

ACADIA PHARMACEUTICALS INC

Form 10-Q

May 06, 2014

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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, 2014

or

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

Commission File Number: 000-50768

ACADIA PHARMACEUTICALS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of
Incorporation)

06-1376651
(I.R.S. Employer
Identification No.)

11085 Torreyana Road, Suite 100

San Diego, California
(Address of Principal Executive Offices)

92121
(Zip Code)

(858) 558-2871
(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 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 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 Securities Exchange Act of 1934.

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

Total shares of common stock outstanding as of the close of business on April 30, 2014:

Class	Number of Shares Outstanding
Common Stock, \$0.0001 par value	98,976,326

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**
ACADIA PHARMACEUTICALS INC.**CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except for par value and share data)****(Unaudited)**

	March 31, 2014	December 31, 2013 (1)
Assets		
Cash and cash equivalents	\$ 96,455	\$ 11,707
Investment securities, available-for-sale	272,830	174,083
Interest and other receivables	1,642	750
Prepaid expenses	1,893	1,820
Total current assets	372,820	188,360
Property and equipment, net	543	579
Other assets	143	179
Total assets	\$ 373,506	\$ 189,118
Liabilities and stockholders equity		
Accounts payable	\$ 1,562	\$ 372
Accrued expenses	6,429	6,552
Deferred revenue	42	55
Total current liabilities	8,033	6,979
Long-term liabilities	13	8
Total liabilities	8,046	6,987
Commitments and contingencies (Note 9)		
Stockholders equity		
Preferred stock, \$0.0001 par value; 5,000,000 shares authorized at March 31, 2014 and December 31, 2013; no shares issued and outstanding at March 31, 2014 and December 31, 2013		
Common stock, \$0.0001 par value; 150,000,000 shares authorized at March 31, 2014 and December 31, 2013; 98,835,635 shares and 91,102,618 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	10	9

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Additional paid-in capital	788,946	587,742
Accumulated deficit	(423,496)	(405,668)
Accumulated other comprehensive income		48
Total stockholders' equity	365,460	182,131
Total liabilities and stockholders' equity	\$ 373,506	\$ 189,118

- (1) The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

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ACADIA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues		
Collaborative revenues	\$ 30	\$ 417
Operating expenses		
Research and development (includes stock-based compensation of \$1,006 and \$254, respectively)	11,668	4,430
General and administrative (includes stock-based compensation of \$2,156 and \$328, respectively)	6,320	2,151
Total operating expenses	17,988	6,581
Loss from operations	(17,958)	(6,164)
Interest income, net	130	41
Net loss	\$ (17,828)	\$ (6,123)
Net loss per common share, basic and diluted	\$ (0.19)	\$ (0.08)
Weighted average common shares outstanding, basic and diluted	92,968	78,748

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

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ACADIA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net loss	\$ (17,828)	\$ (6,123)
Other comprehensive loss:		
Unrealized gain (loss) on investment securities	(48)	11
Comprehensive loss	\$ (17,876)	\$ (6,112)

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

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ACADIA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities		
Net loss	\$ (17,828)	\$ (6,123)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	3,162	582
Amortization of premiums on investment securities	311	145
Depreciation	43	12
Other		(7)
Changes in operating assets and liabilities:		
Interest and other receivables	(892)	(180)
Prepaid expenses	(73)	(761)
Other assets	36	
Accounts payable	1,190	21
Accrued expenses	(123)	20
Deferred revenue	(13)	(294)
Long-term liabilities	5	
Net cash used in operating activities	(14,182)	(6,585)
Cash flows from investing activities		
Purchases of investment securities	(150,921)	(54,867)
Maturities of investment securities	51,815	21,773
Purchases of property and equipment	(6)	
Proceeds from sales of property and equipment		8
Net cash used in investing activities	(99,112)	(33,086)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs	198,042	208
Net cash provided by financing activities	198,042	208
Net increase (decrease) in cash and cash equivalents	84,748	(39,463)
Cash and cash equivalents		
Beginning of period	11,707	57,899

End of period	\$ 96,455	\$ 18,436
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of ACADIA Pharmaceuticals Inc. should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K (Annual Report) filed with the Securities and Exchange Commission (the SEC). The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance 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. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company has incurred substantial operating losses since its inception due in large part to expenditures for its research and development activities. As of March 31, 2014, the Company had an accumulated deficit of \$423.5 million. The Company expects to continue to incur operating losses for at least the next several years as it pursues the development and commercialization of its product candidates.

The Company may require significant additional financing in the future to fund its operations. Future capital requirements will depend on many factors, including the progress in, the outcome of and the costs of the Company's development and regulatory activities, including the ability of the Company to obtain regulatory approval for its products, costs associated with establishing necessary sales and marketing capabilities, the amount of product sales, if any, the scope, prioritization and number of its research and development programs, the ability of its collaborators and the Company to reach milestones and other events or developments under its collaboration and license agreements, and the ability of the Company to enter into new, and to maintain existing, collaboration and license agreements. Until the Company can generate significant continuing revenues, it expects to fund its operations through its existing cash, cash equivalents and investment securities, payments from existing and potential future collaborations, proceeds from public or private sales of its equity securities, debt financing, grant funding, or by licensing all or a portion of its product candidates or technology. The Company cannot be certain that adequate additional funding will be available on acceptable terms, or at all. Conditions in the financial markets and other factors could have a material adverse effect on the Company's ability to access sufficient funding on acceptable terms, or at all. If the Company needs but cannot raise adequate additional capital, it will be required to delay, reduce the scope of, or eliminate one or more of its research or development programs or its commercialization efforts. In such circumstances, the Company may also be required to relinquish greater, or even all, rights to product candidates at earlier stages of development or on less favorable terms than it would otherwise choose.

Table of Contents**2. Earnings (Loss) Per Share**

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period, increased to include potential dilutive common shares that were outstanding during the period. The effect of outstanding stock options and warrants is reflected, when dilutive, in diluted earnings per common share by application of the treasury stock method. The Company has excluded all outstanding stock options and warrants from the calculation of diluted net loss per common share because all such securities are antidilutive for all periods presented.

Shares used in calculating basic and diluted net loss per common share exclude these potential common shares (in thousands):

	Three Months Ended	
	March 31,	
	2014	2013
	(unaudited)	
Antidilutive options to purchase common stock	7,679	6,993
Antidilutive warrants to purchase common stock	1,966	3,725
	9,645	10,718

3. Stock-Based Compensation

The fair value of each stock option and each employee stock purchase plan right granted is estimated on the grant date under the fair value method using the Black-Scholes valuation model. The estimated fair values of the stock option or purchase plan rights, including the effect of estimated forfeitures, are then expensed over the vesting period. The Company recognized stock-based compensation expense of \$3.2 million and \$582,000 during the three months ended March 31, 2014 and 2013, respectively. In January 2014, the Company announced that its Chief Financial Officer intended to retire from the Company no later than mid-year 2014. On March 7, 2014, the Board of Directors approved modifications to the Chief Financial Officer's outstanding stock options. On April 9, 2014, the Chief Financial Officer informed the Company that he would retire on April 18, 2014. Stock-based compensation expense for the three months ended March 31, 2014 included \$531,000 related to the modification of the stock options held by the Chief Financial Officer. The Company will record stock-based compensation expense of \$1.1 million during the three months ending June 30, 2014 related to the modification of these stock options. As of March 31, 2014, total unrecognized compensation cost related to stock options and purchase plan rights was approximately \$35.2 million, which is expected to be recognized over a weighted-average period of 3.0 years.

4. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

March 31,	December 31,
2014	2013

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	(unaudited)	
Accrued research and development services	\$ 4,307	\$ 4,207
Accrued compensation and benefits	1,265	1,865
Accrued professional fees	753	308
Other	104	172
Total	\$ 6,429	\$ 6,552

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Investment securities, including investment securities available-for-sale and investment securities classified as cash equivalents, consisted of the following (in thousands):

	March 31, 2014			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
		(unaudited)		
U.S. Treasury notes	\$ 2,744	\$ 5	\$	\$ 2,749
Government sponsored enterprise securities	119,507	37	(15)	119,529
Corporate debt securities	130,866	3	(47)	130,822
Commercial paper	22,484	14		22,498
	\$ 275,601	\$ 59	\$ (62)	\$ 275,598

	December 31, 2013			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. Treasury notes	\$ 2,743	\$ 4	\$	\$ 2,747
Government sponsored enterprise securities	78,537	28	(5)	78,560
Corporate debt securities	65,290	1	(9)	65,282
Commercial paper	27,468	26		27,494
	\$ 174,038	\$ 59	\$ (14)	\$ 174,083

The Company has classified all of its investment securities available-for-sale, including those with maturities beyond one year, as current assets on the consolidated balance sheets based on the highly liquid nature of the investment securities and because these investment securities are considered available for use in current operations. As of March 31, 2014 and December 31, 2013, the Company held \$64.3 million and \$33.5 million, respectively, of available-for-sale investment securities with contractual maturity dates more than one year and less than two years.

6. Fair Value Measurements

As of March 31, 2014, the Company held \$369.2 million of cash equivalents and available-for-sale investment securities consisting of a money market fund, U.S. Treasury notes, and high quality, marketable debt instruments of corporations, financial institutions and government sponsored enterprises. The Company has adopted an investment policy and established guidelines relating to credit quality, diversification and maturities of its investments to preserve principal and maintain liquidity. All investment securities have a credit rating of at least A3/A- or better, or P-1/A-1 or better, as determined by Moody's Investors Service or Standard & Poor's.

The Company's cash equivalents and available-for-sale investment securities are classified within the fair value hierarchy as defined by authoritative guidance. The Company's investment securities classified as Level 1 are valued

using quoted market prices and the Company's investment securities classified as Level 2 are valued using other observable inputs such as recent trades for the securities or similar securities, interest rates on similar securities, or yield curves or benchmark interest rates observable at commonly quoted intervals. The Company does not hold any securities classified as Level 3, which are securities valued using unobservable inputs. The Company has not transferred any investment securities between the classifications. No other-than-temporary impairments were identified for the investment securities held by the Company as of March 31, 2014 or December 31, 2013.

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The fair value measurements of the Company's cash equivalents and available-for-sale investment securities are identified in the following tables (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)			
	March 31, 2014	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(unaudited)			
Money market fund	\$ 93,625	\$ 93,625	\$	\$
U.S. Treasury notes	2,749	2,749		
Government sponsored enterprise securities	119,529		119,529	
Corporate debt securities	130,822		130,822	
Commercial paper	22,498		22,498	

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