

MERRIMACK PHARMACEUTICALS INC  
Form 10-Q  
August 11, 2014  
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**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 June 30, 2014**

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

**04-3210530**  
**(I.R.S. Employer**  
**Identification Number)**

**One Kendall Square, Suite B7201**

**Cambridge, MA**  
**(Address of principal executive offices)**

**02139**  
**(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 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

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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 July 31, 2014, there were 104,587,587 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, 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 most advanced product candidates and companion 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;

our collaboration with PharmaEngine, Inc. related to MM-398;

our collaboration with Sanofi related to MM-121, including the termination of such collaboration;

our ability to establish and maintain additional collaborations;

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 products;

our intellectual property position;

our commercialization, marketing and manufacturing capabilities and strategy;

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

the potential use of our Network Biology approach in fields other than oncology; 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 that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make.

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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.

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## PART I

## FINANCIAL INFORMATION

**Item 1. Financial Statements.**  
**Merrimack Pharmaceuticals, Inc.**

**Condensed Consolidated Balance Sheets**

(in thousands, except par value)

(unaudited)	June 30, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,751	\$ 65,086
Available-for-sale securities	14,995	90,116
Restricted cash	101	101
Accounts receivable	6,605	5,857
Prepaid expenses and other current assets	4,396	5,484
Total current assets	103,848	166,644
Restricted cash	584	584
Property and equipment, net	13,731	13,364
Other assets	160	175
Intangible assets, net	1,685	1,845
In-process research and development	6,200	6,200
Goodwill	3,605	3,605
<b>Total assets</b>	<b>\$ 129,813</b>	<b>\$ 192,417</b>
<b>Liabilities, Non-Controlling Interest and Stockholders Deficit</b>		
Current liabilities:		
Accounts payable, accrued expenses and other	\$ 32,208	\$ 38,814
Deferred revenues	46,283	9,336
Deferred rent	1,310	1,336
Long-term debt, current portion	11,052	8,248
Total current liabilities	90,853	57,734
Deferred revenues, net of current portion	3,023	66,139
Deferred rent, net of current portion	5,987	6,538



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Deferred tax incentives, net of current portion	740	507
Long-term debt, net of current portion	105,135	103,427
Accrued interest	1,200	1,200
<b>Total liabilities</b>	<b>206,938</b>	<b>235,545</b>
<b>Commitments and contingencies (Note 10)</b>		
Non-controlling interest	(13)	337
<b>Stockholders' deficit:</b>		
Preferred stock, \$0.01 par value: 10,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued or outstanding at June 30, 2014 or December 31, 2013		
Common stock, \$0.01 par value: 200,000 shares authorized at June 30, 2014 and December 31, 2013; 104,513 and 102,523 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	1,045	1,025
Additional paid-in capital	539,785	527,779
Accumulated other comprehensive loss	(3)	(24)
Accumulated deficit	(617,939)	(572,245)
<b>Total stockholders' deficit</b>	<b>(77,112)</b>	<b>(43,465)</b>
<b>Total liabilities, non-controlling interest and stockholders' deficit</b>	<b>\$ 129,813</b>	<b>\$ 192,417</b>

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

**Table of Contents****Merrimack Pharmaceuticals, Inc.****Condensed Consolidated Statements of Comprehensive Loss**

(in thousands, except per share amounts) (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Collaboration revenues	\$ 27,815	\$ 18,452	\$ 40,849	\$ 33,107
Operating expenses:				
Research and development	33,795	42,465	64,119	79,454
General and administrative	7,921	5,095	14,145	10,027
<b>Total operating expenses</b>	<b>41,716</b>	<b>47,560</b>	<b>78,264</b>	<b>89,481</b>
Loss from operations	(13,901)	(29,108)	(37,415)	(56,374)
Other income and expenses				
Interest income	20	35	55	87
Interest expense	(4,570)	(1,293)	(9,081)	(2,513)
Other, net	161	115	397	226
<b>Net loss</b>	<b>(18,290)</b>	<b>(30,251)</b>	<b>(46,044)</b>	<b>(58,574)</b>
Less net loss attributable to non-controlling interest	(181)	(169)	(350)	(339)
<b>Net loss attributable to Merrimack Pharmaceuticals, Inc.</b>	<b>\$ (18,109)</b>	<b>\$ (30,082)</b>	<b>\$ (45,694)</b>	<b>\$ (58,235)</b>
Other comprehensive income:				
Unrealized gain on available-for-sale securities	5	15	21	33
Other comprehensive income	5	15	21	33
<b>Comprehensive loss</b>	<b>(18,104)</b>	<b>(30,067)</b>	<b>(45,673)</b>	<b>(58,202)</b>
Net loss per share available to common stockholders basic and diluted	\$ (0.17)	\$ (0.31)	\$ (0.44)	\$ (0.61)
Weighted-average common shares used in computing net loss per share available to common stockholders basic and diluted	103,809	96,170	103,351	96,025

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

**Table of Contents****Merrimack Pharmaceuticals, Inc.****Condensed Consolidated Statements of Cash Flows**

(in thousands) (unaudited)	Six months ended June 30,	
	2014	2013
<b>Cash flows from operating activities</b>		
Net loss	\$ (46,044)	\$ (58,574)
Adjustments to reconcile net loss to net cash used in operating activities		
Non-cash interest expense	4,267	470
Depreciation and amortization	2,241	1,319
Stock-based compensation	7,091	5,416
Changes in operating assets and liabilities		
Purchased premiums and interest on available-for-sale securities	(4)	(291)
Accounts receivable	(748)	(5,270)
Accounts payable, accrued expenses and other	(6,027)	11,386
Deferred revenues	(26,169)	(2,404)
Other assets and liabilities, net	1,173	2,518
<b>Net cash used in operating activities</b>	<b>(64,220)</b>	<b>(45,430)</b>
<b>Cash flows from investing activities</b>		
Purchases of available-for-sale securities	(20,100)	(8,290)
Proceeds from maturities of available-for-sale securities	94,733	49,010
Purchases of property and equipment	(2,983)	(3,305)
Other investing activities, net		(39)
<b>Net cash provided by investing activities</b>	<b>71,650</b>	<b>37,376</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of common stock options and warrants	4,936	1,204
Proceeds from convertible notes issued by majority owned subsidiary, net of issuance costs	300	274
Other financing activities, net	(1)	(195)
<b>Net cash provided by financing activities</b>	<b>5,235</b>	<b>1,283</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,665</b>	<b>(6,771)</b>
Cash and cash equivalents, beginning of period	65,086	37,714
<b>Cash and cash equivalents, end of period</b>	<b>\$ 77,751</b>	<b>\$ 30,943</b>
<b>Non-cash investing and financing activities</b>		
Issuance of derivative liability	37	35
Property and equipment in accounts payable and accrued expenses	564	

Disposal of fully depreciated assets	670	77
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**Supplemental disclosure of cash flows**

Cash paid for interest	\$ 4,915	\$ 2,076
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*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**Merrimack Pharmaceuticals, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Nature of the Business**

Merrimack Pharmaceuticals, Inc. (the Company) is a biopharmaceutical company discovering, developing and preparing to commercialize innovative medicines consisting of novel therapeutics paired with companion diagnostics for the treatment of cancer. The Company has six novel therapeutic oncology candidates in clinical development (MM-398, MM-121, MM-111, MM-302, MM-151 and MM-141), multiple product candidates in preclinical development and a discovery effort advancing additional candidate medicines. The Company also has an agreement to utilize its manufacturing expertise to develop, manufacture and exclusively supply bulk drug to a third party, who will in turn process the drug into a finished product and commercialize it globally. The Company's discovery and development efforts are driven by Network Biology, which is its proprietary systems biology-based approach to biomedical research. The Company was incorporated in the Commonwealth of Massachusetts in 1993 and reincorporated in the State of Delaware in October 2010.

The Company is subject to risks and uncertainties common to companies in the biopharmaceutical industry, including, but not limited to, its ability to secure additional capital to fund operations, success of clinical trials, development by competitors of new technological innovations, dependence on collaborative arrangements, protection of proprietary technology, compliance with government regulations and dependence on key personnel. Product candidates currently under development will require significant additional research and development efforts, including extensive preclinical and clinical testing and regulatory approval prior to commercialization. These efforts require significant amounts of additional capital, adequate personnel, infrastructure and extensive compliance reporting capabilities.

The Company has incurred significant losses and has not generated revenue from commercial sales. The accompanying condensed consolidated financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

As of June 30, 2014, the Company had unrestricted cash and cash equivalents and available-for-sale securities of \$92.7 million. The Company expects that its existing unrestricted cash and cash equivalents and available-for-sale securities as of June 30, 2014, anticipated interest income and remaining funding under its license and collaboration agreement with Sanofi related to MM-121, which will terminate effective December 17, 2014 unless the Company chooses to accelerate such termination date, will enable the Company to fund operations into 2015.

The Company may seek additional funding through public or private debt or equity financings, or through existing or new collaboration arrangements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into additional collaborative arrangements. The terms of any financing may adversely affect the holdings or the rights of the Company's stockholders. Arrangements with collaborators or others may require the Company to relinquish rights to certain of its technologies or product candidates. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate its research and development programs or commercialization efforts, which could adversely affect its business prospects.



**Table of Contents****2. Summary of Significant Accounting Policies**

Significant accounting policies followed by the Company in the preparation of its condensed consolidated financial statements are as follows:

**Basis of Presentation and Consolidation**

The accompanying condensed consolidated financial statements as of June 30, 2014, and for the three and six months ended June 30, 2014 and 2013, have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and generally accepted accounting principles in the United States of America (GAAP) for condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 4, 2014.

The information presented in the condensed consolidated financial statements and related notes as of June 30, 2014, and for the three and six months ended June 30, 2014 and 2013, is unaudited. The December 31, 2013 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP for complete financial statements.

Interim results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014, or any future period.

These condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Merrimack Pharmaceuticals (Bermuda) Ltd. The Company also consolidates its majority owned subsidiary, Silver Creek Pharmaceuticals, Inc. (Silver Creek). All intercompany transactions and balances have been eliminated in consolidation.

The Company's ownership of Silver Creek was 64% as of June 30, 2014 and December 31, 2013. The consolidated financial statement activity related to Silver Creek was as follows:

<b>(in thousands)</b>	<b>Non-Controlling Interest</b>	
Balance at December 31, 2013	\$	337
Net loss attributable to Silver Creek		(350)
Balance at June 30, 2014	\$	(13)
	<b>Non-Controlling Interest</b>	
Balance at December 31, 2012	\$	97
Net loss attributable to Silver Creek		(339)
Balance at June 30, 2013	\$	(242)

In April 2014, Silver Creek named a new Chief Executive Officer and made changes to its board of directors. The Company remains the primary beneficiary of Silver Creek, so these changes to Silver Creek's management and directors did not effect a change on the consolidation of Silver Creek for financial reporting purposes.



**Table of Contents****Use of Estimates**

GAAP requires the Company's management to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. The Company bases estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. The most significant estimates in these condensed consolidated financial statements include revenue recognition, including the estimated percentage of billable expenses in any particular budget period, periods of meaningful use of licensed products, estimates used in accounting for revenue separability, accounting for revenue period of substantial involvement and recognition, useful lives with respect to long-lived assets and intangibles, accounting for stock-based compensation, contingencies, intangible assets, goodwill, in-process research and development, derivative liability, valuation of convertible debt, tax valuation reserves and accrued expenses, including clinical research costs. The Company's actual results may differ from these estimates under different assumptions or conditions. The Company evaluates its estimates on an ongoing basis. Changes in estimates are reflected in reported results in the period in which they become known by the Company's management.

**Available-for-Sale Securities**

The Company classifies marketable securities with a remaining maturity when purchased of greater than three months as available-for-sale. Available-for-sale securities may consist of U.S. government agencies securities, commercial paper, corporate notes and bonds and certificates of deposit, which are maintained by an investment manager. Available-for-sale securities are carried at fair value, with the unrealized gains and losses included in other comprehensive income as a component of stockholders' deficit until realized. Realized gains and losses are recognized in interest income. Any premium or discount arising at purchase is amortized and/or accreted to interest income. There were no realized gains or losses recognized on the sale or maturity of available-for-sale securities during the three and six months ended June 30, 2014 or 2013.

Available-for-sale securities, all of which have maturities of twelve months or less, as of June 30, 2014 consisted of the following:

	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
<b>June 30, 2014:</b>				
Commercial paper	\$ 14,998	\$	\$ (3)	\$ 14,995

The aggregate fair value of securities held by the Company in an unrealized loss position for less than 12 months as of June 30, 2014 was \$15.0 million, which consisted of three commercial paper securities comprising the total balance. To determine whether an other-than-temporary impairment exists for securities with significant unrealized losses, the Company performs an analysis to assess whether it intends to sell, or whether it would more likely than not be required to sell, the security before the expected recovery of the amortized cost basis. Where the Company intends to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary and the full amount of the unrealized loss is recognized on the statement of comprehensive loss as an other-than-temporary impairment charge. When this is not the case, the Company performs additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified when the Company does not expect to receive cash flows, based on using a single best estimate, sufficient to recover the amortized cost basis of a security, and the amount of the loss is recognized in other income (expense).



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The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the above investments before the recovery of their amortized cost bases, which may occur upon maturity. The Company determined that there was no material change in the credit risk of the above investments. As a result, the Company determined it did not hold any investments with an other-than-temporary-impairment as of June 30, 2014.

## **Concentration of Credit Risk**

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, available-for-sale securities and accounts receivable. The Company places its cash deposits in accredited financial institutions and, therefore, the Company's management believes these funds are subject to minimal credit risk. The Company invests cash equivalents and available-for-sale securities in money market funds, U.S. government agencies securities and various corporate debt securities. Credit risk in these securities is reduced as a result of the Company's investment policy to limit the amount invested in any one issue or any single issuer and to only invest in high credit quality securities. The Company has no significant off-balance sheet concentrations of credit risk such as foreign currency exchange contracts, option contracts or other hedging arrangements.

## **Revenue Recognition**

The Company enters into biopharmaceutical product development agreements with collaborative partners for the research and development of therapeutic and diagnostic products. The terms of the agreements may include nonrefundable signing and licensing fees, funding for research, development and manufacturing, milestone payments and royalties or profit-sharing on any product sales derived from collaborations. These multiple element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting.

In January 2011, the Company adopted authoritative guidance on revenue recognition for multiple element arrangements. This guidance, which applies to multiple element arrangements entered into or materially modified on or after January 1, 2011, separates and allocates consideration in a multiple element arrangement according to the relative selling price of each deliverable. The fair value of deliverables under the arrangement may be derived using a best estimate of selling price if vendor specific objective evidence and third-party evidence are not available. Deliverables under the arrangement will be separate units of accounting provided that a delivered item has value to the customer on a stand-alone basis and if the arrangement does not include a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor.

The Company entered into a collaboration agreement with Watson Laboratories, Inc. ( Actavis ) in November 2013, which was evaluated under the accounting guidance on revenue recognition for multiple element arrangements. See Note 4, License and Collaboration Agreements, for additional information.

The Company's license and collaboration agreements executed prior to January 1, 2011 continue to be accounted for under previously issued revenue recognition guidance for multiple element arrangements. The Company recognized upfront license payments as revenue upon delivery of the license only if the license had stand-alone value and the fair value of the undelivered performance obligations could be determined. If the fair value of the undelivered performance obligations could be determined, such obligations were accounted for separately as the obligations were fulfilled. If the license was considered to either not have stand-alone value or have stand-alone value but the fair value of any of the undelivered performance obligations could not be determined, the arrangement was accounted for as a single unit of accounting and the license payments and payments for performance obligations were recognized as revenue over the estimated period of when the performance obligations would be performed.



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Whenever the Company determined that an arrangement should be accounted for as a single unit of accounting, it determined the period over which the performance obligations would be performed and revenue would be recognized. If the Company could not reasonably estimate the timing and the level of effort to complete its performance obligations under the arrangement, then revenue under the arrangement was recognized on a straight-line basis over the period the Company expected to complete its performance obligations, which is reassessed at each subsequent reporting period.

The Company's collaboration agreements may include additional payments upon the achievement of performance-based milestones. As milestones are achieved, a portion of the milestone payment, equal to the percentage of the total time that the Company has performed the performance obligations to date over the total estimated time to complete the performance obligations, multiplied by the amount of the milestone payment, will be recognized as revenue upon achievement of such milestone. The remaining portion of the milestone will be recognized over the remaining performance period. Milestones that are tied to regulatory approvals are not considered probable of being achieved until such approval is received. Milestones tied to counterparty performance are not included in the Company's revenue model until the performance conditions are met.

Royalty revenue will be recognized upon the sale of the related products provided the Company has no remaining performance obligations under the arrangement.

The Company did not materially modify any of its previously-existing multiple element arrangements during the six months ended June 30, 2014 and 2013 other than as discussed in Note 4, License and Collaboration Agreements.

## **Stock-Based Compensation**

The Company expenses the fair value of employee stock options over the vesting period. Compensation expense is measured using the fair value of the award at the grant date, net of estimated forfeitures, and is adjusted annually to reflect actual forfeitures. The fair value of each stock-based award is estimated using the Black-Scholes option valuation model and is expensed straight-line over the vesting period.

The Company records stock options issued to non-employees at fair value, periodically remeasures to reflect the current fair value at each reporting period, and recognizes expense over the related service period. When applicable, these equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

## **Other Income and Expense**

The Company records gains and losses on the recognition of federal and state sponsored tax incentives and other one-time income or expense-related items in other income (expense).

In May 2014, the Company received an award of \$0.6 million of tax incentives from the Massachusetts Life Sciences Center, which allows the Company to monetize approximately \$0.6 million of state research and development tax credits. In exchange for these incentives, the Company pledged to hire an incremental 31 employees and to maintain the additional headcount through at least December 31, 2018. Failure to do so could result in the Company being required to repay some or all of these incentives. The Company has deferred and will amortize the benefit of this monetization on a straight-line basis over the five-year performance period, commencing with a cumulative catch-up when the pledge is achieved.



**Table of Contents****Recent Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ( FASB ) issued guidance to address the diversity in practice related to the financial statement presentation of unrecognized tax benefits as either a reduction of a deferred tax asset or a liability when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This guidance was effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. This guidance will be effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. The Company is currently evaluating the potential impact that the adoption of this guidance and the related transition guidance may have on the consolidated financial statements.

**3. Net Loss Per Common Share**

Basic net loss per share is calculated by dividing the net loss available to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss available to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method.

As discussed in Note 7, Borrowings, in July 2013, the Company issued \$125.0 million aggregate principal amount of 4.50% convertible senior notes due 2020 (the Notes ) in an underwritten public offering. Upon any conversion of the Notes while the Company has indebtedness outstanding under the Loan and Security Agreement (the Loan Agreement ) with Hercules Technology Growth Capital, Inc. ( Hercules ), the Notes will be settled in shares of the Company's common stock. Following the repayment and satisfaction in full of the Company's obligations to Hercules under the Loan Agreement, upon any conversion of the Notes, the Notes may be settled, at the Company's election, in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. For purposes of calculating the maximum dilutive impact, it is presumed that the conversion premium will be settled in common stock, inclusive of a contractual make-whole provision resulting from a fundamental change, and the resulting potential common shares included in diluted earnings per share if the effect is more dilutive. For purposes of this calculation, conversion of the Notes, stock options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. The stock options, warrants and conversion premium on the Notes are excluded from the calculation of diluted loss per share because the net loss for the three and six months ended June 30, 2014 and 2013 causes such securities to be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below:

(in thousands)	As of June 30,	
	2014	2013
Options to purchase common stock	21,245	20,447
Common stock warrants	2,407	2,777

Conversion premium on the Notes	25,000
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**4. License and Collaboration Agreements**

**Sanofi**

On September 30, 2009, the Company entered into a license and collaboration agreement with Sanofi for the development and commercialization of a drug candidate being developed by the Company under the name MM-121. The agreement became effective on November 10, 2009 and Sanofi paid the Company a nonrefundable, noncreditable upfront license fee of \$60.0 million. From the effective date of the agreement through June 30, 2014, the Company has received total milestone payments of \$25.0 million pursuant to the agreement. Under the agreement, Sanofi is responsible for all MM-121 development and manufacturing costs. Sanofi reimburses the Company for direct costs incurred in both development and manufacturing and compensates the Company for its internal development efforts based on a full time equivalent rate.

On June 17, 2014, the Company and Sanofi agreed to terminate the license and collaboration agreement effective December 17, 2014, although the Company has the right to accelerate such termination date. In connection with the agreement to terminate the collaboration, among other things, Sanofi transferred ownership of the investigational new drug application for MM-121 back to the Company in July 2014, and the Company waived Sanofi's obligation to reimburse Merrimack for MM-121 development costs incurred after the effective termination date. Effective upon the termination of the license and collaboration agreement, the Company will not be entitled to receive any additional fees, milestone payments or reimbursements from the collaboration.

The Company recognizes cost reimbursements for MM-121 development services within the period they are incurred and billable. Billable expenses are identified during each specified budget period. For the three and six months ended June 30, 2014, this specified budget period was prospectively determined to end December 17, 2014, although the specified allowable budget expense was not changed. In the event that total development services expense incurred and expected to be incurred during the same period exceed the total contractually allowed billable amount for development services during that period, the Company recognizes only a percentage of the development services incurred as revenue during that period. This percentage is calculated as total development services expense incurred during the specified budget period divided by the sum of total development services expense incurred plus estimated development services expense to be incurred during the specified period, multiplied by the total contractually allowed billable amount for development services during the specified period, less development services revenue previously recognized within the specified period.

At the inception of the collaboration, the Company determined that the license, the right to future technology, back-up compounds, participation on steering committees and manufacturing services performance obligations comprising the license and collaboration agreement represented a single unit of accounting. As the Company cannot reasonably estimate its level of effort over the collaboration, the Company recognizes revenue from the upfront payment, milestone payment and manufacturing services payments using the contingency-adjusted performance model over the expected development period, which was initially estimated at 12 years from the effective date of the agreement.

As a result of the Company and Sanofi agreeing to terminate the license and collaboration arrangement, the development period was revised to end as of December 17, 2014. Accordingly, the balance of the deferred revenue remaining on April 1, 2014 is being recognized prospectively on a straight-line basis over the remaining development period, estimated to end on December 17, 2014, in accordance with current generally accepted principles on revenue recognition.



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During the three and six months ended June 30, 2014 and 2013, the Company recognized revenue based on the following components of the Sanofi agreement:

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Upfront payment	\$ 13,268	\$ 1,250	\$ 14,518	\$ 2,500
Milestone payments	5,529	521	6,049	1,042
Development services	3,040	14,682	13,740	26,272
Manufacturing services and other	5,978	1,999	6,542	2,740
<b>Total</b>	<b>\$ 27,815</b>	<b>\$ 18,452</b>	<b>\$ 40,849</b>	<b>\$ 32,554</b>

The Company performs development services for which revenue is recognized under the Sanofi agreement in accordance with the specified budget period. Additionally, for the six months ended June 30, 2014, there is approximately \$5.8 million of increased revenue related to the Company receiving budget approval for expenses incurred prior to December 31, 2013.

As of June 30, 2014 and December 31, 2013, the Company maintained the following assets and liabilities related to the Sanofi agreement:

(in thousands)	June 30, 2014	December 31, 2013
Accounts receivable, billed	\$ 3,390	\$ 2,357
Accounts receivable, unbilled	2,938	3,417
Deferred revenue	46,283	73,392

**PharmaEngine, Inc.**

On May 5, 2011, the Company entered into an assignment, sublicense and collaboration agreement with PharmaEngine, Inc. ( PharmaEngine ) under which the Company reacquired rights in Europe and certain countries in Asia to a drug being developed under the name MM-398. In exchange, the Company agreed to pay PharmaEngine a nonrefundable, noncreditable upfront payment of \$10.0 million and will be required to make up to an aggregate of \$80.0 million in development and regulatory milestone payments and \$130.0 million in sales milestone payments upon the achievement of specified development, regulatory and annual net sales milestones. During the first quarter of 2012, the Company paid a milestone of \$5.0 million under the collaboration agreement with PharmaEngine in connection with dosing the first patient in a Phase 3 clinical trial of MM-398 in pancreatic cancer. PharmaEngine is also entitled to tiered royalties on net sales of MM-398 in Europe and certain countries in Asia. The Company is responsible for all future development costs of MM-398 except those required specifically for regulatory approval in Taiwan.

During the three months ended June 30, 2014 and 2013, the Company recognized research and development expenses of \$0.1 million and \$0.2 million, respectively, and during the six months ended June 30, 2014 and 2013, the Company recognized research and development expenses of \$0.2 million and \$0.5 million, respectively, related to the agreement with PharmaEngine.



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### **Actavis**

On November 25, 2013, the Company and Actavis entered into a development, license and supply agreement pursuant to which the Company will develop, manufacture and exclusively supply the bulk form of doxorubicin HCl liposome injection (the Initial Product ) to Actavis. Under the agreement, Actavis is responsible for all costs related to finished product processing and global commercialization. Pursuant to the agreement, the Company has also agreed to develop additional products for Actavis in the future, the identities of which will be mutually agreed upon. The Company is eligible to receive up to \$15.5 million under the agreement, of which \$2.7 million has been received through June 30, 2014, with the remainder relating to development funding and development, regulatory and commercial milestone payments related to the Initial Product. The Company will also receive a double digit share of net profits on global sales of the Initial Product and any additional products. The Company will manufacture and supply the Initial Product to Actavis in bulk form at an agreed upon unit price.

The agreement will expire with respect to the Initial Product and any additional products developed in the future ten years after Actavis first sale of the applicable product, unless terminated earlier, and will automatically renew for additional two year periods thereafter unless either party provides notice of non-renewal. Either party may terminate the agreement in the event of an uncured material breach or bankruptcy filing by the other party. Actavis may also terminate the agreement for convenience in specified circumstances upon 90 days prior written notice.

The Company applied revenue recognition guidance to determine whether the performance obligations under this collaboration, including the license, participation on steering committees, development services, and manufacturing and supply services could be accounted for separately or as a single unit of accounting. The Company determined that these obligations represent a single unit of accounting and will recognize revenue as product is supplied to Actavis. Therefore, the Company has deferred total billed and billable milestones and development expenses of \$3.0 million as of June 30, 2014 and \$2.1 million as of December 31 2013 related to the agreement.

### **5. Fair Value of Financial Instruments**

The carrying value of financial instruments, including cash and cash equivalents, restricted cash, available-for-sale securities, prepaid expenses, accounts receivable, accounts payable and accrued expenses, and other short-term assets and liabilities approximate their respective fair values due to the short-term maturities of these assets and liabilities.

Fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is determined based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect certain market assumptions. As a basis for considering such assumptions, GAAP establishes a three-tier value hierarchy, which prioritizes the inputs used to develop the assumptions and for measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets for identical assets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

**Table of Contents****Recurring Fair Value Measurements**

The following tables show assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013 and the input categories associated with those assets and liabilities:

**As of June 30, 2014**

(in thousands)	Level 1	Level 2	Level 3
Assets:			
Cash equivalents money market funds	\$ 67,108	\$	\$
Investments commercial paper		14,995	

**As of December 31, 2013**

(in thousands)	Level 1	Level 2	Level 3
Assets:			
Cash equivalents money market funds	\$ 47,740	\$	\$
Cash equivalents corporate debt securities		13,998	
Investments commercial paper		49,680	
Investments corporate debt securities		40,436	

The Company's investment portfolio consists of investments classified as cash equivalents and available-for-sale securities. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. The Company's cash and cash equivalents are invested in U.S. treasury and various corporate debt securities that approximate their face value. All marketable securities with an original maturity when purchased of greater than three months are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income. The amortized cost of securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity.

**Other Fair Value Measurements**

The estimated fair value of the \$125.0 million aggregate principal amount of the Notes was \$170.2 million as of June 30, 2014. The Company estimated the fair value of the Notes by using a quoted market rate in an inactive market, which is classified as a Level 2 input. The carrying value of the Notes is \$76.6 million due to the bifurcation of the conversion feature of the Notes as described more fully in Note 7, Borrowings.

The estimated fair value and carrying value of the loans payable under the Loan Agreement with Hercules was \$39.6 million and \$40.5 million, respectively, as of June 30, 2014. The Company estimated the fair value of the loans payable by using publically available information related to Hercules' portfolio of debt investments based on unobservable inputs, which is classified as a Level 3 input.

The immaterial fair value of a derivative liability as of June 30, 2014 was determined using a probability-weighted valuation based upon the likelihood of Silver Creek achieving a qualified financing, which is classified as a Level 3 input, as described in Note 7, Borrowings.



**Table of Contents****6. Accounts Payable, Accrued Expenses and Other**

Accounts payable, accrued expenses and other as of June 30, 2014 and December 31, 2013 consisted of the following:

(in thousands)	June 30, 2014	December 31, 2013
Accounts payable	\$ 4,320	\$ 1,889
Accrued goods and services	19,075	26,031
Accrued payroll and related benefits	5,207	7,255
Accrued interest	2,945	2,926
Accrued dividends payable	25	25
Deferred tax incentives	636	688
<b>Total accounts payable, accrued expenses and other</b>	<b>\$ 32,208</b>	<b>\$ 38,814</b>

**7. Borrowings**

Future minimum payments under indebtedness agreements outstanding as of June 30, 2014 are as follows:

As of June 30, 2014: (in thousands)	4.50% Convertible Senior Notes	Loan Agreement
Remainder of 2014	\$ 2,813	\$ 5,626
2015	5,625	18,135
2016	5,625	23,804
2017	5,625	
2018 and thereafter	141,875	
	161,563	47,565
Less interest	(36,563)	(6,365)
Less unamortized discount	(48,413)	(1,862)
Less current portion		(10,790)
<b>Loans payable, net of current portion</b>	<b>\$ 76,587</b>	<b>\$ 28,548</b>

**4.50% Convertible Senior Notes**

In July 2013, the Company issued \$125.0 million aggregate principal amount of Notes in an underwritten public offering. As a result of the Notes offering, the Company received net proceeds of approximately \$120.6 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company.

The Notes bear interest at a rate of 4.50% per year, payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2014. The Notes are general unsecured senior obligations of the Company.



The Notes will mature on July 15, 2020 (the Maturity Date ), unless earlier repurchased by the Company or converted at the option of holders. Holders may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding April 15, 2020 only under certain circumstances. Upon any conversion of Notes that occurs while the Company s indebtedness to Hercules under the Loan Agreement remains outstanding, the Notes will be settled in shares of the Company s common stock. Following the repayment and satisfaction in full of the Company s obligations to Hercules under the Loan Agreement, upon any conversion of the Notes, the Notes may be settled, at the Company s election, in cash, shares of the Company s common stock or a combination of cash and shares of the Company s common stock.

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The initial conversion rate of the Notes is 160 shares of the Company's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of \$6.25 per share of common stock. The conversion rate will be subject to adjustment in some events. In addition, following certain corporate events that occur prior to the Maturity Date, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances.

The Company has separately accounted for the liability and equity components of the Notes by bifurcating gross proceeds between the indebtedness, or liability component, and the embedded conversion option, or equity component. This bifurcation was done by estimating an effective interest rate as of the date of issuance for similar notes which do not contain an embedded conversion option. The embedded conversion option was recorded in stockholders' deficit and as debt discount, to be subsequently amortized as interest expense over the term of the Notes. Underwriting discounts and commissions and offering expenses totaled \$4.4 million and were allocated to the indebtedness and the embedded conversion option based on their relative values.

For the three and six months ended June 30, 2014, interest expense related to the outstanding principal balance of the Notes was \$3.4 million and \$6.8 million, respectively.

## **Loan Agreement**

In November 2012, the Company entered into the Loan Agreement with Hercules pursuant to which the Company received loans in the aggregate principal amount of \$40.0 million in 2012. The Company, as permitted under the Loan Agreement, had previously extended the interest-only payment period with the aggregate principal balance of the loans to be repaid in monthly installments starting on June 1, 2014 and continuing through November 1, 2016. On June 25, 2014, the Company entered into an amendment to the Loan Agreement, whereby the Company and Hercules agreed to extend by four additional months the period during which the Company makes interest-only payments. As a result of the amendment, the Company will repay the aggregate outstanding principal balance of the loan in equal monthly installments of principal and interest (based on a 30 month amortization schedule) beginning on October 1, 2014. The remaining principal balance and interest will be due and payable on November 1, 2016.

Upon full repayment or maturity of the loans, the Company is required to pay Hercules a fee of \$1.2 million, which has been recorded as a discount to the loans and as a long-term liability on the Company's condensed consolidated balance sheets. Additionally, the Company reimbursed Hercules for costs incurred related to the loans, which has been reflected as a discount to the carrying value of the loans. The Company is amortizing these loan discounts totaling \$1.6 million to interest expense over the term of the loans using the effective interest method. For the three months and six months ended June 30, 2014, interest expense related to Hercules loans payable was \$1.2 million and \$2.4 million, respectively. For the three and six months ended June 30, 2013, interest expense related to Hercules loans payable was also \$1.2 million and \$2.4 million, respectively.

In connection with the Loan Agreement, the Company granted Hercules a security interest in all of the Company's personal property now owned or hereafter acquired, excluding intellectual property but including the proceeds from the sale, if any, of intellectual property, and a negative pledge on intellectual property. The Loan Agreement also contains certain representations, warranties and non-financial covenants of the Company.

**Table of Contents****Convertible Notes - Silver Creek**

Between April and June 2014, the Company's majority owned subsidiary, Silver Creek, issued an aggregate of \$0.3 million in convertible notes to multiple legal entities pursuant to a Note Purchase Agreement. The notes bear interest at 6% and mature and convert, along with accrued interest, into Silver Creek Series A preferred stock on December 31, 2014. If at any time prior to maturity Silver Creek enters into a qualifying equity financing, defined as a sale or series of related sales of equity securities prior to the maturity date and resulting in at least \$4.0 million of gross proceeds, the notes will automatically convert into the next qualifying equity financing at a 25% discount. The Company determined that this convertible feature met the definition of a derivative and required separate accounting treatment. The derivative was estimated to be immaterial upon issuance and as of June 30, 2014 using a probability-weighted model, and was recorded as derivative liability within other current liabilities on the consolidated balance sheets. As of June 30, 2014, Silver Creek had outstanding borrowings of \$0.3 million, net of immaterial debt discounts. For the three and six months ended June 30, 2014, interest expense related to the outstanding principal balance under the Note Purchase Agreement was immaterial.

**8. Common Stock**

As of June 30, 2014 and December 31, 2013, the Company had 200.0 million shares of \$0.01 par value common stock authorized. There were approximately 104,513,000 and 102,523,000 shares of common stock issued and outstanding as of June 30, 2014 and December 31, 2013, respectively.

In February 2014, Hercules exercised warrants to purchase 302,143 shares of common stock for proceeds to the Company of \$1.1 million.

The shares reserved for future issuance as of June 30, 2014 and December 31, 2013 consisted of the following:

<b>(in thousands)</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Options to purchase common stock	21,245	20,107
Common stock warrants	2,407	2,777
Conversion premium on the Notes	25,000	25,000

**9. Stock-Based Compensation**

As of December 31, 2013, there were 1.7 million shares of common stock available to be granted under the Company's 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan is administered by the Company's board of directors and permits the Company to grant incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards.

In January 2014, 3.6 million additional shares of common stock became available for grant to employees, officers, directors and consultants under the 2011 Plan. During the six months ended June 30, 2014 and 2013, the Company issued options to purchase 3.1 million and 3.0 million shares of common stock, respectively. At June 30, 2014, there were 2.5 million shares remaining available for grant under the 2011 Plan.

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The assumptions used to estimate the fair value of options granted to employees and directors at the date of grant for the three and six months ended June 30, 2014 were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Risk-free interest rate	1.6-1.9%	0.1-1.4%	1.6-1.9%	0.1-1.4%
Expected dividend yield	0%	0%	0%	0%
Expected term	5.0-5.9 years	5.3-5.9 years	5.0-5.9 years	5.3-5.9 years
Expected volatility	64-70%	67-68%	64-70%	67-68%

Options granted to directors during the three and six months ended June 30, 2014 vested immediately. Options granted to directors during the three and six months ended June 30, 2013 vested over a one year period. Options granted to employees generally vest over a three year period. The Company recognized stock-based compensation expense as follows for the three and six months ended June 30, 2014 and 2013:

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Employee awards:				
Research and development	\$ 1,841	\$ 1,651	\$ 3,522	\$ 2,935
General and administrative	2,161	1,307	3,453	2,397
Stock-based compensation for employee awards	4,002	2,958	6,975	5,332
Stock-based compensation for non-employee awards	153	72	116	84
Total stock-based compensation	\$ 4,155	\$ 3,030	\$ 7,091	\$ 5,416

The following table summarizes stock option activity during the six months ended June 30, 2014:

(in thousands, except per share amounts and years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2013	20,107	\$ 3.93	6.11	\$ 38,348
Granted	3,107	\$ 5.17		
Exercised	(1,653)	\$ 2.34		
Forfeited	(316)	\$ 6.27		
Outstanding, June 30, 2014	21,245	\$ 4.20	6.29	\$ 66,353

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Vested and expected to vest, June 30, 2014	20,889	\$ 4.17	6.24	\$ 65,734
Exercisable, June 30, 2014	15,759	\$ 3.62	5.35	\$ 58,220

The aggregate intrinsic value was calculated as the difference between the exercise price of the stock options and the fair value of the underlying common stock.

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**Table of Contents****10. Commitments and Contingencies****Operating Leases**

The Company leases its office, laboratory and manufacturing space under non-cancelable operating leases. Total rent expense under these operating leases was \$1.5 million and \$1.4 million for the three months ended June 30, 2014 and 2013, respectively. Total rent expense under these operating leases was \$3.0 million and \$2.6 million for the six months ended June 30, 2014 and 2013, respectively.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2013 included in our Annual Report on Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q, which are incorporated herein by reference, our actual results may differ materially from those anticipated in these forward-looking statements.*

**Overview**

We are a biopharmaceutical company discovering, developing and preparing to commercialize innovative medicines consisting of novel therapeutics paired with companion diagnostics for the treatment of cancer. Our mission is to provide patients, physicians and the healthcare system with the medicines, tools and information to transform the approach to care from one based on the identification and treatment of symptoms to one focused on the diagnosis and treatment of illness through a more precise mechanistic understanding of disease. We seek to accomplish our mission by applying our proprietary systems-based approach to biomedical research, which we call Network Biology. Our initial focus is in the field of oncology. We have six novel therapeutics in clinical development. In our most advanced program, we are developing MM-398 as a treatment for metastatic pancreatic cancer.

In May and June 2014, we announced results from our Phase 3 clinical trial of MM-398 in patients with metastatic pancreatic cancer whose cancer has progressed on treatment with gemcitabine. The primary endpoint of this trial was a statistically significant difference in overall survival between MM-398, alone or in combination with 5-fluorouracil, or 5-FU, and leucovorin, against a common control arm of the combination of 5-FU and leucovorin. The combination of MM-398 with 5-FU and leucovorin achieved the primary endpoint for this trial, with a statistically significant survival advantage compared to the control arm. MM-398 monotherapy did not achieve a statistically significant survival advantage compared to the control arm. The combination of MM-398 with 5-FU and leucovorin achieved an overall survival of 6.1 months, a 1.9 month improvement over the 4.2 month survival demonstrated by the control arm of 5-FU and leucovorin alone. The primary log-rank analysis of overall survival for the MM-398 combination arm was statistically significant ( $p=0.012$ ) with a corresponding hazard ratio of 0.67. A statistically significant advantage in progression free survival was also observed in the combination arm, with a median of 3.1 months compared to 1.5 months in the control arm. The combination arm also showed a statistically significant difference in overall response rate compared to the control arm (16% and 1%, respectively,  $p<0.001$ ). The most common non-hematologic Grade 3 and higher adverse events in the MM-398 combination arm were fatigue (14%), diarrhea (13%) and vomiting (11.1%). Hematologic grade 3 and higher adverse events included neutropenia, which was observed in 20% of patients as determined by objective laboratory values, and febrile neutropenia, which was observed in 2% of patients. The MM-398 monotherapy arm had a 4.9 month median overall survival, compared to 4.2 months in the control arm.

For the monotherapy arm, the hazard ratio for overall survival was 0.99 with a corresponding p-value of 0.942. In general, patients experienced a higher level of adverse events with the MM-398 monotherapy dose and treatment schedule compared to patients who received the combination of MM-398 with 5-FU and leucovorin.

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We have devoted substantially all of our resources to our drug discovery and development efforts, including advancing our Network Biology approach, conducting clinical trials for our product candidates, protecting our intellectual property, and providing general and administrative support for these operations. We have not generated any revenue from product sales and, to date, have financed our operations primarily through private placements of our convertible preferred stock, collaborations, public offerings of our securities and a secured debt financing. Through June 30, 2014, we have received \$268.2 million from the sale of convertible preferred stock and warrants, \$126.7 million of net proceeds from the sale of common stock in our April 2012 initial public offering and July 2013 follow-on underwritten public offering, \$39.6 million of net proceeds from a secured debt financing, \$120.6 million of net proceeds from the issuance of 4.50% convertible senior notes due 2020, or the convertible senior notes, in our July 2013 underwritten public offering and \$232.3 million of upfront license fees, milestone payments, reimbursement of research and development costs and manufacturing services and other payments from our development collaborations. We have also entered into an arrangement to use our manufacturing capabilities to manufacture drug product on behalf of Watson Laboratories, Inc., or Actavis, for which we have received \$2.7 million in upfront fees and reimbursements as of June 30, 2014. As of June 30, 2014, we had unrestricted cash and cash equivalents and available-for-sale securities of \$92.7 million. We expect that our existing unrestricted cash and cash equivalents and available-for-sale securities as of June 30, 2014, anticipated interest income and remaining funding under our license and collaboration agreement with Sanofi related to MM-121, which will terminate effective December 17, 2014 unless we choose to accelerate such termination date, will enable us to fund operations into 2015.

We have never been profitable and, as of June 30, 2014, we had an accumulated deficit of \$617.9 million. Our net loss was \$18.3 million and \$46.0 million for the three and six months ended June 30, 2014, respectively, and \$30.3 million and \$58.6 million for the three and six months ended June 30, 2013, respectively. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. We expect our research and development expenses to increase in connection with our ongoing activities, particularly as we continue the research, development and clinical trials of our product candidates, including multiple simultaneous clinical trials for certain product candidates, some of which we expect will be entering late stage clinical development.

In addition, in connection with seeking and possibly obtaining regulatory approval of any of our product candidates, including MM-398 for which we expect to submit a new drug application, or NDA, to the U.S. Food and Drug Administration, or the FDA, in 2014 for the combination of MM-398 with 5-FU and leucovorin, we expect to incur significant commercialization expenses for product sales, marketing, manufacturing and distribution. Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements and other marketing and distribution arrangements. We may be unable to raise capital when needed or on attractive terms, which would force us to delay, limit, reduce or terminate our research and development programs or commercialization efforts. We will need to generate significant revenues to achieve profitability, and we may never do so.

## **Strategic Partnerships, Licenses and Collaborations**

### ***Sanofi***

In September 2009, we entered into a license and collaboration agreement with Sanofi for the development and commercialization of MM-121. Through June 30, 2014, Sanofi has paid us a nonrefundable, noncreditable upfront license fee of \$60.0 million, as well as additional aggregate milestone payments of \$25.0 million. Under the agreement, Sanofi is also responsible for all MM-121





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development and manufacturing costs. Sanofi reimburses us for internal time at a designated full-time equivalent rate per year and reimburses us for direct costs and services related to the development and manufacturing of MM-121.

On June 17, 2014, we agreed with Sanofi to terminate the license and collaboration agreement effective December 17, 2014, although we have the right to accelerate such termination date. In connection with the agreement to terminate the collaboration, among other things, Sanofi transferred ownership of the investigational new drug application for MM-121 back to us in July 2014, and we have waived Sanofi's obligation to reimburse us for MM-121 development costs incurred after December 17, 2014.

The timing of cash received from Sanofi differs from revenue recognized for financial statement purposes. We recognize revenue for development services within the period they are incurred and billable. Billable expenses are defined during each specified budget period. For the three and six months ended June 30, 2014, the specified budget period comprises the period ending December 17, 2014. In the event that total development services expense incurred and expected to be incurred during any particular budget period exceed the total contractually allowed billable amount for development services during the same period, we recognize only a percentage of the development services incurred as revenue in that period.

This percentage is calculated as total development services expense incurred during the specified period divided by the sum of total development services expense incurred plus estimated development services expense to be incurred during the specified period, multiplied by the total contractually allowed billable amount for development services during the specified period, less development services revenue recognized within the specified period. We recognize revenue on expenses incurred in excess of this percentage in the budget period when the excess amounts become contractually billable. We also recognize revenue for the upfront payment, milestone payments and manufacturing services using the contingency-adjusted performance model over the expected development period, which was initially estimated to be 12 years from the effective date of our agreement with Sanofi. As a result of our agreement with Sanofi to terminate the agreement, the development period was revised to end as of December 17, 2014. During the three and six months ended June 30, 2014 and 2013, we recognized revenue based on the following components of the Sanofi agreement:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Upfront payment	\$ 13,268	\$ 1,250	\$ 14,518	\$ 2,500
Milestone payments	5,529	521	6,049	1,042
Development services	3,040	14,682	13,740	26,272
Manufacturing services and other	5,978	1,999	6,542	2,740
<b>Total</b>	<b>\$ 27,815</b>	<b>\$ 18,452</b>	<b>\$ 40,849</b>	<b>\$ 32,554</b>

The increase in the revenue recognition over the three and six months ended June 30, 2014 is due to the reduced development period under the license and collaboration agreement, which will terminate effective December 17, 2014 unless we choose to accelerate the termination date.

**Actavis**

In November 2013, we entered into a development, license and supply agreement with Actavis, pursuant to which we will develop, manufacture and exclusively supply the bulk form of doxorubicin HCl liposome injection, or the initial product, to Actavis. Under the agreement, Actavis is responsible for all

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costs related to finished product processing and global commercialization. Pursuant to the agreement, we have also agreed to develop additional products for Actavis in the future, the identities of which will be mutually agreed upon. We are eligible to receive up to \$15.5 million, of which \$2.7 million has been received through June 30, 2014, and the remainder in development funding and development, regulatory and commercial milestone payments related to the initial product. We will also receive a double digit share of net profits on global sales of the initial product and any additional products. We will manufacture and supply the initial product to Actavis in bulk form at an agreed upon unit price.

The agreement will expire with respect to the initial product and any additional products developed in the future ten years after Actavis' first sale of the applicable product, unless terminated earlier, and will automatically renew for additional two year periods thereafter unless either party provides notice of non-renewal. Either party may terminate the agreement in the event of an uncured material breach or bankruptcy filing by the other party. Actavis may also terminate the agreement for convenience in specified circumstances upon 90 days' prior written notice.