CORCEPT THERAPEUTICS INC
Form 10-Q
May 10, 2007
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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 31, 2007

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: 000-50679

CORCEPT THERAPEUTICS INCORPORATED

(Exact Name of Corporation as Specified in Its Charter)

Delaware	**77-0487658**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

149 Commonwealth Drive

Menlo Park, CA 94025

(Address of principal executive offices, including zip code)

(650) 327-3270

(Registrant s telephone number, including area code)

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one.)

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated filer 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

On May 7, 2007 there were 34,741,766 shares of common stock outstanding at a par value $.001 per share.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

CONDENSED BALANCE SHEETS

(In thousands)

	March 31, 2007 (Unaudited)	December 31, 2006 (See Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 14,744	$ 8,906
Short-term investments		550
Prepaid expenses and other current assets	368	343
Total current assets	15,112	9,799
Property and equipment, net of accumulated depreciation	35	38
Other assets	61	65
Total assets	$ 15,208	$ 9,902
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 809	$ 916
Accrued clinical expenses	919	2,224
Accrued compensation	133	138
Obligations under capital lease, short-term	13	13
Other accrued liabilities	321	222
Total current liabilities	2,195	3,513
Obligations under capital lease, long-term	26	29
Total liabilities	2,221	3,542
Commitments		
Stockholders equity:		
Preferred stock		
Common stock	35	26
Additional paid-in capital	114,209	105,125
Notes receivable from stockholders	(111)	(125)
Deferred compensation	(173)	(228)
Deficit accumulated during the development stage	(100,973)	(98,438)
Total stockholders equity	12,987	6,360
Total liabilities and stockholders equity	$ 15,208	$ 9,902

See accompanying notes.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,		Period from inception (May 13, 1998) to March 31,
	2007	2006	2007
Collaboration revenue	$ 108	$ 121	$ 401
Operating expenses:			
Research and development*	1,601	5,784	79,398
General and administrative*	1,135	1,316	25,408
Total operating expenses	2,736	7,100	104,806
Loss from operations	(2,628)	(6,979)	(104,405)
Interest and other income, net	96	252	3,691
Other expense	(3)	(3)	(259)
Net loss	$ (2,535)	$ (6,730)	$ (100,973)
Basic and diluted net loss per share	$ (0.10)	$ (0.30)	
Shares used in computing basic and diluted net loss per share	25,932	22,658	
* Includes non-cash stock-based compensation consisting of the following:			
Research and development	$ 29	$ 193	$ 4,560
General and administrative	221	280	6,025
Total non-cash stock-based compensation	$ 250	$ 473	$ 10,585

See accompanying notes.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,		Period from inception (May 13, 1998) to March 31,
	2007	2006	2007
Operating activities			
Net loss	$ (2,535)	$ (6,730)	$ (100,973)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization of property and equipment	3	3	78
Expense related to stock options, net of reversals	250	452	10,230
Expense related to stock issued for services or in conjunction with license agreement		4	75
Expense related to stock issued below fair value		17	522
Interest accrued on convertible promissory note			104
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(25)	(1,125)	(368)
Other assets	4	(3)	(61)
Accounts payable	(107)	682	809
Accrued clinical	(1,305)	1,063	919
Other liabilities	94	(75)	454
Net cash used in operating activities	(3,621)	(5,712)	(88,211)
Investing activities			
Purchases of property and equipment			(54)
Purchases of short-term and long-term investments		(1,299)	(108,346)
Maturities of short-term and long-term investments	550	5,326	108,346
Net cash provided by (used in) investing activities	550	4,027	(54)
Financing activities			
Proceeds from issuance of common stock, net of cash paid for issuance costs	8,898	4	60,935
Proceeds from issuance of convertible preferred stock, net of cash paid for issuance costs			40,378
Proceeds from issuance of convertible notes			1,543
Proceeds from repayment of stockholder notes	14		173

Principal payments of obligations under capital leases	(3)	(3)	(20)
Net cash provided by financing activities	8,909	1	103,009
Net increase (decrease) in cash and cash equivalents	5,838	(1,684)	14,744
Cash and cash equivalents, at beginning of period	8,906	3,816	
Cash and cash equivalents, at end of period	$ 14,744	$ 2,132	$ 14,744

See accompanying notes.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies
Description of Business and Basis of Presentation

Corcept Therapeutics Incorporated (the Company or Corcept) was incorporated in the state of Delaware on May 13, 1998, and its facilities are located in Menlo Park, California. Corcept is a pharmaceutical company engaged in the development of drugs for the treatment of severe psychiatric and metabolic diseases.

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

The accompanying unaudited balance sheet as of March 31, 2007 and statements of operations for the three-month periods ended March 31, 2007 and 2006 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2006 included in the Company s Annual Report on Form 10-K. The accompanying balance sheet as of December 31, 2006 has been derived from audited financial statements at that date.

Management Plans

In the course of its development activities, the Company has sustained operating losses and expects such losses to continue for at least the next several years. The Company plans to continue to finance its operations through the sale of its equity and debt securities. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company s ability to continue as a going concern is dependent upon successful execution of its financing strategy. In March 2007 the Company reported that Study 06, the last of three Phase 3 trials evaluating CORLUX® for treating the psychotic features of Psychotic Major Depression (PMD), like the previous two Phase 3 trials, did not achieve statistical significance with respect to its primary endpoint.

As reflected in the accompanying financial statements as of March 31, 2007, the Company had cash, cash equivalents and investments of $14.7 million, working capital of $12.9 million and an accumulated deficit of $101.0 million. The Company has sufficient funds to maintain its current operations through the completion and reporting of results of the proof-of-concept weight-gain mitigation study, expected during the third quarter of 2007, to prepare for the next Phase 3 trial and to continue development of its new chemical entities.

The Company will need to raise additional funds in order to sustain its operations at anticipated levels beyond early 2008. Although the Company s management recognizes the need to raise funds in the future, there can be no assurance that the Company will be successful in consummating any such transaction, or, if the Company does consummate such a transaction, that the terms and conditions of such financing will not be unfavorable to it. Any failure by the Company to obtain additional funding will have a material adverse effect upon it and will likely result in the Company s inability to continue as a going concern. If the Company is not able to raise additional funds, it will not be able to continue operations beyond the end of the first quarter of 2008.

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

materially from those estimates.

Cost accruals for clinical trials are based upon estimates of work completed under service agreements, milestones achieved, patient enrollment and past experience with similar contracts. The Company s estimates of work completed and associated cost accruals include its assessments of information received from third-party contract research organizations and the overall status of clinical trial activities.

Any changes in estimates are recorded in the period of the change.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS, Continued

Revenue Recognition

Collaboration revenue relates to services rendered in connection with an agreement signed in October 2005 with Eli Lilly and Company (Lilly) in which Lilly has agreed to support the Company s proof-of-concept clinical study evaluating the ability of CORLUX, a GR-II antagonist, to mitigate weight gain associated with the use of olanzapine. Under the agreement, Lilly will supply olanzapine and pay for the study. The Company is required to perform development activities as specified in this agreement and is reimbursed based on the costs associated with the conduct of the trial and the preparation and packaging of clinical trial materials. Revenue is recognized as services are rendered in accordance with the agreement. The cost of providing these research services approximates the revenue recognized. If the costs of the study exceed budgeted amounts, Lilly may not pay for the excess. As of March 31, 2007, the costs have not exceeded the budgeted amounts and the Company does not expect that they will.

Research and Development

Research and development expenses consist of costs incurred for Company-sponsored research and development activities. These costs include direct expenses (including nonrefundable payments to third parties) and research-related overhead expenses, as well as the cost of funding clinical trials, pre-clinical studies, manufacturing development and the contract development of second-generation compounds, and are expensed as incurred. Costs to acquire technologies and materials that are utilized in research and development and that have no alternative future use are expensed when incurred.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be recovered.

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). As a result of the implementation of FIN 48, the Company did not recognize any adjustment to the liability for uncertain tax positions or to its deferred tax assets for unrecognized tax benefits, all of which are currently offset by a full valuation allowance. Therefore, there was no adjustment to the beginning balance of retained earnings on the balance sheet.

No amounts have been recognized as interest or penalties on income tax related matters.

All tax years from inception remain open to examination by the Internal Revenue Service and the California Franchise Tax Board until such time as the net operating losses and research credits are either fully utilized or expire.

Recently Issued Accounting Standards

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* or SAB 108. SAB 108 addresses quantifying the financial statement effects of misstatements: specifically, how the effects of prior year uncorrected misstatements must be considered in quantifying misstatements in the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. We have adopted SAB 108 as of January 1, 2007, as required. There was no material effect on our financial statements from the implementation of SAB 108.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financing Liabilities including an amendment of SFAS Statement No. 115*, or SFAS 159. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and

liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 159 on its financial statements.

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CORCEPT THERAPEUTICS INCORPORATED

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS, Continued

2. Capital Stock

On March 30, 2007, the Company sold 9.0 million shares of common stock at a price of $1.00 per share in a private placement. The net proceeds were approximately $8.9 million after deducting issuance costs.

3. Stock Option Plans

Stock Option Plans

Under the 2004 Equity Incentive Plan (the 2004 Plan) options, stock purchase and stock appreciation rights and restricted stock awards can be issued to employees, officers, directors and consultants of the Company. The 2004 Plan provides that the exercise price for incentive stock options will be no less than 100% of the fair value of the Company s common stock, as of the date of grant. Generally, options granted under the 2004 Plan have a ten year contractual life and vest over either a four or five year period with 20 or 25% of the underlying shares of common stock vesting on the first anniversary of the date of grant and the remainder vesting in subsequent equal monthly installments through the remaining vesting period of the grant. The vesting period is approximately equivalent to the requisite service period. Upon exercise, new shares are issued. Prior to our initial public offering in 2004, options were granted to employees, directors and non-employees under the 2000 Stock Option Plan (the 2000 Plan). Although options are no longer granted under the 2000 Plan, there are still options outstanding under that plan.

On March 1, 2007, the board of directors approved an increase in the shares available for grant under the 2004 Equity Incentive Plan by 514,635 shares, which represents 2% of the common shares outstanding at December 31, 2006.

There were no stock options exercised during the quarter ended March 31, 2007.

Stock-based compensation for employee options

The Company adopted Statement of Financial Accounting Standard 123 (Revised 2004), *Share-Based Payment* (SFAS 123R) as of January 1, 2006 under the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123R for all share-based payments granted or modified after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123R that remain unvested on the effective date. Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation for options granted to employees and directors using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and had adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). Because the Company had used the minimum value method for SFAS 123 pro forma disclosure requirements for options granted prior to the initial public offering of its common stock (IPO) in 2004, it continues to account for the portion of these pre-IPO grants that were non-vested as of January 1, 2006 under the provisions of APB 25 and related Interpretations, with pro forma disclosures under SFAS 123.

Pro-forma net loss information required under SFAS123 for options accounted for under the intrinsic value method

The following table presents the pro forma net loss information required under SFAS 123, as amended by SFAS 148. In the pro forma calculation, amortization related to options to employees a