MERRIMACK PHARMACEUTICALS INC Form 10-Q November 07, 2018

UNITED STATES

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 EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2018

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: 001-35409

Merrimack Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware 04-3210530 (State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

One Kendall Square, Suite B7201 02139

Cambridge, MA (Address of principal executive offices) (Zip Code)

(617) 441-1000

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2018, there were 13,342,784 shares of Common Stock, \$0.01 par value per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," " similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this Quarterly Report on Form 10-Q include, among other things, statements about:

- our plans to develop and commercialize our clinical stage product candidates and diagnostics;
- our ongoing and planned discovery programs, preclinical studies and clinical trials;
- the timing of the completion of our clinical trials and the availability of results from such trials;

the anticipated cost savings in connection with our restructuring efforts;

our ability to establish and maintain collaborations for our product candidates;

our receipt of payments related to the milestone events under the asset purchase and sale agreement with Ipsen S.A. or under the license and collaboration agreement between Ipsen S.A. and Les Laboratoires Servier SAS (as assignee from Shire plc), when expected or at all;

the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;

the rate and degree of market acceptance and clinical utility of our product candidates;

our intellectual property position;

our commercialization, marketing and manufacturing capabilities and strategy;

the potential advantages of our approach to drug research and development; and

our estimates regarding expenses, future revenues, capital requirements and needs for additional financing. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A. Risk Factors, that could cause actual results or events to differ materially from the forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, collaborations or investments that we may make.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

NOTE REGARDING TRADEMARKS

ONIVYDE[®] is a trademark of Ipsen S.A. Any other trademarks, trade names and service marks referred to in this Quarterly Report on Form 10-Q are the property of their respective owners.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Merrimack Pharmaceuticals, Inc. Condensed Consolidated Balance Sheets

(unaudited)

	September 30,	December 31,
(in thousands, except per share amounts)	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,794	\$ 93,441
Marketable securities	35,052	
Restricted cash	584	
Prepaid expenses and other current assets	1,837	1,605
Total current assets	87,267	95,046
Restricted cash		674
Property and equipment, net	3,188	6,467
Equity method investment	8,893	10,551
Other assets	4,568	4,588
Total assets	\$ 103,916	\$ 117,326
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other	\$ 19,049	\$ 17,606
Accrued intraperiod tax allocation	1,340	—
Deferred rent	1,676	2,171
Total current liabilities	22,065	19,777
Deferred rent, net of current portion		1,209
Notes payable, net of discount	14,752	—
Other long-term liabilities	56	56
Total liabilities	36,873	21,042
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 10,000 shares authorized at September 30, 2018 and		
December 31, 2017; no shares issued or outstanding at September 30, 2018 or		
December 31, 2017 Common stock \$0.01 ner value: 30.000 shares authorized at Sentember 30, 2018 and	 1.227	 1 224
Common stock, \$0.01 par value: 30,000 shares authorized at September 30, 2018 and 20,000 shares authorized at December 31, 2017; 13,343 shares issued and	1,334	1,334

outstanding

580,047

(514,333

67,043

\$ 103,916

(5

577,721

(482,771

96,284

\$ 117,326

)

)

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at September 30, 2018 and December 31, 2017 Additional paid-in capital Accumulated deficit Accumulated other comprehensive loss Total stockholders' equity Total liabilities and stockholders' equity

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

Merrimack Pharmaceuticals, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(unaudited)

	Three Months Ended	Nine Months Ended
	September 30,	September 30,
(in thousands, except per share amounts)	2018 2017	2018 2017
Operating expenses:		
Research and development expenses	\$12,959 \$13,598	\$39,743 \$54,954
General and administrative expenses	3,777 3,366	11,560 23,798
Total operating expenses	16,736 16,964	51,303 78,752
Loss from continuing operations	(16,736) (16,964) (51,303) (78,752)
Other income and expenses:		
Interest income	306 250	863 646
Interest expense	(472) (1,659	
Gain on deconsolidation of Silver Creek Pharmaceuticals, Inc.	— 10,848	— 10,848
Gain on sale of asset		— 1,703
Other income (expense), net	(237) 69	(1,778) (592)
Total other income and expenses	(403) 9,508	(1,387) (17,795)
Net loss from continuing operations before income tax benefit	(17,139) (7,456) (52,690) (96,547)
Income tax benefit	4,798 2,133	4,798 32,372
Net loss from continuing operations	(12,341) (5,323) (47,892) (64,175)
Discontinued operations:		
Income from discontinued operations, net of tax	16,330 8,456	16,330 547,994
Net income (loss)	3,989 3,133	(31,562) 483,819
Net income (loss) attributable to non-controlling interest	— 31	— (1,160)
Net income (loss) attributable to Merrimack Pharmaceuticals, Inc.	\$3,989 \$3,102	\$(31,562) \$484,979
Other comprehensive income (loss):		
Unrealized loss on marketable securities	(4) —	(5) —
Other comprehensive income (loss)	(4) —	(5) —
Comprehensive income (loss)	\$3,985 \$3,102	\$(31,567) \$484,979
Amounts attributable to Merrimack Pharmaceuticals, Inc.:		
Net loss from continuing operations	\$(12,341) \$(5,354) \$(47,892) \$(63,015)
Income from discontinued operations, net of tax	16,330 8,456	16,330 547,994
Income (loss) attributable to Merrimack Pharmaceuticals, Inc.	\$3,989 \$3,102	\$(31,562) \$484,979
Basic and dilutive net income (loss) per common share		
Net loss from continuing operations	\$(0.92) \$(0.40)) \$(3.59) \$(4.77)
Net income from discontinued operations, net of tax	1.22 0.64	1.22 41.52
Net income (loss) per share	\$0.30 \$0.24	\$(2.37) \$36.75
Weighted-average common shares used per share calculations—basic ar		13,343 13,197

Cash dividend paid per common share \$ \$	\$—	\$10.55

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

Merrimack Pharmaceuticals, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

Nine Months Ended

(in thousands)	Septe 2018	mber 30,		20	17	
Cash flows from						
operating activities						
Net (loss) income	\$	(31,562)	\$	483,819	
Less:						
Gain from discontinued						
operations		16,330			547,994	
Loss from continuing						
operations		(47,892)		(64,175)
Adjustments to reconcile						
net (loss) income to net						
cash used in operating						
activities						
Non-cash interest						
expense		121			3,352	
Loss on extinguishment						
of debt					25,011	
Benefit from intraperiod						
tax allocation		(4,798)		(32,372)
Depreciation and						
amortization expense		3,211			2,813	
Non-cash activity related						
to discontinued		(500			10.011	
operations		(532)		10,241	
Gain on deconsolidation						
of Silver Creek					(10.040	ς.
Pharmaceuticals, Inc.		—			(10,848)
Loss (gain) on sale of		104			(120	`
property and equipment		184			(439)
Premiums paid on			``			
marketable securities		(2)			
Amortization and						
accretion on marketable		(200	``			
securities		(398)		<u> </u>	
Stock-based		0.007			11 110	
compensation expense		2,326			11,110	
Loss on equity method		1 (50				
investment		1,658			—	

Changes in operating				
assets and liabilities:				
Prepaid expenses and				
other assets	(314)	(6,120)
Income taxes payable	361		1,844	
Accounts payable,				
accrued expenses and				
other	1,083			