

ARENA PHARMACEUTICALS INC
Form 10-Q
November 09, 2011
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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 September 30, 2011

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.

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(Exact name of registrant as specified in its charter)

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 November 2, 2011:

Class	Number of Shares Outstanding
Common Stock, \$0.0001 par value	146,024,830

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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)**

	September 30, 2011 (Unaudited)	December 31, 2010¹
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,883	\$ 150,669
Accounts receivable	2,015	3,499
Prepaid expenses and other current assets	2,486	2,638
Total current assets	82,384	156,806
Land, property and equipment, net	85,245	91,533
Acquired technology and other intangibles, net	11,679	12,031
Other non-current assets	5,691	5,992
Total assets	\$ 184,999	\$ 266,362
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 4,122	\$ 5,017
Accrued compensation	4,672	4,427
Accrued clinical and preclinical study fees	747	1,236
Accrued restructuring	67	0
Current portion of deferred revenues	3,855	3,846
Current portion of derivative liabilities	0	607
Current portion of note payable to Siegfried	3,686	3,560
Current portion of note payable to Deerfield ²	0	17,175
Current portion of lease financing obligations	1,231	998
Total current liabilities	18,380	36,866
Deferred rent	273	412
Deferred revenues, less current portion	41,346	44,231
Derivative liabilities, less current portion	1,277	1,664
Note payable to Siegfried, less current portion	0	6,801
Note payable to Deerfield, less current portion ²	13,769	20,602
Lease financing obligations, less current portion	74,815	75,771
Commitments and contingencies and subsequent events		
Stockholders' equity:		
Common stock	15	12
Additional paid-in capital	1,107,746	1,068,634
Treasury stock, at cost	(23,070)	(23,070)

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Accumulated other comprehensive income	6,517	4,966
Accumulated deficit	(1,056,069)	(970,527)
Total stockholders' equity	35,139	80,015
Total liabilities and stockholders' equity	\$ 184,999	\$ 266,362

- ¹ The balance sheet data at December 31, 2010 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.
- ² The outstanding principal balance of the note payable to Deerfield was \$22.3 million at September 30, 2011 and \$60.0 million at December 31, 2010. See Note 6.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Arena Pharmaceuticals, Inc.****Condensed Consolidated Statements of Operations****(In thousands, except per share data)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Manufacturing services	\$ 1,713	\$ 1,846	\$ 4,390	\$ 5,258
Collaborative agreements	1,746	5,783	6,253	7,343
Total revenues	3,459	7,629	10,643	12,601
Operating Expenses:				
Cost of manufacturing services	1,557	1,814	6,215	5,309
Research and development	14,978	20,155	45,616	58,971
General and administrative	6,029	6,862	18,996	20,636
Restructuring charges	0	0	3,467	0
Amortization of acquired technology and other intangibles	197	541	819	1,609
Total operating expenses	22,761	29,372	75,113	86,525
Loss from operations	(19,302)	(21,743)	(64,470)	(73,924)
Interest and Other Income (Expense):				
Interest income	20	107	102	338
Interest expense	(3,211)	(6,267)	(11,087)	(16,198)
Gain (Loss) from valuation of derivative liabilities	(233)	3,023	387	4,857
Loss on extinguishment of debt	0	(12,354)	(10,514)	(12,354)
Other	(10)	968	40	988
Total interest and other expense, net	(3,434)	(14,523)	(21,072)	(22,369)
Net loss	(22,736)	(36,266)	(85,542)	(96,293)
Deemed dividend related to beneficial conversion feature of convertible preferred stock	0	0	(2,260)	0
Net loss allocable to common stockholders	\$ (22,736)	\$ (36,266)	\$ (87,802)	\$ (96,293)
Net loss per share allocable to common stockholders, basic	\$ (0.16)	\$ (0.31)	\$ (0.64)	\$ (0.91)
Net loss per share allocable to common stockholders, diluted	\$ (0.16)	\$ (0.31)	\$ (0.64)	\$ (0.91)
Shares used in calculating net loss per share allocable to common stockholders, basic	145,965	117,409	136,860	105,582
Shares used in calculating net loss per share allocable to common stockholders, diluted	145,965	117,409	136,860	105,582

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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2011	2010
Operating Activities		
Net loss	\$ (85,542)	\$ (96,293)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,694	7,807
Amortization of acquired technology and other intangibles	819	1,609
Share-based compensation	2,946	4,320
Gain from valuation of derivative liabilities	(387)	(4,857)
Amortization of prepaid financing costs	384	462
Accretion of note payable to Deerfield	3,217	5,175
Accretion of note payable to Siegfried	332	197
Loss on extinguishment of debt	10,514	12,354
(Gain) Loss on disposal of equipment	27	(2)
Changes in assets and liabilities:		
Accounts receivable	1,529	(495)
Prepaid expenses and other assets	69	