

ZOGENIX, INC.  
Form 10-Q  
November 08, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016  
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: 001-34962

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Zogenix, Inc.  
(Exact Name of Registrant as Specified in its Charter)

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|   |   |
|---|---|
| Delaware  | 20-5300780                              |
| (State or Other Jurisdiction of<br>Incorporation or Organization) | (I.R.S. Employer<br>Identification No.) |

|  |            |
|--|------------|
| 5858 Horton Street, #455                             | 94608      |
| Emeryville, California                               |            |
| (Address of Principal Executive Offices)             | (Zip Code) |
| 510-550-8300   |            |
| (Registrant's Telephone Number, Including Area Code) |            |

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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 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  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

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The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of November 3, 2016 was 24,790,989.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

Zogenix, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In Thousands)

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 109,866            | \$ 155,349           |
| Restricted cash  | —                     | 10,002               |
| Trade accounts receivable, net   | 6,524                 | 1,396                |
| Inventory  | 9,412                 | 12,030               |
| Prepaid expenses and other current assets  | 9,467                 | 5,518                |
| Current assets of discontinued operations  | 6                     | 208                  |
| Total current assets   | 135,275               | 184,503              |
| Property and equipment, net  | 8,358                 | 9,254                |
| Intangible assets  | 102,500               | 102,500              |
| Goodwill   | 6,234                 | 6,234                |
| Other assets   | 3,470                 | 3,331                |
| Total assets   | \$ 255,837            | \$ 305,822           |
| Liabilities and stockholders' equity   |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable   | \$ 3,107              | \$ 5,290             |
| Accrued expenses   | 4,883                 | 4,617                |
| Accrued compensation   | 2,690                 | 3,711                |
| Common stock warrant liabilities   | 1,048                 | 6,196                |
| Long-term debt, current portion  | —                     | 6,321                |
| Deferred revenue   | 1,194                 | 945                  |
| Current liabilities of discontinued operations   | 1,203                 | 2,906                |
| Total current liabilities  | 14,125                | 29,986               |
| Long term debt   | 21,845                | 15,899               |
| Deferred revenue, less current portion   | 4,986                 | 6,139                |
| Contingent purchase consideration  | 53,800                | 51,000               |
| Deferred income taxes  | 17,425                | 18,450               |
| Other long-term liabilities  | 1,739                 | 1,588                |
| Stockholders' equity:  |                       |                      |
| Common stock, \$0.001 par value; 50,000 shares authorized at September 30, 2016 and December 31, 2015; 24,791 and 24,772 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 25                    | 25                   |
| Additional paid-in capital   | 563,623               | 558,251              |
| Accumulated deficit  | (421,731              | ) (375,516 )         |
| Total stockholders' equity   | 141,917               | 182,760              |
| Total liabilities and stockholders' equity   | \$ 255,837            | \$ 305,822           |
| See accompanying notes.  |                       |                      |



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Zogenix, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In Thousands, except Per Share Amounts)

(Unaudited)

|  | Three Months Ended |            | Nine Months Ended |           |
|--|--------------------|------------|-------------------|-----------|
|  | September 30,      |            | September 30,     |           |
|  | 2016               | 2015       | 2016              | 2015      |
| Revenue:   |                    |            |                   |           |
| Contract manufacturing revenue                                 | \$6,345            | \$8,860    | \$17,537          | \$19,044  |
| Service and other product revenue                              | 225                | 260        | 327               | 2,057     |
| Total revenue  | 6,570              | 9,120      | 17,864            | 21,101    |
| Operating expense:   |                    |            |                   |           |
| Cost of contract manufacturing                                 | 6,391              | 7,780      | 16,256            | 17,506    |
| Royalty expense  | 78                 | 106        | 224               | 249       |
| Research and development                                       | 10,076             | 7,919      | 28,447            | 19,310    |
| Selling, general and administrative                            | 6,538              | 5,696      | 19,506            | 19,547    |
| Change in fair value of contingent consideration               | 200                | (300 )     | 2,800             | (1,900 )  |
| Total operating expense  | 23,283             | 21,201     | 67,233            | 54,712    |
| Loss from operations   | (16,713 )          | (12,081 )  | (49,369 )         | (33,611 ) |
| Other income (expense):  |                    |            |                   |           |
| Interest expense, net  | (567 )             | (718 )     | (1,788 )          | (2,259 )  |
| Loss on short-term investments                                 | —                  | (5,485 )   | —                 | (5,485 )  |
| Change in fair value of warrant liabilities                    | (356 )             | (296 )     | 5,148             | (861 )    |
| Other (income) expense   | 25                 | 103        | 2                 | (55 )     |
| Total other income (expense)                                   | (898 )             | (6,396 )   | 3,362             | (8,660 )  |
| Net loss from continuing operations before income taxes        | (17,611 )          | (18,477 )  | (46,007 )         | (42,271 ) |
| Income tax benefit   | 993                | 5,496      | 922               | 12,428    |
| Net loss from continuing operations                            | (16,618 )          | (12,981 )  | (45,085 )         | (29,843 ) |
| Discontinued operations:                                       |                    |            |                   |           |
| Net income (loss) from discontinued operations                 | (379 )             | (1,635 )   | (1,130 )          | 64,829    |
| Net income (loss)  | \$(16,997)         | \$(14,616) | \$(46,215)        | \$34,986  |
| Net income (loss) per share, basic and diluted: <sup>(1)</sup> |                    |            |                   |           |
| Continuing operations  | \$(0.67 )          | \$(0.57 )  | \$(1.82 )         | \$(1.47 ) |
| Discontinued operations  | \$(0.02 )          | \$(0.07 )  | \$(0.05 )         | \$3.19    |
| Total  | \$(0.69 )          | \$(0.65 )  | \$(1.87 )         | \$1.72    |
| Weighted average shares outstanding, basic and diluted         | 24,791             | 22,613     | 24,780            | 20,332    |
| Statements of Comprehensive Income (Loss)                      |                    |            |                   |           |
| Net income (loss)  | \$(16,997)         | \$(14,616) | \$(46,215)        | \$34,986  |
| Other comprehensive income (loss):                             |                    |            |                   |           |
| Unrealized loss on available-for-sale securities               | —                  | (3,933 )   | —                 | (5,485)   |