

SEATTLE GENETICS INC /WA
Form 10-Q
November 07, 2012
Table of Contents

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, 2012

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 0-32405

SEATTLE GENETICS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: SEATTLE GENETICS INC /WA - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1874389
(I.R.S. Employer
Identification No.)

21823 30th Drive SE

Bothell, Washington 98021

(Address of principal executive offices, including zip code)

(Registrant's telephone number, including area code): **(425) 527-4000**

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 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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 November 1, 2012, there were 119,093,407 shares of the registrant's common stock outstanding.

Table of Contents

Seattle Genetics, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2012

INDEX

	Page
PART I. FINANCIAL INFORMATION (Unaudited)	
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	4
<u>Condensed Consolidated Statements of Cash Flows</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>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
PART II. OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	23
Item 6. <u>Exhibits</u>	41
<u>SIGNATURES</u>	42
<u>EXHIBIT INDEX</u>	43

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**
Seattle Genetics, Inc.**Condensed Consolidated Balance Sheets****(Unaudited)****(In thousands, except par value)**

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 54,931	\$ 87,634
Short-term investments	259,003	243,062
Interest receivable	1,496	641
Accounts receivable, net	35,156	54,955
Inventories	34,296	9,469
Prepaid expenses and other current assets	4,696	3,820
Total current assets	389,578	399,581
Property and equipment, net	20,348	19,652
Other non-current assets	5,404	5,983
Total assets	\$ 415,330	\$ 425,216
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 42,525	\$ 53,048
Current portion of deferred revenue	32,011	38,092
Total current liabilities	74,536	91,140
Long-term liabilities		
Deferred revenue, less current portion	113,179	110,013
Deferred rent and other long-term liabilities	5,039	5,214
Total long-term liabilities	118,218	115,227
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.001 par value, 5,000 shares authorized; none issued	0	0
Common stock, \$0.001 par value, 250,000 shares authorized; 119,014 shares issued and outstanding at September 30, 2012 and 116,023 shares issued and outstanding at December 31, 2011	119	116
Additional paid-in capital	879,630	832,713
Accumulated other comprehensive income	13	20
Accumulated deficit	(657,186)	(614,000)
Total stockholders' equity	222,576	218,849

Edgar Filing: SEATTLE GENETICS INC /WA - Form 10-Q

Total liabilities and stockholders' equity	\$ 415,330	\$ 425,216
--	------------	------------

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

Table of Contents**Seattle Genetics, Inc.****Condensed Consolidated Statements of Comprehensive Loss****(Unaudited)****(In thousands, except per share amounts)**

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Net product sales	\$ 33,658	\$ 10,047	\$ 102,845	\$ 10,047
Collaboration and license agreement revenues	14,476	10,619	41,119	35,844
Royalty revenues	1,698	0	2,936	0
Total revenues	49,832	20,666	146,900	45,891
Costs and expenses				
Cost of sales	2,742	724	8,808	724
Cost of royalty revenues	613	0	1,115	0
Research and development	41,392	41,080	122,634	123,157
Selling, general and administrative	18,842	19,795	60,889	47,705
Total costs and expenses	63,589	61,599	193,446	171,586
Loss from operations	(13,757)	(40,933)	(46,546)	(125,695)
Investment and other income, net	105	248	3,360	830
Net loss	\$ (13,652)	\$ (40,685)	\$ (43,186)	\$ (124,865)
Net loss per share basic and diluted	\$ (0.12)	\$ (0.35)	\$ (0.37)	\$ (1.11)
Shares used in computation of net loss per share basic and diluted	118,471	114,727	117,361	112,435
Comprehensive loss:				
Net loss	\$ (13,652)	\$ (40,685)	\$ (43,186)	\$ (124,865)
Other comprehensive gain (loss) unrealized gain (loss) on securities available for sale	50	(413)	(7)	(244)
Comprehensive loss	\$ (13,602)	\$ (41,098)	\$ (43,193)	\$ (125,109)

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

Table of Contents**Seattle Genetics, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	Nine months ended September 30,	
	2012	2011
Operating activities		
Net loss	\$ (43,186)	\$ (124,865)
Adjustments to reconcile net loss to net cash used in operating activities		
Share-based compensation expense	17,909	14,020
Depreciation and amortization	4,562	2,779
Amortization of premiums, accretion of discounts and gain on investments	1,770	3,206
Deferred rent and other long-term liabilities	(175)	520
Changes in operating assets and liabilities		
Interest receivable	(855)	(232)
Accounts receivable	19,799	3,832
Inventories	(24,827)	(3,428)
Prepaid expenses and other current assets	(876)	(3,079)
Accounts payable and accrued liabilities	(10,523)	12,504
Deferred revenue	(2,915)	7,804
Net cash used in operating activities	(39,317)	(86,939)
Investing activities		
Purchases of securities available for sale	(346,394)	(384,073)
Proceeds from maturities of securities available for sale	317,851	391,953
Proceeds from sales of securities available-for-sale	10,825	0
Purchases of property and equipment	(4,679)	(5,016)
Purchases of other non-current assets	0	(5,762)
Net cash used in investing activities	(22,397)	(2,898)
Financing activities		
Net proceeds from issuance of common stock	0	168,053
Proceeds from exercise of stock options and employee stock purchase plan	29,011	12,762
Net cash provided by financing activities	29,011	180,815
Net increase (decrease) in cash and cash equivalents	(32,703)	90,978
Cash and cash equivalents at beginning of period	87,634	21,127
Cash and cash equivalents at end of period	\$ 54,931	\$ 112,105

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

Table of Contents

Seattle Genetics, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of presentation and summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements reflect the accounts of Seattle Genetics, Inc. and its wholly-owned subsidiary, Seattle Genetics UK, Ltd. (collectively "Seattle Genetics" or the "Company"). The condensed consolidated balance sheet data as of December 31, 2011 were derived from audited financial statements not included in this quarterly report on Form 10-Q. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, and generally accepted accounting principles in the United States of America, or GAAP, for unaudited condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented. Management has determined that the Company operates in one segment: the development and sale of pharmaceutical products on its own behalf or in collaboration with others.

Unless indicated otherwise, all amounts presented in financial tables are presented in thousands, except for per share and par value amounts.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of the Company's operations for the three and nine month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year.

Revenue recognition

The Company's revenues are comprised of ADCETRIS net product sales, amounts earned under its collabo