CATALYST PHARMACEUTICAL PARTNERS, INC.
Form 10-Q
May 15, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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 UNDER 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)

Delaware	**76-0837053**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

355 Alhambra Circle

Suite 1500

Coral Gables, Florida	**33134**
(Address of principal executive offices)	**(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 x 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 x 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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date 67,169,383 shares of common stock, $0.001 par value per share, were outstanding as of May 13, 2014.

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PART I. FINANCIAL INFORMATION

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CATALYST PHARMACEUTICAL PARTNERS, INC.

(a development stage company)

CONDENSED BALANCE SHEETS

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,072,465	$ 2,215,958
Certificates of deposit	3,712,961	4,011,576
Short-term investments	16,499,324	17,483,062
Prepaid expenses	883,293	1,609,442
Total current assets	22,168,043	25,320,038
Property and equipment, net	52,649	40,628
Deposits	8,888	8,888
Total assets	$ 22,229,580	$ 25,369,554
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 932,105	$ 850,789
Accrued expenses and other liabilities	1,504,621	1,288,820
Total current liabilities	2,436,726	2,139,609
Accrued expenses and other liabilities, non-current	18,011	19,131
Warrants liability, at fair value	2,136,539	1,819,562
Total liabilities	4,591,276	3,978,302
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized: none issued and outstanding		
Common stock, $0.001 par value, 100,000,000 shares authorized; 54,145,633 shares and 54,132,937 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	54,146	54,133
Additional paid-in capital	75,728,876	75,670,718
Deficit accumulated during the development stage	(58,144,718)	(54,333,599)
Total stockholders equity	17,638,304	21,391,252

Total liabilities and stockholders equity	$ 22,229,580	$ 25,369,554

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

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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,
	2014	2013	2014
Revenues government grant	$	$	$ 488,958
Operating costs and expenses:			
Research and development	2,748,683	1,092,301	39,148,762
General and administrative	759,682	613,129	19,641,857
Total operating costs and expenses	3,508,365	1,705,430	58,790,619
Loss from operations	(3,508,365)	(1,705,430)	(58,301,661)
Interest income	32,760	6,467	1,572,946
Change in fair value of warrants liability	(335,514)	(45,326)	(1,416,003)
Loss before income taxes	(3,811,119)	(1,744,289)	(58,144,718)
Provision for income taxes			
Net loss	$ (3,811,119)	$ (1,744,289)	$ (58,144,718)
Net loss per share basic and diluted	$ (0.07)	$ (0.04)	
Weighted average shares outstanding basic and diluted	54,138,580	41,420,687	

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

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CATALYST PHARMACEUTICAL PARTNERS, INC.

(a development stage company)

CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)

For the three months ended March 31, 2014

	Preferred Stock	Common Stock	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at December 31, 2013	$	$ 54,133	$ 75,670,718	$ (54,333,599)	$ 21,391,252
Issuance of stock options for services			23,130		23,130
Exercise of warrants for common stock		13	35,028		35,041
Net loss				(3,811,119)	(3,811,119)
Balance at March 31, 2014	$	$ 54,146	$ 75,728,876	$ (58,144,718)	$ 17,638,304

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

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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,
	2014	2013	2014
Operating Activities:			
Net loss	$ (3,811,119)	$ (1,744,289)	$ (58,144,718)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,285	5,364	192,646
Stock-based compensation	23,130	41,752	6,161,185
Change in fair value of warrants liability	335,514	45,326	1,416,003
(Increase) decrease in:			
Prepaid expenses and deposits	726,149	66,685	(892,181)
Increase (decrease) in:			
Accounts payable	81,316	(798,478)	932,105
Accrued expenses and other liabilities	214,681	134,436	1,459,280
Net cash used in operating activities	(2,425,044)	(2,249,204)	(48,875,680)
Investing Activities:			
Capital expenditures	(17,306)	(9,433)	(181,946)
Proceeds (purchase) of short term investments	983,738	(2,702)	(16,499,324)
Proceeds (purchase) of certificates of deposit	298,615	1,497,445	(3,712,961)
Net cash provided by (used in) investing activities	1,265,047	1,485,310	(20,394,231)
Financing Activities:			
Proceeds from issuance of common stock and warrants, net			57,210,636
Proceeds from issuance of preferred stock, net			3,895,597
Proceeds from issuance of convertible promissory note			5,000,000
Proceeds from exercise of warrants	16,504		4,116,053
Proceeds from exercise of options			23,500
Payment of employee withholding tax related to restricted stock units			(3,410)
Net cash provided by financing activities	16,504		70,242,376

Net (decrease) increase in cash and cash equivalents	(1,143,493)	(763,894)	972,465
Cash and cash equivalents at beginning of period	2,215,958	1,409,939	100,000
Cash and cash equivalents at end of period	$ 1,072,465	$ 646,045	$ 1,072,465
Non-cash investing and financing activity			
Non-cash incentive received from lessor	$	$	$ 52,320
Exercise of liability classified warrants for common stock	$ 18,537	$	$ 604,796
Conversion of note for common stock	$	$	$ 5,000,000

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

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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 specialty pharmaceutical company focused on the development and commercialization of prescription drugs targeting rare (orphan) neurological diseases and disorders, including Lambert-Eaton Myasthenic Syndrome (LEMS) and infantile spasms.

The Company has incurred operating losses in each period from inception through March 31, 2014. The Company has been able to fund its cash needs to date through several public and private offerings of its common stock and warrants, through government grants, and through an investment by a strategic purchaser. See Note 9.

Capital Resources

On January 31, 2014, the Company filed a Shelf Registration Statement on Form S-3 (the 2014 Shelf Registration Statement) with the SEC to sell up to $100 million of common stock. This registration statement (file No. 333-193699) was declared effective by the SEC on March 19, 2014. Subsequent to quarter end, on April 3, 2014, the Company offered for sale 13,023,750 shares of its common stock in an underwritten public offering under the 2014 Shelf Registration Statement, raising net proceeds of approximately $26.8 million. See Note 12. While there can be no assurance, based on currently available information, the Company estimates that it has sufficient working capital (excluding the proceeds of its recently completed public offering) to support its operations through the end of 2014.

The Company may raise required funds 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 drug candidates 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.

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 U.S. generally accepted accounting principles applicable to a development stage company. The Company s primary focus is on the development and commercialization of its drug candidates.

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

b. INTERIM FINANCIAL STATEMENTS. The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles, and 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 U.S. have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim 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, 2013 included in the 2013 Annual Report on Form 10-K filed by the Company with the SEC. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for any future period or for the full 2014 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. CASH AND CASH EQUIVALENTS. The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist mainly of money market funds. The Company has substantially all of its cash and cash equivalents deposited with one financial institution.

e. CERTIFICATES OF DEPOSIT. The certificates of deposit are issued by a banking institution and are recorded at cost plus accrued interest. The original maturity is greater than three months but does not exceed one year. Interest income is recorded in the statement of operations as it is earned. Carrying value at March 31, 2014 and December 31, 2013 approximates fair value.

f. SHORT-TERM INVESTMENTS. The Company invests in short-term investments in high credit-quality funds in order to obtain higher yields on its cash available for investments. As of March 31, 2014 and December 31, 2013 short-term investments consisted of money market funds and a short-term bond fund. Such investments are not insured by the Federal Deposit Insurance Corporation. Short-term investments at March 31, 2014 and December 31, 2013 were considered trading securities. Trading securities are recorded at fair value based on the closing market price of the security. For trading securities, the Company recognizes realized gains and losses and unrealized gains and losses to earnings. Realized and unrealized gains(losses) for the three months ended March 31, 2014 and 2013 were nominal.

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PREPAID EXPENSES. Prepaid expenses consist primarily of prepaid research fees, prepaid insurance and prepaid subscription fees. Prepaid research fees consists of advances for the Company s product development activities, including drug manufacturing, contracts for pre-clinical studies, clinical trials, regulatory affairs and consulting. Such advances are recorded as expense as the related goods are received or the related services are performed.

h. FAIR VALUE OF FINANCIAL INSTRUMENTS. The Company s financial instruments consist of cash and cash equivalents, certificates of deposit, short-term investments, accounts payables, accrued expenses and other liabilities, and warrants liability. At March 31, 2014 and December 31, 2013, the fair value of these instruments approximated their carrying value.

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

i. FAIR VALUE MEASUREMENTS. Current Financial Accounting Standards Board (FASB) fair value guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, current FASB guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions that market participants would use in pricing assets or liabilities (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

		Fair Value Measurements at Reporting Date Using		
	Balances as of March 31, 2014	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 7,831	$ 7,831	$	$
Certificates of deposit	$ 3,712,961	$	$ 3,712,961	$
Short-term investments	$ 16,499,324	$ 16,499,324	$	$
Warrants liability	$ 2,136,539	$	$	$ 2,136,539