

TERCICA INC
Form 10-Q
November 12, 2004

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 and Exchange Act of 1934

For the Quarterly Period Ended September 30, 2004

OR

Transition report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Commission File Number 000-50461

TERCICA, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-0042539
(I.R.S. Employer
Identification Number)

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651 Gateway Boulevard

Suite 950

South San Francisco, CA 94080

(650) 624-4900

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 is an accelerated filer (as defined in Rule 12b-2 of Act). Yes No

As of October 22, 2004, there were 24,559,324 shares of the Registrant's Common Stock outstanding.

TERCICA, INC.

(A DEVELOPMENT STAGE COMPANY)

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.**TERCICA, INC.****(A DEVELOPMENT STAGE COMPANY)****CONDENSED BALANCE SHEETS****(In thousands)****(Unaudited)**

	September 30, 2004	December 31, 2003
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,698	\$ 1,949
Short-term investments	53,576	35,364
Prepaid expenses and other current assets	1,427	2,772
	<u> </u>	<u> </u>
Total current assets	61,701	40,085
Property and equipment, net	2,388	2,314
Other assets	50	85
	<u> </u>	<u> </u>
Total assets	<u>\$ 64,139</u>	<u>\$ 42,484</u>
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 3,101	\$ 5,351
Accrued expenses	2,661	1,214
Liability for early exercise of stock options	162	174
	<u> </u>	<u> </u>
Total current liabilities	5,924	6,739
Liability for early exercise of stock options - noncurrent portion	220	306
Commitments and contingencies		
Series A convertible preferred stock		24,853
Series B convertible preferred stock		43,784
Stockholders' equity (deficit):		
Common stock	24	2
Additional paid-in capital	173,957	51,308
Deferred stock compensation	(7,613)	(5,984)
Accumulated other comprehensive loss	(54)	(18)
Deficit accumulated during the development stage	(108,319)	(78,506)
	<u> </u>	<u> </u>
Total stockholders' equity (deficit)	57,995	(33,198)

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Total liabilities and stockholders' equity (deficit)	<u>\$ 64,139</u>	<u>\$ 42,484</u>
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See accompanying notes.

TERCICA, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three months ended		Nine months ended		Period from October 1, 2000 (inception) through September 30, 2004
	September 30,		September 30,		
	2004	2003	2004	2003	
Costs and expenses:					
Research and development*	\$ 7,442	\$ 5,745	\$ 20,272	\$ 11,898	\$ 41,979
Selling, general and administrative*	3,503	1,483	8,757	3,149	16,195
Acquired in-process research and development		1,670	1,417	1,670	8,158
Total costs and expenses	(10,945)	(8,898)	(30,446)	(16,717)	(66,332)
Interest expense					(106)
Interest and other income, net	268	123	633	200	1,147
Net loss	(10,677)	(8,775)	(29,813)	(16,517)	(65,291)
Deemed dividend related to beneficial conversion feature of convertible preferred stock		(44,153)		(44,153)	(44,153)
Net loss allocable to common stockholders	\$ (10,677)	\$ (52,928)	\$ (29,813)	\$ (60,670)	\$ (109,444)
Basic and diluted net loss per share allocable to common stockholders	\$ (0.45)	\$ (28.63)	\$ (1.68)	\$ (34.72)	
Shares used to compute basic and diluted net loss per share allocable to common stockholders	23,951,624	1,848,752	17,702,650	1,747,461	
* Includes non-cash stock-based compensation expense as follows:					
Research and development	\$ 344	\$ 277	\$ 1,095	\$ 476	\$ 1,890
Selling, general and administrative	338	97	1,076	99	1,334
Total	\$ 682	\$ 374	\$ 2,171	\$ 575	\$ 3,224

See accompanying notes.

TERCICA, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months Ended September 30,		Period from October 1, 2000 (inception) through September 30,
	2004	2003	2004
Cash flows from operating activities:			
Net loss	\$ (29,813)	\$ (16,517)	\$ (65,291)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	330	44	441
Property and equipment written-off			8
Amortization of deferred stock compensation, net of forfeitures	2,097	479	3,001
Amortization of premiums relating to available-for-sale securities	514	186	985
Stock compensation in exchange for consulting services	73	96	223
Issuance of warrants in connection with convertible note			105
Issuance of stock in exchange for intellectual property			130
Acquired in-process research and development			4,071
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	1,379	(1,693)	(1,477)
Accounts payable	(2,251)	2,698	3,101
Accrued expenses	1,447	785	2,661
Net cash used in operating activities	(26,224)	(13,922)	(52,042)
Cash flows from investing activities:			
Purchases of property and equipment	(403)	(1,621)	(2,837)
Purchases of available-for-sale securities	(112,167)	(47,657)	(175,820)
Proceeds from sales and maturities of available-for-sale securities	93,405	11,700	121,206
Net cash used in investing activities	(19,165)	(37,578)	(57,451)
Cash flows from financing activities:			
Net proceeds from issuance of Class A and B shares			1,004
Liquidating distribution to Tercica Limited shareholders			(9)
Net proceeds from issuance of preferred stock		43,784	63,800
Proceeds from issuance of convertible note			500
Proceeds from issuance of Series A convertible preferred stock for exercise of warrants			160
Proceeds from issuance of common stock, excluding early exercised options	77		164
Proceeds from early exercised options	40	511	551
Net proceeds from initial public offering of common stock	50,021		50,021
Net cash provided by financing activities	50,138	44,295	116,191

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Net increase (decrease) in cash and cash equivalents	4,749	(7,205)
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