Esperion Therapeutics, Inc.
Form 10-Q
November 05, 2015
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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 September 30, 2015

OR

o 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: 001-35986

Esperion Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-1870780**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3891 Ranchero Drive, Suite 150

Ann Arbor, MI 48108

(Address of principal executive office) (Zip Code)

Registrant s telephone number, including area code:

(734) 887-3903

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 x No o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 1, 2015, there were 22,518,907 shares of the registrant s Common Stock, $0.001 par value per share, outstanding.

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Esperion Therapeutics, Inc.

Condensed Balance Sheets

(In thousands, except share and per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 80,824	$ 85,038
Short-term investments	134,772	20,803
Prepaid clinical development costs	1,963	366
Other prepaid and current assets	1,286	492
Total current assets	218,845	106,699
Property and equipment, net	722	780
Intangible assets	56	56
Long-term investments	86,771	35,741
Total assets	$ 306,394	$ 143,276
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,979	$ 2,040
Current portion of long-term debt	1,578	638
Accrued clinical development costs	963	1,978
Other accrued liabilities	2,308	835
Total current liabilities	6,828	5,491
Long-term debt, net of discount and issuance costs	3,084	4,231
Total liabilities	$ 9,912	$ 9,722
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized as of September 30, 2015 and December 31, 2014; no shares issued or outstanding at September 30, 2015 and December 31, 2014		
Common stock, $0.001 par value; 120,000,000 shares authorized as of September 30, 2015 and December 31, 2014; 22,518,907 shares issued and 22,514,720 outstanding at September 30, 2015 and 20,352,876 shares issued and 20,343,325 outstanding at December 31, 2014	23	20
Additional paid-in capital	437,548	238,031
Accumulated other comprehensive income (loss)	11	(59)
Accumulated deficit	(141,100)	(104,438)
Total stockholders equity	296,482	133,554
Total liabilities and stockholders equity	$ 306,394	$ 143,276

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.

Condensed Statements of Operations and Comprehensive Loss

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Operating expenses:				
Research and development	$ 7,247	$ 7,174	$ 21,846	$ 19,102
General and administrative	5,672	2,526	14,960	7,742
Total operating expenses	12,919	9,700	36,806	26,844
Loss from operations	(12,919)	(9,700)	(36,806)	(26,844)
Interest expense	(130)	(135)	(399)	(136)
Other income, net	248	29	543	62
Net loss	$ (12,801)	$ (9,806)	$ (36,662)	$ (26,918)
Net loss per common share (basic and diluted)	$ (0.57)	$ (0.64)	$ (1.68)	$ (1.75)
Weighted-average shares outstanding (basic and diluted)	22,494,075	15,432,641	21,854,685	15,397,745
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	$ 71	$ 3	$ 70	$ (2)
Total comprehensive loss	$ (12,730)	$ (9,803)	$ (36,592)	$ (26,920)

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.

Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating activities		
Net loss	$ (36,662)	$ (26,918)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	169	104
Amortization of debt discount	22	8
Amortization of debt issuance costs	24	8
Amortization of premiums and discounts on investments	396	160
Stock-based compensation expense	8,341	2,626
Loss related to assets held for sale		29
(Gain)/Loss on sale of assets	(3)	1
Changes in assets and liabilities:		
Prepaids and other assets	(2,391)	(1,016)
Accounts payable	(80)	1,051
Other accrued liabilities	477	134
Net cash used in operating activities	(29,707)	(23,813)
Investing activities		
Purchases of investments	(242,195)	(4,800)
Proceeds from sales/maturities of investments	76,870	7,926
Proceeds from sale of assets	9	12
Purchase of property and equipment	(97)	(853)
Net cash (used in) provided by investing activities	(165,413)	2,285
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	189,982	
Proceeds from exercise of common stock options	1,177	307
Proceeds from warrant issuance		78
Proceeds from debt issuance, net of issuance costs		4,838
Payments on long-term debt	(253)	
Net cash provided by financing activities	190,906	5,223
Net decrease in cash and cash equivalents	(4,214)	(16,305)
Cash and cash equivalents at beginning of period	85,038	56,537
Cash and cash equivalents at end of period	$ 80,824	$ 40,232

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.

Notes to the Condensed Financial Statements

(Unaudited)

1. The Company and Basis of Presentation

The Company is a pharmaceutical company whose planned principal operations are focused on developing and commercializing first-in-class, oral, low-density lipoprotein cholesterol (LDL-C) lowering therapies for the treatment of patients with hypercholesterolemia. ETC-1002, or bempedoic acid, the Company s lead product candidate, is an inhibitor of ATP Citrate Lyase, a well-characterized enzyme on the cholesterol biosynthesis pathway. ETC-1002 inhibits cholesterol synthesis, decreases intracellular cholesterol, up-regulates LDL-receptors, and causes increased LDL-C clearance and reduced plasma levels of LDL-C. The Company held an End-of-Phase 2 meeting with the Food and Drug Administration in August 2015. The Company intends to initiate a global long-term safety study for ETC-1002 by the end of 2015. The Company owns the exclusive worldwide rights to ETC-1002.

The Company s primary activities since incorporation have been conducting research and development activities, including nonclinical, preclinical and clinical testing, performing business and financial planning, recruiting personnel and raising capital. Accordingly, the Company has not commenced principal operations and is subject to risks and uncertainties which include the need to research, develop and clinically test potential therapeutic products; obtain regulatory approvals for its products and commercialize them, if approved; expand its management and scientific staff; and finance its operations with an ultimate goal of achieving profitable operations.

The Company has sustained operating losses since inception and expects such losses to continue over the foreseeable future. Management plans to continue to fund operations through public or private equity or debt financings or through other sources, which may include collaborations with third parties. If adequate funds are not available, the Company may not be able to continue the development of its current or future product candidates, or to commercialize its current or future product candidates, if approved.

On March 24, 2015, the Company completed an underwritten public offering of 2,012,500 shares of common stock, including 262,500 shares sold pursuant to the full exercise of an over-allotment option granted to the underwriters. All the shares were offered by the Company at a price to the public of $100.00 per share. The aggregate net proceeds received by the Company from the offering were $190.0 million, net of underwriting discounts and commissions and expenses payable by the Company.

Basis of Presentation

The accompanying condensed financial statements are unaudited and were prepared by the Company in accordance with generally accepted accounting principles in the United States of America (GAAP). In the opinion of management, the Company has made all adjustments, which include only normal recurring adjustments necessary for a fair statement of the Company s financial position and results of operations for the interim periods presented. Certain information and disclosures normally included in the annual financial statements prepared in accordance with

GAAP have been condensed or omitted. These condensed interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014, and the notes thereto, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the interim periods are not necessarily indicative of the results to be expected for a full year, any other interim periods or any future year or period.

2. Summary of Significant Accounting Policies

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03 which simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge. The recognition and measurement guidance for debt issuance costs are not affected by the amendment. The Company early-adopted the amendment effective January 1, 2015, which resulted in a change in the balance sheet presentation of net debt; in prior period disclosures the debt issuance costs related to the Company s debt liability were presented on the balance sheet as deferred charges within Other prepaid and current assets . Upon adoption of the amended guidance, the debt issuance costs associated with the Company s debt liability are presented on the balance sheet as a direct deduction from the carrying amount of the debt liability. Within the September 30, 2015, and December 31, 2014, balance sheets, Long-term debt, net of discount and issuance costs includes $0.1 million and $0.1 million, respectively, of debt issuance costs.

There have been no other material changes to the significant accounting policies previously disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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3. Debt

In June 2014, the Company entered into a loan and security agreement (the Credit Facility) with Oxford Finance LLC which provided for an initial borrowing of $5.0 million under the term loan (the Term A Loan) and additional borrowings of $15.0 million (the Term B Loan) at the Company s option, for a maximum of $20.0 million. On June 30, 2014, the Company received proceeds of $5.0 million from the issuance of secured promissory notes under the Term A Loan. Upon achieving positive clinical development results in March 2015, the remaining $15.0 million under the Term B Loan became available to be drawn down, at the Company s sole discretion, until March 31, 2015. The Company did not elect to draw down the Term B Loan as of March 31, 2015. The secured promissory notes issued under the Credit Facility are due on July 1, 2018, and are collateralized by substantially all of the Company s personal property, other than its intellectual property.

The Company is obligated to make monthly, interest-only payments on the Term A Loan until July 1, 2015, and, thereafter, to pay 36 consecutive, equal monthly installments of principal and interest from August 1, 2015, through July 1, 2018. The Term A Loan bears interest at an annual rate of 6.40%. In addition, a final payment equal to 8.0% of the Term A Loan is due upon the earlier of the maturity date or prepayment of the term loan. The Company is recognizing the final payment as interest expense using the effective interest method over the life of the Credit Facility.

There are no financial covenants associated to the Credit Facility. However, so long as the Credit Facility is outstanding, there are negative covenants that limit or restrict the Company s activities, which include limitations on incurring indebtedness, granting liens, mergers or acquisitions, dispositions of assets, making certain investments, entering into certain transactions with affiliates, paying dividends or distributions, encumbering or pledging interest in its intellectual property and certain other business transactions. Additionally, the Credit Facility also includes events of default, the occurrence and continuation of any of which provides the lenders the right to exercise remedies against the Company and the collateral securing the loans under the Credit Facility, which includes cash. These events of default include, among other things, non-payment of any amounts due under the Credit Facility, insolvency, the occurrence of a material adverse event, inaccuracy of representations and warranties, cross default to material indebtedness and a material judgment against the Company. Upon the occurrence of an event of default, all obligations under the Credit Facility shall accrue interest at a rate equal to the fixed annual rate plus five percentage points.

In connection with the borrowing of the Term A Loan, the Company issued a warrant to purchase 8,230 shares of common stock at an exercise price of $15.19 (see Note 4). The warrant resulted in a debt discount of $0.1 million which is amortized into interest expense using the effective interest method over the life of the Term A Loan. In addition, the Company incurred debt issuance costs of $0.1 million in connection with the borrowing of the Term A Loan. The debt issuance costs were capitalized and included in long-term debt on the condensed balance sheet at the inception of the Term A Loan, and are amortized to interest expense using the effective interest method over the same term. As of September 30, 2015, the remaining unamortized discount and debt issuance costs associated with the debt were less than $0.1 million and $0.1 million, respectively.

Estimated future principal payments due under the Credit Facility are as follows:

Years Ending December 31,	**(in thousands)**
2015	385
2016	1,604
2017	1,709
2018	1,049
Total	$ 4,747

During the three and nine months ended September 30, 2015, the Company recognized $0.1 million and $0.4 million, respectively of interest expense, and made cash interest payments of $0.1 million and $0.2 million, respectively, and principal payments of $0.3 million and $0.3 million, respectively, related to the Credit Facility.

4. Warrants

In connection with the Credit Facility entered into in June 2014, the Company issued a warrant to purchase 8,230 shares of common stock at an exercise price of $15.19. The warrant will terminate on the earlier of June 30, 2019, and the closing of a merger or consolidation transaction in which the Company is not the surviving entity. The warrant was recorded at fair value of $0.1 million to additional paid-in capital in accordance with Accounting Standards Codification 815-10 based upon the allocation of the debt proceeds. The Company estimated the fair value of the warrant using a Black-Scholes option-pricing model, which is based, in part, upon subjective assumptions including but not limited to stock price volatility, the expected life of the warrant, the risk-free interest rate and the fair value of the common stock underlying the warrant. The Company estimates the volatility of its stock based on public company peer group historical volatility that is in line with the expected remaining life of the warrant. The risk-free interest rate is based on the U.S. Treasury zero-coupon bond for a maturity similar to the expected remaining life of the warrant. The expected remaining life of the warrant is assumed to be equivalent to its remaining contractual term.

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Upon the closing of the Company s initial public offering in July 2013, all warrants exercisable for 1,940,000 shares of Series A preferred stock, at an exercise price of $1.00 per share (unadjusted for stock splits), were automatically converted into warrants exercisable for 277,690 shares of common stock, at an exercise price of $6.99 per share. As a result, the Company concluded the warrants outstanding no longer met the criteria to be classified as liabilities and were reclassified to additional paid-in capital at fair value on the date of reclassification. During the nine months ended September 30, 2015, 29,330 warrants were net exercised for 25,445 shares of the Company s common stock. The remaining 248,360 warrants outstanding as of September 30, 2015, expire in February 2018.

As of September 30, 2015, the Company had warrants outstanding that were exercisable for a total of 256,590 shares of common stock at a weighted-average exercise price of $7.25 per share.

5. Investments

The following table summarizes the Company s cash equivalents and investments:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash equivalents:				
Money market funds	$ 13,604	$	$	$ 13,604
Short-term investments:				
Certificates of deposit	14,197	1		14,198
U.S. treasury notes	13,232	5		13,237
U.S. government agency securities	107,340	10	(14)	107,336
Long-term investments:				
Certificates of deposit	11,276			11,276
U.S. treasury notes	12,528	10		12,538
U.S. government agency securities	62,959	12	(13)	62,958
Total	$ 235,136	$ 38	$ (27)	$ 235,147

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash equivalents:				