

TERCICA INC  
Form 10-Q  
May 13, 2004  
Table of Contents

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the Quarterly Period Ended March 31, 2004

OR

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

Commission File Number 000-50461

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**TERCICA, INC.**

(Exact name of Registrant as specified in its charter)

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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)

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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 April 30, 2004 there were 24,530,503 shares of the Registrant's Common Stock outstanding.

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**Table of Contents**

**TERCICA, INC.**

**(A DEVELOPMENT STAGE COMPANY)**

**INDEX**

	<b><u>Page</u></b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. <b><u>FINANCIAL STATEMENTS (Unaudited)</u></b>	
<b><u>Condensed Balance Sheets</u></b> March 31, 2004 and December 31, 2003	3
<b><u>Condensed Statements of Operations</u></b> Three months ended March 31, 2004 and 2003	4
<b><u>Condensed Statements of Cash Flows</u></b> Three months ended March 31, 2004 and 2003	5
<b><u>Notes to Condensed Financial Statements</u></b>	6
ITEM 2. <b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	12
ITEM 3. <b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	28
ITEM 4. <b><u>CONTROLS AND PROCEDURES</u></b>	28
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 2. <b><u>CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES</u></b>	29
ITEM 4. <b><u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></b>	29
ITEM 6. <b><u>EXHIBITS AND REPORTS ON FORM 8-K</u></b>	29
<b><u>Signatures</u></b>	31

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,709	\$ 12,049
Short-term investments	44,442	25,264
Stock subscription receivable	6,905	
Prepaid expenses and other current assets	1,195	2,772
	<u>          </u>	<u>          </u>
Total current assets	81,251	40,085
Property and equipment, net	2,380	2,314
Other assets	50	85
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 83,681</u>	<u>\$ 42,484</u>
<b>Liabilities and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 3,856	\$ 5,351
Accrued expenses	657	1,214
Liability for early exercise of stock options	198	174
	<u>          </u>	<u>          </u>
Total current liabilities	4,711	6,739
Liability for early exercise of stock options noncurrent portion	298	306
<b>Commitments and contingencies</b>		
Series A convertible preferred stock		24,853
Series B convertible preferred stock		43,784
Stockholders equity (deficit):		
Common stock	24	2

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Additional paid-in capital	174,056	51,308
Deferred stock compensation	(9,215)	(5,984)
Accumulated other comprehensive income (loss)	3	(18)
Deficit accumulated during the development stage	(86,196)	(78,506)
	<u>78,672</u>	<u>(33,198)</u>
Total stockholders' equity (deficit)		
	<u>\$ 83,681</u>	<u>\$ 42,484</u>

*See accompanying notes.*

Table of Contents**TERCICA, INC.****(A DEVELOPMENT STAGE COMPANY)****CONDENSED STATEMENTS OF OPERATIONS****(In thousands, except share and per share data)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Period from</b>
	<b>March 31,</b>		<b>October 1, 2000</b>
			<b>(inception)</b>
			<b>through</b>
	<b>2004</b>	<b>2003</b>	<b>March 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>
Costs and expenses:			
Research and development*	\$ 5,674	\$ 2,255	\$ 27,380
Selling, general and administrative*	1,881	699	9,320
Acquired in-process research and development	250		6,990
Total costs and expenses	(7,805)	(2,954)	(43,690)
Interest expense			(106)
Interest and other income, net	115	44	629
Net loss	(7,690)	(2,910)	(43,167)
Deemed dividend related to beneficial conversion feature of convertible preferred stock			(44,153)
Net loss allocable to common stockholders	\$ (7,690)	\$ (2,910)	\$ (87,320)
Basic and diluted net loss per share allocable to common stockholders	\$ (1.47)	\$ (1.77)	
Shares used to compute basic and diluted net loss per share allocable to common stockholders	5,235,759	1,644,182	
Pro forma basic and diluted net loss per share allocable to common stockholders	\$ (0.42)	\$ (0.36)	
Shares used to compute pro forma basic and diluted net loss per share allocable to common stockholders	18,179,635	8,070,842	

\* Includes non-cash stock-based compensation expense as follows:

Research and development	\$ 390	\$ 34	\$ 1,039
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Selling, general and administrative	392		647
Total	\$ 782	\$ 34	\$ 1,686

*See accompanying notes.*

Table of Contents**TERCICA, INC.****(A DEVELOPMENT STAGE COMPANY)****CONDENSED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Three Months Ended March 31,</b>		<b>Period from October 1, 2000 (inception) through</b>
	<b>2004</b>	<b>2003</b>	<b>March 31, 2004</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (7,690)	\$ (2,910)	\$ (43,167)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	94	8	205
Property and equipment written-off			8
Amortization of deferred stock compensation	755	10	1,659
Amortization of premiums relating to available-for-sale securities	283		753
Stock compensation to consultants in exchange for services	27	24	177
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	1,611	275	(1,245)
Accounts payable	(1,495)	617	3,856
Accrued expenses	(558)	33	657
Net cash used in operating activities	(6,973)	(1,943)	(32,791)
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(160)	(498)	(2,593)
Purchases of available-for-sale securities	(19,440)		(48,693)
Proceeds from sale of available-for-sale securities			3,500
Net cash used in investing activities	(19,600)	(498)	(47,786)
<b>Cash flows from financing activities:</b>			
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			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		206	88



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Proceeds from early exercised options	40		551
Net proceeds from initial public offering of common stock	43,193		43,192
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by financing activities	43,233	206	109,286
	<u>          </u>	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	16,660	(2,235)	28,709
Cash and cash equivalents, beginning of period	12,049	15,871	
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 28,709	\$ 13,636	\$ 28,709
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Supplemental schedule of noncash activities:</b>			
Issuance of stock in exchange for intellectual property	\$	\$	\$ 130
Issuance of Series A convertible preferred stock to a collaboration partner in exchange for acquired in-process research and development	\$	\$	\$ 4,071
Issuance of warrants in connection with convertible note	\$	\$	\$ 105
Issuance of warrants as commissions in connection with Series A preferred stock financing	\$	\$	\$ 41
Conversion of convertible note into Series A convertible preferred stock			