

ACADIA PHARMACEUTICALS INC

Form 10-Q

November 06, 2006

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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 September 30, 2006

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.)

3911 Sorrento Valley Boulevard

San Diego, California
(Address of Principal Executive Offices)

(858) 558-2871

92121
(Zip Code)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer and accelerated filer in Rule 12b-2 of the Securities Exchange Act of 1934:

Large accelerated filer Accelerated filer Non-accelerated filer

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 registrant's classes of common stock, as of the latest practicable date.

Total shares of common stock outstanding as of the close of business on October 31, 2006:

Class	Number of Shares Outstanding
Common Stock, \$0.0001 par value	29,798,615

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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****(Unaudited)**

	September 30,	December 31,
	2006	2005(1)
Assets		
Cash and cash equivalents	\$ 26,229,000	\$ 9,796,000
Investment securities, available-for-sale	68,428,000	33,205,000
Restricted cash		12,520,000
Prepaid expenses, receivables and other current assets	3,147,000	4,604,000
Total current assets	97,804,000	60,125,000
Property and equipment, net	3,014,000	2,283,000
Other assets	96,000	98,000
	\$ 100,914,000	\$ 62,506,000
Liabilities and Stockholders Equity		
Accounts payable	\$ 3,206,000	\$ 2,073,000
Accrued expenses	13,868,000	6,582,000
Accrued loss from litigation		8,710,000
Current portion of deferred revenue	2,791,000	3,446,000
Current portion of long-term debt	902,000	890,000
Total current liabilities	20,767,000	21,701,000
Other long-term liabilities	602,000	542,000
Long-term debt, less current portion	1,144,000	892,000
Total liabilities	22,513,000	23,135,000
Commitments and contingencies (Note 7)		
Stockholders equity		
Preferred stock, \$0.0001 par value; 5,000,000 shares authorized at September 30, 2006 and December 31, 2005; no shares issued and outstanding at September 30, 2006 and December 31, 2005		
Common stock, \$0.0001 par value; 75,000,000 shares authorized at September 30, 2006 and December 31, 2005; 29,774,714 shares and 23,517,876 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	3,000	2,000
Additional paid-in capital	239,220,000	168,426,000
Accumulated deficit	(161,016,000)	(128,418,000)
Unearned stock-based compensation	(142,000)	(773,000)
Accumulated other comprehensive income	336,000	134,000
Total stockholders equity	78,401,000	39,371,000

\$ 100,914,000 \$ 62,506,000

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- (1) The condensed consolidated balance sheet at December 31, 2005 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.

Table of Contents**ACADIA PHARMACEUTICALS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues				
Collaborative revenues	\$ 1,943,000	\$ 3,673,000	\$ 6,360,000	\$ 8,513,000
Operating expenses				
Research and development (includes stock-based compensation of \$561,000, \$337,000, \$1,447,000 and \$754,000, respectively)	16,099,000	8,402,000	38,479,000	21,497,000
General and administrative (includes stock-based compensation of \$410,000, \$125,000, \$1,111,000 and \$474,000, respectively)	2,364,000	2,223,000	6,945,000	6,261,000
Provision for loss from (settlement of) litigation	(3,981,000)	5,861,000	(3,560,000)	5,861,000
Total operating expenses	14,482,000	16,486,000	41,864,000	33,619,000
Loss from operations	(12,539,000)	(12,813,000)	(35,504,000)	(25,106,000)
Interest income	1,327,000	547,000	2,993,000	1,302,000
Interest expense	(51,000)	(40,000)	(138,000)	(128,000)
Loss before change in accounting principle	(11,263,000)	(12,306,000)	(32,649,000)	(23,932,000)
Cumulative effect of change in accounting principle			51,000	
Net loss	\$ (11,263,000)	\$ (12,306,000)	\$ (32,598,000)	\$ (23,932,000)
Net loss per common share, basic and diluted				
Before change in accounting principle	\$ (0.38)	\$ (0.53)	\$ (1.20)	\$ (1.11)
Cumulative effect of change in accounting principle				
Net loss per common share, basic and diluted	\$ (0.38)	\$ (0.53)	\$ (1.20)	\$ (1.11)
Weighted average common shares outstanding, basic and diluted	29,732,000	23,343,000	27,277,000	21,507,000

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

Table of Contents**ACADIA PHARMACEUTICALS INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities		
Net loss	\$ (32,598,000)	\$ (23,932,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	603,000	819,000
Stock-based compensation	2,558,000	1,088,000
Loss on disposal of equipment	36,000	129,000
Cumulative effect of change in accounting principle	(51,000)	
Changes in operating assets and liabilities:		
Prepaid expenses, receivables and other assets	1,457,000	(3,378,000)
Other assets	2,000	(22,000)
Accounts payable	1,133,000	(423,000)
Accrued expenses	7,286,000	834,000
Accrued loss from litigation	(8,710,000)	8,350,000
Current portion of deferred revenue	(655,000)	2,848,000
Other long-term liabilities	60,000	458,000
Net cash used in operating activities	(28,879,000)	(13,229,000)
Cash flows from investing activities		
Purchases of investment securities	(73,868,000)	(50,138,000)
Maturities of investment securities	38,791,000	38,328,000
Decrease in restricted cash (Note 7)	12,520,000	
Purchases of property and equipment	(1,346,000)	(791,000)
Net cash used in investing activities	(23,903,000)	(12,601,000)
Cash flows from financing activities		
Proceeds from issuance of common stock and warrants, net of issuance costs	68,919,000	41,515,000
Proceeds from issuance of long-term debt	1,033,000	634,000
Repayments of long-term debt	(769,000)	(1,313,000)
Net cash provided by financing activities	69,183,000	40,836,000
Effect of exchange rate changes on cash	32,000	45,000
Net increase in cash and cash equivalents	16,433,000	15,051,000
Cash and cash equivalents		
Beginning of period	9,796,000	8,302,000
End of period	\$ 26,229,000	\$ 23,353,000
Supplemental schedule of noncash investing and financing activities		
Unrealized gain (loss) on investment securities	\$ 146,000	\$ (57,000)

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

Table of Contents**ACADIA PHARMACEUTICALS INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2006****(Unaudited)****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of ACADIA Pharmaceuticals Inc. (together with its wholly owned subsidiaries, ACADIA Pharmaceuticals AB and ACADIA Pharmaceuticals A/S, the Company) should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2005 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. In connection with the preparation of this Report on Form 10-Q, the Company has concluded that it will revise the classification of the increase in restricted cash of \$12,500,000 for the year ended December 31, 2005 from financing activities to investing activities in the Company's consolidated statement of cash flows in its Annual Report on Form 10-K for the year ending December 31, 2006.

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. Interim results are not necessarily indicative of results for a full year.

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, restricted vesting common stock and warrants, when dilutive, is reflected in diluted earnings (loss) per common share by application of the treasury stock method. The Company has excluded all outstanding stock options, restricted vesting common stock 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:

	Three Months Ended		Nine Months Ended	
	September 30, 2006 (unaudited)	2005	September 30, 2006 (unaudited)	2005 (unaudited)
Antidilutive options to purchase common stock	2,937,000	2,194,000	2,686,000	2,072,000
Antidilutive warrants to purchase common stock	1,393,000	1,393,000	1,393,000	954,000
Restricted vesting common stock	26,000	83,000	39,000	104,000
	4,356,000	3,670,000	4,118,000	3,130,000

3. Stock-Based Compensation*Stock Plans*

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The Company's 2004 Equity Incentive Plan (the "2004 Plan") became effective upon the closing of the initial public offering on June 2, 2004. The 2004 Plan permits the grant of options to directors, officers, other employees, and consultants. In addition, the 2004 Plan permits the grant of stock bonuses, rights to purchase restricted stock, and other stock awards. The exercise price of options granted under the 2004 Plan cannot be less than 100 percent of the fair market value of the common stock on the date of grant and the maximum term of any option is ten years. Options granted under the 2004 Plan generally vest over a four-year period. At September 30, 2006, the number of shares authorized for issuance under the 2004 Plan was 2,218,699 shares of common stock, which included the shares that remained eligible for grant under the Company's 1997 stock option plan (the "1997 Plan") at June 2, 2004. The 2004 Plan share reserve has been and may be increased by the number of shares, if any, that would have reverted to the 1997

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Plan reserve after June 2, 2004. The 2004 Plan also includes an evergreen provision, which provides for automatic increases to the number of shares included in the share reserve in connection with each annual meeting of stockholders for a period of five years, which period began with the meeting in 2005. At September 30, 2006, there were 589,428 shares of common stock available for new grants under the 2004 Plan.

The 1997 Plan provided for the grant of incentive stock options and nonqualified stock options to employees, officers, directors, consultants and advisors of the Company. The exercise price of each option grant was set at the fair market value for the Company's common stock as determined by the Company's Board of Directors and each option's maximum term was ten years. Options granted under the 1997 Plan generally vest over a four-year period. The 1997 Plan permitted grants to certain employees allowing those employees to early exercise their options for restricted shares of the Company's common stock that were subject to the original vesting terms of the option. Restricted shares are generally subject to a repurchase option in favor of the Company that is exercisable upon termination of the continuous service of the optionee at an amount per share equal to the purchase price of the restricted shares. During the nine months ended September 30, 2006, 36,864 restricted common shares with an aggregate intrinsic value of \$391,000 vested, leaving 22,504 restricted shares with an aggregate intrinsic value of \$170,000 outstanding and subject to repurchase at period end. Upon the closing of the Company's initial public offering on June 2, 2004, all shares that remained eligible for grant under the 1997 Plan were transferred to the 2004 Plan.

The Company's 2004 Employee Stock Purchase Plan (the Purchase Plan) became effective upon the closing of the initial public offering on June 2, 2004. The Purchase Plan includes an evergreen provision, which provides for automatic increases to the number of shares included in the share reserve in connection with each annual meeting of stockholders for a period of ten years, which period began with the meeting in 2005. A total of 425,000 shares of common stock have been reserved for issuance under the Purchase Plan. Eligible employees who elect to participate in an offering under the Purchase Plan may have up to 15 percent of their earnings withheld, subject to certain limitations, to purchase shares of common stock pursuant to the Purchase Plan. The price of common stock purchased under the Purchase Plan is equal to 85 percent of the lower of the fair market value of the common stock at the commencement date of each offering period or the relevant purchase date. As of September 30, 2006, 98,526 shares of common stock had been issued under the Purchase Plan and 326,474 shares were available for future issuance.

Adoption of Statement of Financial Accounting Standards No. 123(R)

Prior to January 1, 2006, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 and provided pro forma disclosures of net income (loss) as if a fair value method had been applied in measuring compensation expense. Accordingly, compensation cost for stock awards was measured as the excess, if any, of the fair value of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, using the modified prospective transition method. Under that transition method, compensation cost recognized for the three and ni