

ARENA PHARMACEUTICALS INC

Form 10-Q

May 07, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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.)

6166 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.

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 May 5, 2010:

Class	Number of Shares Outstanding
Common Stock, \$0.0001 par value	101,226,889

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ARENA PHARMACEUTICALS, INC.

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In this report, Arena Pharmaceuticals, Arena, we, us and our refer to Arena Pharmaceuticals, Inc., and our wholly owned subsidiaries, unless context otherwise provides.

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

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

	March 31, 2010 (Unaudited)	December 31, 2009 *
Assets		
Current assets:		
Cash and cash equivalents	\$ 86,746	\$ 94,733
Short-term investments, available-for-sale	20,869	20,716
Accounts receivable	1,960	1,415
Prepaid expenses and other current assets	4,489	4,409
Total current assets	114,064	121,273
Land, property and equipment, net	94,451	95,445
Acquired technology and other intangibles, net	12,273	13,123
Other non-current assets	6,481	6,437
Total assets	\$ 227,269	\$ 236,278
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 5,400	\$ 9,677
Accrued compensation	3,378	3,928
Accrued clinical and preclinical study fees	1,831	2,279
Deferred revenues	4,049	4,086
Current portion of lease financing obligations	783	717
Current portion of note payable to Siegfried	3,147	
Total current liabilities	18,588	20,687
Deferred rent	530	564
Derivative liabilities	5,223	6,642
Note payable to Siegfried, less current portion	5,809	9,143
Note payable to Deerfield**	51,828	47,906
Lease financing obligations, less current portion	76,556	76,769
Commitments		
Stockholders equity:		
Common stock	10	10
Additional paid-in capital	987,549	961,269
Treasury stock, at cost	(23,070)	(23,070)
Accumulated other comprehensive income	103	945
Accumulated deficit	(895,857)	(864,587)

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Total stockholders' equity	68,735	74,567
Total liabilities and stockholders' equity	\$ 227,269	\$ 236,278

* The balance sheet data at December 31, 2009 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.

** The outstanding principal balance of the note payable to Deerfield at March 31, 2010 and December 31, 2009 was \$90.0 million. See Note 5.

See accompanying notes to unaudited condensed consolidated financial statements.

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Arena Pharmaceuticals, Inc.
Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three months ended March 31,	
	2010	2009
Revenues:		
Manufacturing services	\$ 1,975	\$ 1,418
Collaborative agreements	538	1,240
Total revenues	2,513	2,658
Operating Expenses:		
Cost of manufacturing services	1,865	1,354
Research and development	18,314	42,620
General and administrative	7,014	7,642
Amortization of acquired technology and other intangibles	537	566
Total operating expenses	27,730	52,182
Loss from operations	(25,217)	(49,524)
Interest and Other Income (Expense):		
Interest income	139	170
Interest expense	(7,650)	(1,717)
Gain from valuation of derivative liabilities	1,419	365
Other	39	92
Total interest and other expense, net	(6,053)	(1,090)
Net loss	\$ (31,270)	\$ (50,614)
Net loss per share, basic and diluted	\$ (0.33)	\$ (0.68)
Shares used in calculating net loss per share, basic and diluted	94,955	74,189

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Arena Pharmaceuticals, Inc.****Condensed Consolidated Cash Flow Statements****(In thousands)****(Unaudited)**

	Three months ended March 31,	
	2010	2009
Operating Activities		
Net loss	\$ (31,270)	\$ (50,614)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,645	2,829
Amortization of acquired technology and other intangibles	537	566
Share-based compensation	1,811	2,021
Gain from valuation of derivative liabilities	(1,419)	(365)
Amortization of short-term investment premium		43
Amortization of prepaid financing costs	115	30
Accretion of note payable to Deerfield	3,922	
Accretion of note payable to Siegfried	66	59
Gain on disposal of equipment	(1)	(4)
Changes in assets and liabilities:		
Accounts receivable	(557)	(40)
Prepaid expenses and other assets	(135)	703
Accounts payable and accrued liabilities	(5,640)	(6,872)
Deferred revenue	(37)	
Deferred rent	(34)	(28)
Net cash used in operating activities	(29,997)	(51,672)
Investing Activities		
Purchases of short-term investments, available-for-sale	(145)	
Proceeds from sales/maturities of short-term investments, available-for-sale		28,941
Purchases of land, property and equipment	(1,855)	(2,275)
Proceeds from sale of equipment	2	6
Deposits, restricted cash and other non-current assets	(152)	83
Net cash provided by (used in) investing activities	(2,150)	26,755
Financing Activities		
Principal payments on lease financing obligations	(147)	(202)
Proceeds from lease financing		15,000
Proceeds from issuance of common stock	24,469	266
Net cash provided by financing activities	24,322	15,064
Effect of exchange rate changes on cash	(162)	(1,018)
Net decrease in cash and cash equivalents	(7,987)	(10,871)
Cash and cash equivalents at beginning of period	94,733	73,329
Cash and cash equivalents at end of period	\$ 86,746	\$ 62,458

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Notes to Unaudited Condensed Consolidated Financial Statements****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Arena Pharmaceuticals, Inc., which includes 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, 2009, as filed with the Securities and Exchange Commission, or SEC, from which we derived our balance sheet as of December 31, 2009. 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.

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.

2. Short-term Investments, Available-for-Sale

We define short-term investments as income-yielding securities that can be readily converted to cash, and classify such investments as available-for-sale. We carry these securities at fair value, and report unrealized gains and losses as a separate component of accumulated other comprehensive income or loss. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in interest income. Realized gains and losses and declines in securities judged to be other than temporary are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on available-for-sale securities are included in interest income.

The following table summarizes the investment categories comprising our available-for-sale securities at March 31, 2010 and December 31, 2009, in thousands:

	Maturity in Years	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>March 31, 2010</u>					
US government and agency obligations	Less than 1	\$ 20,578	\$ 394	\$ (103)	\$ 20,869
Total available-for-sale securities		\$ 20,578	\$ 394	\$ (103)	\$ 20,869
<u>December 31, 2009</u>					
US government and agency obligations	Less than 1	\$ 20,433	\$ 404	\$ (121)	\$ 20,716
Total available-for-sale securities		\$ 20,433	\$ 404	\$ (121)	\$ 20,716

3. Fair Value Disclosures

We measure