

NEUROCRINE BIOSCIENCES INC

Form 10-Q

April 29, 2010

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# 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, 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 0-22705

# NEUROCRINE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**33-0525145**  
(IRS Employer  
Identification No.)

**12780 EL CAMINO REAL, SAN DIEGO, CALIFORNIA**  
(Address of principal executive office)

**92130**  
(Zip Code)

**(858) 617-7600**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 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 Exchange Act.

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 outstanding shares of the registrant's common stock, par value \$0.001 per share, was 54,831,867 as of April 26, 2010.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****NEUROCRINE BIOSCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except for share information)****(unaudited)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,224	\$ 37,329
Short-term investments	13,975	16,135
Other current assets	2,133	1,923
Total current assets	68,332	55,387
Property and equipment, net	2,236	2,695
Long-term investments	2,988	6,411
Restricted cash	6,327	6,325
Total assets	\$ 79,883	\$ 70,818
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 539	\$ 2,188
Accrued liabilities	6,428	6,240
Current portion of deferred revenues	2,925	2,941
Current portion of cease-use liability	4,369	4,289
Current portion of deferred gain on sale of real estate	2,888	2,867
Other liabilities	1,481	1,436
Total current liabilities	18,630	19,961
Deferred revenues	8,027	8,757
Deferred gain on sale of real estate	29,263	29,999
Deferred rent	1,079	906
Cease-use liability	6,163	7,241
Total liabilities	63,162	66,864
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.001 par value; 110,000,000 shares authorized; issued and outstanding shares were 54,823,567 as of March 31, 2010 and 43,991,565 as of December 31, 2009	55	44
Additional paid-in capital	778,909	757,002
Accumulated other comprehensive income	694	1,209
Accumulated deficit	(762,937)	(754,301)

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Total stockholders' equity	16,721	3,954
Total liabilities and stockholders' equity	\$ 79,883	\$ 70,818

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****NEUROCRINE BIOSCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except loss per share data)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		
Sponsored research and development	\$ 23	\$ 17
License fees and milestones	730	730
<b>Total revenues</b>	<b>753</b>	<b>747</b>
<b>Operating expenses:</b>		
Research and development	7,576	10,848
General and administrative	3,199	4,195
Cease-use expense	147	4,828
<b>Total operating expenses</b>	<b>10,922</b>	<b>19,871</b>
Loss from operations	(10,169)	(19,124)
<b>Other income (expense):</b>		
Gain on sale/disposal of assets	115	141
Deferred gain on sale of real estate	715	695
Investment income and (expense)	679	(1,453)
Other expense, net	24	76
<b>Total other income (expense)</b>	<b>1,533</b>	<b>(541)</b>
<b>Net loss</b>	<b>\$ (8,636)</b>	<b>\$ (19,665)</b>
<b>Net loss per common share:</b>		
Basic and diluted	\$ (0.19)	\$ (0.51)
<b>Shares used in the calculation of net loss per common share:</b>		
Basic and diluted	46,618	38,669

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****NEUROCRINE BIOSCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (8,636)	\$ (19,665)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	428	969
Gain on sale of assets	(115)	(141)
Fair value adjustment for auction rate security rights		211
Loss on sale of investments		320
Fair value adjustment for auction rate securities		(194)
Realized gain on sale of auction rate securities	(555)	
Other-than-temporary impairment for auction rate securities		1,431
Cease-use expense	147	4,828
Deferred gain on sale of real estate	(715)	(695)
Deferred revenues	(746)	(744)
Deferred rent	173	323
Share-based compensation expense	559	1,870
Amortization of premiums on short term-investments		(10)
Change in operating assets and liabilities:		
Accounts receivable and other current assets	(167)	121
Other assets		189
Accounts payable and accrued liabilities	(1,461)	(897)
Cease-use liability	(1,145)	(2,007)
Other liabilities	45	(299)
Net cash used in operating activities	(12,188)	(14,390)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments		(12,945)
Sales/maturities of investments	5,580	10,240
Deposits and restricted cash	(2)	5
Proceeds from sales of property and equipment	146	312
Purchases of property and equipment, net		(24)
Net cash provided by (used in) investing activities	5,724	(2,412)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common stock	21,359	
Net cash provided by financing activities	21,359	
Net increase (decrease) in cash and cash equivalents	14,895	(16,802)
Cash and cash equivalents at beginning of the period	37,329	68,467
Cash and cash equivalents at end of the period	\$ 52,224	\$ 51,665

See accompanying notes to the condensed consolidated financial statements.



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**NEUROCRINE BIOSCIENCES, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. BASIS OF PRESENTATION**

The condensed consolidated financial statements included herein are unaudited. These statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions of the Securities and Exchange Commission (SEC) on Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for the interim period shown in this report are not necessarily indicative of results expected for the full year. These financial statements should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and the financial statements and notes thereto for the year ended December 31, 2009 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC. Certain reclassifications have been made to previously reported amounts to conform to the current period presentation.

The terms Company and Neurocrine are used in this report to refer collectively to Neurocrine Biosciences, Inc. and its subsidiaries.

**2. ORGANIZATION AND SUMMARY OF BUSINESS**

Neurocrine Biosciences, Inc. discovers, develops and intends to commercialize drugs for the treatment of neurological and endocrine-related diseases and disorders. The Company's product candidates address some of the largest pharmaceutical markets in the world, including endometriosis, anxiety, depression, pain, diabetes, irritable bowel syndrome, insomnia and other neurological and endocrine-related diseases and disorders. The Company currently has eight programs in various stages of research and development, including six programs in clinical development. While the Company independently develops many of its own product candidates, Neurocrine is in collaborations with pharmaceutical companies for two of its programs. The Company's lead clinical development program, *elagolix*, is a drug candidate for the treatment of endometriosis.

**3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In February 2010, the Financial Accounting Standards Board (FASB) issued amended guidance on subsequent events. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the Company adopted these new requirements upon issuance of this guidance.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). This guidance requires the disclosure of separate amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reason for such transfers. ASU 2010-06 also requires information related to purchases, sales, issuances, and settlements of Level 3 financial assets and liabilities to be presented separately in the reconciliation of fair value measurements for the period presented. In addition, ASU 2010-06 clarifies existing disclosure guidance with respect to the level of disaggregation for classes of financial assets and liabilities as well as valuation techniques and inputs used for both recurring and nonrecurring fair value measurements of Level 2 and Level 3 assets and liabilities. The Company has provided the additional required disclosures effective January 1, 2010.

**4. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.



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## 5. INVESTMENTS

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company also has investments classified as trading securities (See Note 6).

Investments consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Certificates of deposit	\$ 1,200	\$ 3,360
Auction rate securities, available-for-sale, long-term (Note 6)	2,988	6,411
Auction rate securities, trading (Note 6)	11,569	11,569
Auction rate security rights, trading (Note 6)	1,206	1,206
Ending balance	\$ 16,963	\$ 22,546

The following is a summary of investments classified as available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains(1)	Gross Unrealized Losses(1)	Aggregate Estimated Fair Value
<b>March 31, 2010</b>				
Certificates of deposit	\$ 1,199	\$ 1	\$	