

JAZZ PHARMACEUTICALS INC  
Form 10-Q  
November 14, 2008  
Table of Contents

**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, 2008

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: 001-33500

**JAZZ PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: JAZZ PHARMACEUTICALS INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**05-0563787**  
(I.R.S. Employer

Identification No.)

**3180 Porter Drive**

**Palo Alto, CA 94304**

**(650) 496-3777**

(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 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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting company

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 October 31, 2008, 28,775,217 shares of the registrant's Common Stock, \$.0001 par value, were outstanding.

**Table of Contents**

**JAZZ PHARMACEUTICALS, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

**INDEX**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets – September 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4T. <u>Controls and Procedures</u>	29
<b><u>PART II OTHER INFORMATION</u></b>	<b>30</b>
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 5. <u>Other Information</u>	50
Item 6. <u>Exhibits</u>	51
<u>Signatures</u>	53
<u>Exhibit Index</u>	54

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****JAZZ PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49,907	\$ 102,945
Restricted cash	1,998	1,939
Marketable securities	999	
Accounts receivable, net of allowances of \$173 and \$218 at September 30, 2008 and December 31, 2007, respectively	6,686	5,389
Inventories	6,264	2,213
Prepaid expenses	3,114	3,224
Other current assets	736	381
Total current assets	69,704	116,091
Property and equipment, net	3,708	3,941
Intangible assets, net	65,663	36,040
Goodwill	38,213	38,213
Long-term restricted cash and investments		12,000
Other long-term assets	2,505	1,269
Total assets	\$ 179,793	\$ 207,554
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Line of credit	\$ 3,265	\$ 3,459
Accounts payable	6,614	2,856
Accrued liabilities	23,161	29,047
Purchased product rights liability	21,000	
Deferred revenue	12,400	1,494
Total current liabilities	66,440	36,856
Non-current portion of deferred revenue	11,614	12,468
Liability under government settlement	13,063	14,881
Senior secured notes (including \$91,583 and \$52,581 as of September 30, 2008 and December 31, 2007, respectively, held by related parties)	113,614	75,116
Common stock subject to repurchase	13,241	13,241
Commitments and contingencies (Note 15)		
Stockholders' equity (deficit):		
Common stock	3	2
Additional paid-in capital	405,689	371,440
Accumulated other comprehensive income (loss)	(3)	19

Edgar Filing: JAZZ PHARMACEUTICALS INC - Form 10-Q

Accumulated deficit	(443,868)	(316,469)
Total stockholders' equity (deficit)	(38,179)	54,992
Total liabilities and stockholders' equity (deficit)	\$ 179,793	\$ 207,554

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

**Table of Contents****JAZZ PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>				
Product sales, net	\$ 17,022	\$ 13,436	\$ 45,757	\$ 38,676
Royalties, net	440	253	1,308	824
Contract revenues	284	7,785	854	10,326
<b>Total revenues</b>	<b>17,746</b>	<b>21,474</b>	<b>47,919</b>	<b>49,826</b>
<b>Operating expenses:</b>				
Cost of product sales (excluding amortization of acquired developed technology)	5,525	1,938	10,619	5,620
Research and development	12,149	16,978	55,274	49,252
Selling, general and administrative	24,329	18,069	91,218	50,583
Amortization of intangible assets	3,487	2,287	9,454	6,936
Provision for government settlement				17,469
<b>Total operating expenses</b>	<b>45,490</b>	<b>39,272</b>	<b>166,565</b>	<b>129,860</b>
<b>Loss from operations</b>	<b>(27,744)</b>	<b>(17,798)</b>	<b>(118,646)</b>	<b>(80,034)</b>
Interest income	353	1,969	1,700	4,360
Interest expense (including \$4,096 and \$2,321 for the three months ended September 30, 2008 and 2007, respectively, and \$10,960 and \$6,862 for the nine months ended September 30, 2008 and 2007, respectively, pertaining to related parties)	(5,355)	(3,511)	(14,377)	(10,093)
Other income (expense), net	19	(19)	6	1,816
Gain on sale of product rights	3,918		3,918	5,145
<b>Net loss</b>	<b>\$ (28,809)</b>	<b>\$ (19,359)</b>	<b>\$ (127,399)</b>	<b>\$ (78,806)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (1.07)</b>	<b>\$ (0.82)</b>	<b>\$ (5.12)</b>	<b>\$ (7.50)</b>
<b>Weighted-average common shares used in computing net loss per share, basic and diluted</b>	<b>26,994</b>	<b>23,671</b>	<b>24,873</b>	<b>10,505</b>

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

**Table of Contents****JAZZ PHARMACEUTICALS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Net loss	\$ (127,399)	\$ (78,806)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,760	921
Amortization of intangible assets	9,454	6,937
Loss on disposal of property and equipment	138	6
Fair value adjustment to acquired finished goods		54
Stock-based compensation expense	5,790	3,773
Non-cash interest expense	1,435	802
Revaluation of preferred stock warrant liability		(1,846)
Gain on sale of product rights	(3,918)	(5,145)
Changes in assets and liabilities:		
Accounts receivable	(1,297)	(1,177)
Inventories	(4,084)	(567)
Prepaid expenses and other current assets	(258)	(32)
Other assets	(341)	(318)
Accounts payable	3,758	(2,571)
Accrued liabilities	(4,718)	10,342
Deferred revenue	10,052	(166)
Deferred rent		(118)
Liability under government settlement	(1,818)	14,881
Net cash used in operating activities	(111,446)	(53,030)
<b>Investing activities</b>		
Purchases of property and equipment	(1,665)	(2,106)
Transfer of long-term restricted investments to marketable securities	(4,410)	(10,848)
Proceeds from maturities of marketable securities	3,411	
Decrease (increase) in restricted cash and investments	11,941	(114)
Proceeds from sale of product rights	5,775	9,000
Purchase of product rights	(20,000)	
Net cash used in investing activities	(4,948)	(4,068)
<b>Financing activities</b>		
Proceeds from employee stock purchases and exercise of stock options	976	76
Proceeds from sale of common stock in initial public offering, net of issuance costs		97,640
Net (repayments under) proceeds from line of credit	(194)	406
Proceeds from sale of senior secured notes and warrants, net of issuance costs	38,566	
Repayment of senior secured notes	(504)	
Proceeds from sale of common stock in registered direct public offering, net of issuance costs	24,512	
Net cash provided by financing activities	63,356	98,122
Net increase (decrease) in cash and cash equivalents	(53,038)	41,024

## Edgar Filing: JAZZ PHARMACEUTICALS INC - Form 10-Q

Cash and cash equivalents, at beginning of period	102,945	78,948
Cash and cash equivalents, at end of period	\$ 49,907	\$ 119,972
Supplemental disclosure of non-cash financing and investing activities:		
Conversion of preferred stock warrant liability to stockholders' equity	\$	\$ 6,675
Purchased product rights liability	21,000	
Warrants to purchase common stock issued in conjunction with registered direct public offering	6,400	
Warrants to purchase common stock issued in conjunction with senior secured notes	2,000	
Warrants to purchase common stock issued in conjunction with equity financing facility	850	
Common stock issued as employee bonuses	999	

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

**Table of Contents**

**JAZZ PHARMACEUTICALS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**