	\$ (0.18)
Diluted	\$ (0.09)	\$ (0.18)
Shares used in calculating net loss per share allocable to common stockholders:		
Basic	217,503	164,213
Diluted	217,503	164,213
Comprehensive Loss:		
Net loss	\$ (18,876)	\$ (26,577)
Foreign currency translation gain (loss)	(1,588)	1,688

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Comprehensive loss	\$ (20,464)	\$ (24,889)
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See accompanying notes to unaudited condensed consolidated financial statements.

Arena Pharmaceuticals, Inc.

Condensed Consolidated Cash Flow Statements

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Operating Activities		
Net loss	\$ (18,876)	\$ (26,577)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,950	2,405
Amortization of acquired technology and other intangibles	99	176
Share-based compensation	1,785	1,407
(Gain) Loss from valuation of derivative liabilities	(3,859)	2,375
Amortization of prepaid financing costs	34	85
Accretion of note payable to Deerfield	0	814
Loss on extinguishment of debt	0	1,670
Changes in assets and liabilities:		
Accounts receivable	4,013	(353)
Inventory	(1,300)	0
Prepaid expenses and other assets	(333)	(748)
Accounts payable and accrued liabilities	(810)	(2,637)
Deferred revenues	(954)	(822)
Deferred rent	27	(45)
Net cash used in operating activities	(18,224)	(22,250)
Investing Activities		
Purchases of land, property and equipment	(1,266)	(274)
Other non-current assets	(52)	50
Net cash used in investing activities	(1,318)	(224)
Financing Activities		
Principal payments on lease financing obligations	(372)	(288)
Principal payments on note payable to Deerfield	0	(5,000)
Proceeds from issuance of common stock	450	41,283
Proceeds from issuance of preferred stock	0	16,463
Net cash provided by financing activities	78	52,458
Effect of exchange rate changes on cash	(377)	577
Net increase (decrease) in cash and cash equivalents	(19,841)	30,561
Cash and cash equivalents at beginning of period	156,091	57,632
Cash and cash equivalents at end of period	\$ 136,250	\$ 88,193

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Arena Pharmaceuticals, Inc., which include our wholly owned subsidiaries, should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission, or SEC, from which we derived our balance sheet as of December 31, 2012. The accompanying financial statements have been prepared in accordance with US generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of our management, necessary to a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2013-02, Comprehensive Income (Topic 220) Clarifying Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. Under ASU No. 2013-02, companies are required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the financial statements or in the accompanying notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, companies are required to cross-reference to other disclosures that provide additional detail on those amounts. ASU No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. ASU No. 2013-02 did not impact our disclosures because the balance included in accumulated other comprehensive income related only to foreign currency translation, for which there were no reclassifications in any periods reported.

In March 2013, the FASB issued ASU No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, which requires the release of any related cumulative translation adjustment into net income when a parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the adoption of ASU No. 2013-05 to have a material impact on our consolidated financial statements.

The preparation of financial statements in accordance with GAAP requires our management to make estimates and assumptions that affect amounts reported in the financial statements and notes thereto. The amounts reported could differ under different estimates and assumptions.