Esperion Therapeutics, Inc.
Form 10-Q
May 12, 2014
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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 March 31st 2014

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 o
Non-accelerated filer x (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 May 1, 2014, there were 15,394,226 shares of the registrant s Common Stock, $0.001 par value per share, outstanding.

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Esperion Therapeutics, Inc.

(A Development Stage Company)

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Esperion Therapeutics, Inc.

(A Development Stage Company)

Condensed Balance Sheets

(in thousands, except share and per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 48,638	$ 56,537
Short-term investments	8,064	3,525
Prepaid clinical development costs	1,257	196
Other prepaid and current assets	320	362
Total current assets	58,279	60,620
Property and equipment, net	360	81
Intangible assets	56	56
Investments	11,528	17,537
Total assets	$ 70,223	$ 78,294
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	2,098	2,232
Accrued clinical development costs	526	884
Other accrued liabilities	564	1,087
Total current liabilities	3,188	4,203
Total liabilities	3,188	4,203
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized as of March 31, 2014 and December 31, 2013; no shares issued or outstanding at March 31, 2014 and December 31, 2013		
Common stock, $0.001 par value; 120,000,000 shares authorized as of March 31, 2014 and December 31, 2013; 15,394,226 shares issued and 15,379,311 outstanding at March 31, 2014 and 15,357,413 shares issued and 15,340,710 outstanding at December 31, 2013	15	15
Additional paid-in capital	142,954	142,142
Accumulated other comprehensive income	3	(3)
Deficit accumulated during the development stage	(75,937)	(68,063)
Total stockholders equity	67,035	74,091
Total liabilities and stockholders equity	$ 70,223	$ 78,294

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.

(A Development Stage Company)

Condensed Statements of Operations and Comprehensive Loss

(Unaudited)

(in thousands, except share and per share data)

	Three Months Ended March 31,		Period from January 22, 2008 (Inception) to March 31, 2014
	2014	2013	
Grant income	$	$	$ 244
Operating expenses:			
Research and development	5,400	2,093	48,828
General and administrative	2,490	1,251	20,684
Acquired in-process research and development			86
Total operating expenses	7,890	3,344	69,598
Loss from operations	(7,890)	(3,344)	(69,354)
Interest expense		(828)	(4,321)
Change in fair value of warrant liability		(42)	(2,554)
Other income (expense), net	16	(25)	292
Net loss	$ (7,874)	$ (4,239)	$ (75,937)
Net loss per common share (basic and diluted)	$ (0.51)	$ (12.24)	
Weighted-average shares outstanding (basic and diluted)	15,369,055	346,478	
Other comprehensive income:			
Unrealized gain on investments	$ 3	$	
Total comprehensive loss	$ (7,871)	$ (4,239)	

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.

(A Development Stage Company)

Condensed Statements of Cash Flows

(Unaudited)

(in thousands, except share and per share data)

	Three Months Ended March 31,		Period from January 22, 2008 (Inception) to March 31, 2014
	2014	2013	
Operating activities			
Net loss	$ (7,874)	$ (4,239)	$ (75,937)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	12	32	1,460
Amortization of debt discount and beneficial conversion		459	576
Amortization of debt issuance costs		19	34
Amortization of premiums and discounts on investments	53		100
Revaluation of warrants		42	2,554
Noncash interest expense on convertible notes		351	3,726
Write-off of acquired in-process research and development			86
Stock-based compensation expense	741	55	2,225
Common stock issued in license agreement			4
Loss related to assets held for sale	6	27	329
(Gain)/Loss on sale of assets	11	(1)	(155)
Changes in assets and liabilities:			
Prepaids and other assets	(1,028)	(656)	(1,537)
Accounts payable	(159)	450	2,073
Other accrued liabilities	(866)	834	1,030
Net cash used in operating activities	(9,104)	(2,627)	(63,432)
Investing activities			
Purchases of investments	(3,000)		(59,246)
Proceeds from sales/maturities of investments	4,426		39,446
Cash obtained in stock acquisition			2,500
Proceeds from sale of assets		1	952
Purchase of property and equipment	(273)		(572)
Other investing			51
Net cash (used in) provided by investing activities	1,153	1	(16,869)
Financing activities			
Proceeds from initial public offering, net of issuance costs			72,194
			40,799

Proceeds from issuance of preferred stock, net of issuance costs			
Proceeds from exercise of common stock options	52		236
Proceeds from warrant issuance			298
Proceeds from debt issuance with related parties			15,412
Net cash provided by financing activities	52		128,939
Net increase (decrease) in cash and cash equivalents	(7,899)	(2,626)	48,638
Cash and cash equivalents at beginning of period	56,537	6,512	
Cash and cash equivalents at end of period	$ 48,638	$ 3,886	$ 48,638
Supplemental disclosure of cash flow information:			
Conversion of convertible promissory notes, including accrued interest of $923 into Series A preferred stock	$	$ 16,623	$ 16,623
Conversion of convertible long-term Pfizer note, including accrued interest of $274 into Series A-1 preferred stock			7,803

See accompanying notes to the condensed financial statements.

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Esperion Therapeutics, Inc.
(A Development Stage Company)

Notes to the Condensed Financial Statements

(Unaudited)

1. The Company and Basis of Presentation

The Company is a clinical stage biopharmaceutical company focused on developing and commercializing first in class, oral, low density lipoprotein cholesterol (LDL-C) lowering therapies for the treatment of patients with hypercholesterolemia and other cardiometabolic risk markers. ETC-1002, the Company s lead product candidate, is a unique, first in class, orally available, once daily small molecule designed to lower LDL-C levels and avoid the side effects associated with currently available LDL-C lowering therapies. ETC-1002 is being developed primarily for patients intolerant of statins with elevated levels of LDL-C. Phase 2b clinical trials for ETC-1002 are currently underway and build upon a successful and comprehensive Phase 1 and Phase 2 program. The Company owns the exclusive worldwide rights to ETC-1002 and its other product candidates.

HDL Therapeutics, Inc. (HDL) was incorporated in the state of Delaware on January 22, 2008. On April 28, 2008, HDL acquired all of the capital stock of Esperion Therapeutics, Inc. (Esperion), a wholly owned subsidiary of Pfizer Inc. On May 5, 2008, Esperion was merged with and into HDL and the Company assumed the name Esperion Therapeutics, Inc. (the Company). Its facilities are located in Ann Arbor and Plymouth, Michigan.

The Company s primary activities since incorporation have been recruiting personnel, conducting research and development activities, including nonclinical and clinical testing, performing business and financial planning, and raising capital. Accordingly, the Company is considered to be in development stage.

The Company is subject to the risks associated with a development stage entity, which includes 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 finance operations with a combination of public and private equity issuances, debt arrangements, collaborations and strategic and licensing arrangements. 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.

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, 2013 and the notes thereto, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. 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.

Reverse Stock Split

On June 11, 2013, in connection with its initial public offering (the IPO), the Company effectuated a 1-for-6.986 reverse stock split of its outstanding common stock, which was approved by the Company s board of directors on June 5, 2013. The reverse stock split resulted in an adjustment to the Series A preferred stock and Series A-1 preferred stock conversion prices to reflect a proportional decrease in the number of shares of common stock to be issued upon conversion. The accompanying financial statements and notes to the financial statements give effect to the reverse stock split for all periods presented. The shares of common stock retained a par value of $0.001 per share. Accordingly, stockholders equity reflects the reverse stock split by reclassifying from common stock to Additional paid-in capital in an amount equal to the par value of the decreased shares resulting from the reverse stock split.

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Initial Public Offering

On July 1, 2013, the Company completed its IPO whereby the Company sold 5,000,000 shares of common stock at a price of $14.00 per share. The shares began trading on the Nasdaq Global Market on June 26, 2013. On July 11, 2013, the underwriters exercised their over-allotment option in full and purchased an additional 750,000 shares of common stock at a price of $14.00 per share. The Company received approximately $72.2 million in net proceeds from the IPO, including proceeds from the exercise of the underwriters over-allotment option, net of underwriting discounts and commissions and offering expenses. Upon closing of the IPO, all outstanding shares of preferred stock converted into 9,210,999 shares of common stock; and warrants exercisable for convertible preferred stock were automatically converted into warrants exercisable for 277,690 shares of common stock, resulting in the reclassification of the related convertible preferred stock warrant liability of $2.9 million to additional paid-in capital (See Note 4).

The following table summarizes the Company s capitalization upon closing of its initial public offering:

Total common stock issued as of June 30, 2013	396,414
Conversion of Series A preferred stock into common stock upon closing of IPO	8,244,781
Conversion of Series A-1 preferred stock into common stock upon closing of IPO	966,218
Sales of common stock through IPO	5,000,000
Common stock issued as of July 1, 2013	14,607,413
Issuance of common stock to underwriters due to exercise of over-allotment	750,000
Total common stock issued as of July 11, 2013	15,357,413

2. Summary of Significant Accounting Policies

There have been no 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, 2013.

3. Debt

Convertible Notes

In January 2012, the Company issued $6.0 million of 10% convertible promissory notes to certain existing investors for cash. In September and November 2012, the Company issued the aggregate of $9.7 million of 10% convertible promissory notes that mature on September 4, 2013 for cash to certain existing investors. In connection with the September convertible note financing, the Company and the holders of the January 2012 convertible promissory notes agreed to extend the maturity date of the January 2012 notes to September 4, 2013. In February 2013, these convertible promissory notes, with an outstanding principal of $15.7 million and accrued interest of $0.9 million, were amended and then converted into 16,623,092 shares of Series A preferred stock, in accordance with their terms and at their conversion price of $1.00 per share, and following such conversion, the notes were cancelled.

The holders of the September convertible promissory notes received the benefit of a deemed conversion price of the September convertible promissory notes that were below the estimated fair value of the Series A convertible preferred stock at the time of their issuance. The fair value of this beneficial conversion feature was estimated to be $0.3 million. The fair value of this beneficial conversion feature was recorded to debt discount and amortized to interest expense using the effective interest method over the term of the convertible promissory notes. As a result of the conversion of the convertible promissory notes into shares of Series A preferred stock in February 2013, the Company recorded an accretion of the beneficial conversion feature of $0, $0.2 million and $0.3 million as interest expense during the three months ended March 31, 2014 and 2013, and the period from inception through March 31, 2014, respectively.

In connection with the issuance of the September and the November 2012 convertible promissory notes, the Company issued warrants to purchase shares of Series A preferred stock for an aggregate price of $9,700. The estimated fair value of the warrants at issuance was $0.3 million. The proceeds from the sale of the preferred stock and warrants were allocated with $9.4 million to the convertible promissory notes and $0.3 million to warrants. This resulted in a discount on the convertible promissory notes which was amortized into interest expense, using the effective interest method, over the life of the convertible promissory notes (see Note 4). As a result of the conversion of the convertible promissory notes into shares of Series A preferred stock in February 2013, the Company recorded $0, $0.2 million and $0.3 million of interest expense for the accretion of this discount during the three months ended March 31, 2014 and 2013, and the period from inception through March 31, 2014, respectively.

In April 2008, the Company acquired all of the capital stock of Esperion from Pfizer in exchange for a non-subordinated convertible note in the original principal amount of $5.0 million. This convertible promissory note had a maturity date of April 28, 2018. The note bore interest at 8.931% annually, payable semiannually on June 30 and December 31 by adding such unpaid interest to the principal of the note, which would thereafter accrue interest.

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In May 2013 the Company entered into a stock purchase agreement with Pfizer Inc. and sold 6,750,000 shares of Series A-1 preferred stock at a price of $1.1560 per share, which was the fair value at the transaction date. The purchase price was paid through the cancellation of all outstanding indebtedness, including accrued interest, under the Pfizer convertible promissory note, which had an outstanding balance, including accrued interest, of $7.8 million as of May 29, 2013. The Series A-1 preferred stock issued in connection with this transaction was subsequently converted into 966,218 shares of common stock upon completion of the IPO on July 1, 2013.

4. Warrants

In connection with its various financing transactions, the Company issued warrants to purchase shares of preferred stock which had provisions where the underlying issuance was contingently redeemable based on events outside the Company s control and were recorded as a liability in accordance with ASC 480-10. The warrants were classified as liabilities and were recorded on the Company s balance sheet at fair value on the date of issuance and marked- to-market on each subsequent reporting period, with the fair value changes recognized in the statement of operations. Subsequent to the pricing of the IPO, the Company estimated the fair values of the warrants at each reporting period 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 warrants, the risk free interest rate and the fair value of the common stock underlying the warrants. 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 warrants. 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 warrants. The expected remaining life of the warrants is assumed to be equivalent to their remaining contractual term. Prior to the pricing of the IPO, a Monte Carlo valuation model was utilized to estimate the fair value of the warrants based on the probability and timing of future financings.