

Catalyst Pharmaceutical Partners, Inc.

Form 10-Q

May 13, 2009

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the Quarterly Period Ended March 31, 2009

OR

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

Commission File No. 001-33057

CATALYST PHARMACEUTICAL PARTNERS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

76-0837053
(IRS Employer
Identification No.)

355 Alhambra Circle

Suite 1370

Coral Gables, Florida
(Address of principal executive offices)

33134
(Zip Code)

Registrant's telephone number, including area code: (305) 529-2522

Indicate by checkmark 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 report(s), 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 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 definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,065,385 shares of common stock, \$0.001 par value per share, were outstanding as of May 8, 2009.

Table of Contents

CATALYST PHARMACEUTICAL PARTNERS, INC.

INDEX

Item 1.	CONDENSED FINANCIAL STATEMENTS	
	<u>Condensed balance sheets at March 31, 2009 (unaudited) and December 31, 2008</u>	3
	<u>Condensed statements of operations for the three months ended March 31, 2009 and 2008 (unaudited)</u>	4
	<u>Condensed statement of stockholders' equity for the three months ended March 31, 2009 (unaudited)</u>	5
	<u>Condensed statements of cash flows for the three months ended March 31, 2009 and 2008 (unaudited)</u>	6
	<u>Notes to unaudited condensed financial statements</u>	7
Item 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	23
Item 4T.	<u>CONTROLS AND PROCEDURES</u>	23

PART II. OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	24
Item 1A.	<u>RISK FACTORS</u>	24
Item 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	24
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	24
Item 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	24
Item 5.	<u>OTHER INFORMATION</u>	24
Item 6.	<u>EXHIBITS</u>	24

Table of Contents**CATALYST PHARMACEUTICAL PARTNERS, INC.****(a development stage company)****CONDENSED BALANCE SHEETS**

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,930,017	\$ 11,766,629
Interest receivable	2,691	12,153
Prepaid expenses	213,580	136,374
Total current assets	9,146,288	11,915,156
Property and equipment, net	88,336	96,376
Deposits	13,011	21,436
Total assets	\$ 9,247,635	\$ 12,032,968
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 737,626	\$ 332,707
Accrued expenses and other liabilities	799,193	1,097,410
Total current liabilities	1,536,819	1,430,117
Accrued expenses and other liabilities, non-current	39,528	42,636
Total liabilities	1,576,347	1,472,753
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized: none issued and outstanding		
Common stock, \$.001 par value, 100,000,000 shares authorized; 14,065,385 shares and 14,060,385 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	14,065	14,060
Additional paid-in capital	31,151,728	31,009,459
Deficit accumulated during the development stage	(23,494,505)	(20,463,304)
Total stockholders' equity	7,671,288	10,560,215
Total liabilities and stockholders' equity	\$ 9,247,635	\$ 12,032,968

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

Table of Contents**CATALYST PHARMACEUTICAL PARTNERS, INC.****(a development stage company)****CONDENSED STATEMENTS OF OPERATIONS (unaudited)**

	For the Three Months Ended March 31,		Cumulative Period from January 4, 2002 (date of inception) to March 31, 2009
	2009	2008	
Revenues	\$	\$	\$
Operating costs and expenses:			
Research and development	2,322,632	1,084,359	17,178,154
General and administrative	721,911	639,673	7,745,173
Total operating costs and expenses	3,044,543	1,724,032	24,923,327
Loss from operations	(3,044,543)	(1,724,032)	(24,923,327)
Interest income	13,342	139,985	1,428,822
Loss before income taxes	(3,031,201)	(1,584,047)	(23,494,505)
Provision for income taxes			
Net loss	\$ (3,031,201)	\$ (1,584,047)	\$ (23,494,505)
Net loss per share basic and diluted	\$ (0.22)	\$ (0.13)	
Weighted average shares outstanding basic and diluted	14,065,329	12,552,944	

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

Table of Contents**CATALYST PHARMACEUTICAL PARTNERS, INC.****(a development stage company)****CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)****For the three months ended March 31, 2009**

	Preferred Stock	Common Stock	Paid-in and Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at December 31, 2008	\$	\$ 14,060	\$ 31,009,459	\$ (20,463,304)	\$ 10,560,215
Issuance of stock options for services			137,236		137,236
Amortization of restricted stock units for services			5,038		5,038
Issuance of common stock		5	(5)		
Net loss				(3,031,201)	(3,031,201)
Balance at March 31, 2009	\$	\$ 14,065	\$ 31,151,728	\$ (23,494,505)	\$ 7,671,288

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

Table of Contents**CATALYST PHARMACEUTICAL PARTNERS, INC.****(a development stage company)****CONDENSED STATEMENTS OF CASH FLOWS (unaudited)**

	For the Three Months Ended March 31,		Cumulative Period from January 4, 2002 (date of inception) through March 31, 2009
	2009	2008	
Operating Activities:			
Net loss	\$ (3,031,201)	\$ (1,584,047)	\$ (23,494,505)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	8,040	8,207	63,226
Stock-based compensation	142,274	263,404	4,296,173
Change in assets and liabilities:			
Decrease (increase) in interest receivable	9,462	22,542	(2,691)
Increase in prepaid expenses and deposits	(68,781)	(66,104)	(226,591)
Increase in accounts payable	404,919	96,712	737,625
Increase (decrease) in accrued expenses and other liabilities	(301,325)	35,257	781,198
Net cash used in operating activities	(2,836,612)	(1,224,029)	(17,845,565)
Investing Activities:			
Capital expenditures		(1,345)	(94,041)
Net cash used in investing activities		(1,345)	(94,041)
Financing Activities:			
Proceeds from issuance of common stock			22,877,436
Proceeds from issuance of preferred stock			3,895,597
Payment of employee withholding tax related to RSUs		(2,010)	(3,410)
Net cash provided by (used in) financing activities		(2,010)	26,769,623
Net (decrease) increase in cash	(2,836,612)	(1,227,384)	8,830,017
Cash and cash equivalents at beginning of period	11,766,629	15,943,896	100,000
Cash and cash equivalents at end of period	\$ 8,930,017	\$ 14,716,512	\$ 8,930,017
Supplemental disclosure of non-cash operating activity:			
Non-cash incentive received from lessor	\$	\$	\$ 52,320

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

Table of Contents

CATALYST PHARMACEUTICAL PARTNERS, INC.

(a development stage company)

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization and Description of Business.

Catalyst Pharmaceutical Partners, Inc. (the Company) is a development-stage biopharmaceutical company focused on the acquisition, development and commercialization of prescription drugs for the treatment of drug addiction and obsessive-compulsive disorders. The Company was incorporated in Delaware in July 2006. It is the successor by merger to Catalyst Pharmaceutical Partners, Inc., a Florida corporation, which commenced operations in January 2002.

The Company has incurred operating losses in each period from inception through March 31, 2009. The Company has been able to fund its cash needs to date through an initial funding from its founders, four private placements, an initial public offering (IPO) in 2006, and a registered direct offering via a shelf registration to institutional investors in 2008.

Capital Resources

The Company estimates that it will require additional funding to be in a position to file a new drug application, or NDA, for its initial product candidate, CPP-109 for the treatment of cocaine addiction. This includes funds for both the Phase III clinical trial that the Company's management believes will be required before an NDA can be filed and for such non-clinical studies as may also be required to file an NDA for CPP-109. The Company will also require additional working capital to support its operations in periods after 2010.

In June 2008, the Company filed a registration statement on Form S-3 in order to be able to sell up to \$30,000,000 of its authorized but unissued common stock through future offerings. During September 2008, the Company sold 1,488,332 shares of its common stock under such registration statement at a price of \$3.00 per share and received gross proceeds of approximately \$4.5 million before commissions and incurred expenses of approximately \$377,000. At March 31, 2009, the Company had approximately \$25.5 million of authorized but unissued common stock available for future offerings under its shelf registration statement. See Note 8.

On March 3, 2009, the Company announced that in order to conserve cash and focus its development efforts on evaluating CPP-109 for the treatment of cocaine addiction, it has halted enrollment in its ongoing U.S. Phase II clinical trial evaluating CPP-109 for the treatment of methamphetamine addiction. The methamphetamine trial is continuing as a smaller proof-of-concept study with 57 enrolled subjects.

In addition to the filing of the shelf registration statement described above, the Company may raise the additional funds required through public or private equity offerings, debt financings, corporate collaborations, governmental research grants or other means. The Company may also seek to raise new capital to fund additional product development efforts, even if it has sufficient funds for its planned operations. Any sale by the Company of additional equity or convertible debt securities could result in dilution to the Company's current stockholders. There can be no assurance that any such required additional funding will be available to the Company at all or available on terms acceptable to the Company. Further, to the extent that the Company raises additional funds through collaborative arrangements, it may be necessary to relinquish some rights to the Company's technologies or grant sublicenses on terms that are not favorable to the Company. If the Company is not able to secure additional funding when needed, the Company may have to delay, reduce the scope of, or eliminate one or more research and development programs, which could have an adverse effect on the Company's business.

Table of Contents

2. Basis of Presentation and Significant Accounting Policies.

- a. **DEVELOPMENT STAGE COMPANY.** Since inception, the Company has devoted substantially all of its efforts to business planning, research and development, recruiting management and technical staff, acquiring operating assets and raising capital. Accordingly, the Company is considered to be in the development stage and the Company's financial statements are presented in accordance with Statement of Financial Accounting Standard No. 7, *Accounting and Reporting by Development Stage Enterprises*. The Company's primary focus is on the development and commercialization of CPP-109, which is the Company's version of the chemical compound gamma-vinyl-GABA (commonly referred to as vigabatrin) as a potential treatment for drug addiction, including cocaine addiction, methamphetamine addiction and certain obsessive-compulsive disorders.
- b. **INTERIM FINANCIAL STATEMENTS.** The accompanying unaudited interim condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting of interim financial information. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim condensed financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of the dates and for the periods presented. Accordingly, these statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008 included in the Annual Report on Form 10-K filed by the Company with the SEC. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for any future period or for the full 2009 fiscal year.

- c. **USE OF ESTIMATES.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
- d. **COMPREHENSIVE INCOME (LOSS).** SFAS No. 130, *Reporting Comprehensive Income (Loss)*, requires that all components of comprehensive income (loss) be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is net income (loss), plus certain other items that are recorded directly into stockholders' equity. The Company has reported comprehensive income (loss) in the statement of stockholders' equity as net loss.
- e. **EARNINGS (LOSS) PER SHARE.** Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents, such as unvested restricted common stock and stock options. Due to the net loss for all periods presented, all common stock equivalents were excluded because their inclusion would have been anti-dilutive.

Potentially dilutive common stock equivalents as of March 31, 2009 include (i) stock options to purchase up to 2,806,149 shares of common stock at exercise prices ranging from \$0.69 to \$6.00 per share and (ii) restricted stock units to receive 5,000 shares of common stock that will vest over the next year.

Potentially dilutive common stock equivalents as of March 31, 2008 include (i) stock options to purchase up to 2,627,149 shares of common stock at exercise prices ranging from \$0.69 to \$6.00 per share and (ii) 15,241 shares of restricted common stock.

Table of Contents**2. Basis of Presentation and Significant Accounting Policies. (continued)**

- f. **CASH AND CASH EQUIVALENTS.** The Company considers all highly liquid instruments, including U.S. Treasury bills, purchased with an original maturity of three months or less to be cash equivalents. The Company has substantially all of its cash and cash equivalents deposited with one financial institution. The Company had cash balances at certain financial institutions in excess of federally insured limits throughout the period.
- g. **PREPAID EXPENSES.** Prepaid expenses include advances under research and development contracts, including advances to the Contract Research Organization (CRO) that is overseeing the Company's U.S. Phase II cocaine clinical trial and methamphetamine proof-of-concept study. Such advances are recorded as expense as the related goods are received or the related services are performed.
- h. **STOCK COMPENSATION PLANS.** Through July 2006 the Company did not have a formal stock option plan, although stock options were granted pursuant to written agreements. In July 2006 the Company adopted the 2006 Stock Incentive Plan (the Plan). As of March 31, 2009, there were outstanding stock options to purchase 2,806,149 shares of common stock (including options to purchase 453,888 shares granted under the Plan), of which stock options to purchase 2,634,223 shares of common stock were exercisable as of March 31, 2009. Additionally, as of March 31, 2009 there were 55,484 restricted common stock units granted under the Plan, of which 50,484 were vested.

For the three month periods ended March 31, 2009 and 2008, the Company recorded stock-based compensation expense as follows:

	Three months ended March 31,	
	2009	2008
Research and development	\$ 71,700	\$ 174,556
General and administrative	70,574	88,848
Total stock-based compensation	\$	