ARENA PHARMACEUTICALS INC
Form 10-Q
August 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

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: 000-31161

ARENA PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-2908305 (I.R.S. Employer Identification No.)
6154 Nancy Ridge Drive, San Diego, CA (Address of principal executive offices)	92121 (Zip Code)

858.453.7200
(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. ý 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 ý 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	ý	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 ý No

The number of shares of common stock outstanding as of the close of business on August 4, 2015:

Class	Number of Shares Outstanding
Common Stock, $0.0001 par value	242,241,710

Table of Contents

ARENA PHARMACEUTICALS, INC.
INDEX

TRADEMARKS AND CERTAIN TERMS

Arena Pharmaceuticals®, Arena® and our corporate logo are registered service marks of Arena. BELVIQ® and BELVIQ XR® are registered trademarks of our wholly owned subsidiary, Arena Pharmaceuticals GmbH. Any other brand names or trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

In this Quarterly Report on Form 10-Q, "Arena Pharmaceuticals," "Arena," "we," "us" and "our" refer to Arena Pharmaceutica Inc., and our wholly owned subsidiaries on a consolidated basis, unless the context otherwise provides. "APD" is an abbreviation for Arena Pharmaceuticals Development.

Lorcaserin has been approved for marketing in the United States and South Korea for weight management, and is being commercialized under the brand name BELVIQ (which is pronounced as "BEL-VEEK"). There are pending applications for the regulatory approval of lorcaserin for weight management in a number of additional territories, and we intend to investigate lorcaserin's potential using different formulations, in combination with other agents and for other possible indications.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

ARENA PHARMACEUTICALS, INC.
Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2015 (Unaudited)	December 31, 2014[1]
Assets		
Current assets:		
Cash and cash equivalents	$216,701	$163,209
Accounts receivable	4,194	3,712
Inventory	11,001	10,831
Prepaid expenses and other current assets	4,074	4,144
Total current assets	235,970	181,896
Land, property and equipment, net	81,412	82,919
Intangibles, net	8,660	8,482
Other non-current assets	3,081	3,088
Total assets	$329,123	$276,385
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$8,215	$10,209
Accrued clinical and preclinical study fees	4,333	7,027
Payable to Eisai	10,031	23,705
Payable to Siegfried for acquisition of land and building	8,793	8,217
Current portion of deferred revenues	26,917	15,238
Derivative liabilities	852	474
Current portion of lease financing obligations	2,729	2,492
Total current liabilities	61,870	67,362
Deferred rent	423	369
Deferred revenues, less current portion	92,648	93,064
Lease financing obligations, less current portion	66,824	68,245
Commitments and contingencies		
Stockholders' equity:		
Common stock	24	22
Additional paid-in capital	1,423,387	1,312,656
Accumulated other comprehensive income	3,290	2,908
Accumulated deficit	(1,319,343)	(1,268,241)
Total stockholders' equity	107,358	47,345
Total liabilities and stockholders' equity	$329,123	$276,385

[1] The balance sheet data at December 31, 2014, has been derived from audited financial statements at that date. It does not include, however, all of the information and notes required by US generally accepted accounting principles for complete financial statements.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ARENA PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues:				
Net product sales	$4,285	$3,529	$10,903	$6,411
Other Eisai collaborative revenue	3,213	8,554	5,349	11,901
Toll manufacturing	1,390	578	1,736	1,026
Other collaborative revenue	293	140	3,449	277
Total revenues	9,181	12,801	21,437	19,615
Operating Costs and Expenses:				
Cost of product sales	1,303	1,463	4,494	2,294
Cost of toll manufacturing	1,812	547	2,214	1,043
Research and development	24,201	27,025	46,169	48,013
General and administrative	8,844	9,132	17,283	17,169
Total operating costs and expenses	36,160	38,167	70,160	68,519
Loss from operations	(26,979)	(25,366)	(48,723)	(48,904)
Interest and Other Income (Expense):				
Interest income	34	24	68	53
Interest expense	(1,754)	(1,735)	(3,450)	(3,482)
Gain (loss) from valuation of derivative liabilities	1,171	1,006	(378)	896
Gain on sale of available-for-sale securities	0	33,277	0	33,277
Other	721	274	1,381	385
Total interest and other income (expense), net	172	32,846	(2,379)	31,129
Net income (loss)	$(26,807)	$7,480	$(51,102)	$(17,775)
Net income (loss) per share:				
Basic	$(0.11)	$0.03	$(0.21)	$(0.08)
Diluted	$(0.11)	$0.03	$(0.21)	$(0.08)
Shares used in calculating net income (loss) per share:				
Basic	242,067	219,682	238,903	219,453
Diluted	242,067	225,341	238,903	219,453
Comprehensive Income (Loss):				
Net income (loss)	$(26,807)	$7,480	$(51,102)	$(17,775)
Foreign currency translation gain (loss)	527	(484)	382	(393)
Reclassification adjustment for realized gain on sale of available-for-sale securities	0	(33,277)	0	(33,277)
Unrealized holding gain (loss) on available-for-sale securities	0	(1,644)	0	51,590
Comprehensive income (loss)	$(26,280)	$(27,925)	$(50,720)	$145

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ARENA PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2015	2014
Operating Activities		
Net loss	$(51,102)	$(17,775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,949	4,201
Amortization of intangibles	90	289
Share-based compensation	7,947	6,543
(Gain) loss from valuation of derivative liabilities	378	(896)
Gain on sale of available-for-sale securities	0	(33,277)
Amortization of prepaid financing costs	68	68
Gain on sale of equipment	0	(47)
Changes in assets and liabilities:		
Accounts receivable	(412)	3,187
Inventory	807	329
Prepaid expenses and other assets	768	(1,115)
Payables and accrued liabilities	(20,894)	(4,570)
Deferred revenues	10,367	(10,037)
Deferred rent	54	65
Net cash used in operating activities	(46,980)	(53,035)
Investing Activities		
Proceeds from sale of available-for-sale securities	0	33,277
Purchases of property and equipment	(1,769)	(4,419)
Proceeds from sale of equipment	0	47
Other non-current assets	(55)	209
Net cash provided by (used in) investing activities	(1,824)	29,114
Financing Activities		
Principal payments on lease financing obligations	(1,184)	(973)
Proceeds from issuance of common stock	102,663	4,258
Net cash provided by financing activities	101,479	3,285
Effect of exchange rate changes on cash	817	(444)
Net increase (decrease) in cash and cash equivalents	53,492	(21,080)
Cash and cash equivalents at beginning of period	163,209	221,878
Cash and cash equivalents at end of period	$216,701	$200,798

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ARENA PHARMACEUTICALS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements
1. Basis of Presentation
The accompanying unaudited condensed consolidated financial statements of Arena Pharmaceuticals, Inc., which include our wholly owned subsidiaries, should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission, or SEC, from which we derived our balance sheet as of December 31, 2014. The accompanying financial statements have been prepared in accordance with US generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of our management, necessary to a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.
In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, “Revenue from Contracts with Customers.” ASU No. 2014-09 outlines a comprehensive revenue recognition model which will supersede most current revenue recognition guidance. ASU No. 2014-09 is effective for annual reporting periods, and interim periods within those periods, beginning after December 15, 2017. ASU No. 2014-09 allows for two methods of adoption: (a) “full retrospective” adoption, meaning the standard is applied to all periods presented, or (b) “modified retrospective” adoption, meaning the cumulative effect of applying ASU No. 2014-09 is recognized as an adjustment to the opening retained earnings balance for the year of implementation. We have not yet selected an adoption method as we are currently evaluating the impact of ASU No. 2014-09 on our consolidated financial statements.
In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity’s liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. If and when an entity’s liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting. Even when an entity’s liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but ASU No. 2014-15 should be followed to determine whether to disclose information about any relevant conditions and events. ASU No. 2014-15 is effective for the annual reporting period ending after December 15, 2016, and for annual and interim periods thereafter. We do not expect the adoption of ASU No. 2014-15 to have a material impact on our consolidated financial statements.
The preparation of financial statements in accordance with GAAP requires our management to make estimates and assumptions that affect the reported amounts (including assets, liabilities, revenues and expenses) and related disclosures. The amounts reported could differ under different estimates and assumptions.
2. Fair Value Disclosures
We measure our financial assets and liabilities at fair value, which is defined as the exit price, or the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Table of Contents

We use the following three-level valuation hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs to value our financial assets and liabilities:

Level 1 - Observable inputs such as unadjusted quoted prices in active markets for identical instruments.

Level 2 - Quoted prices for similar instruments in active markets or inputs that are observable for the asset or liability, either directly or indirectly.

Level 3 - Significant unobservable inputs based on our assumptions.

The following tables present our valuation hierarchy for our financial assets and liabilities that are measured at fair value on a recurring basis, in thousands:

	Fair Value Measurements at June 30, 2015			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds[1]	$154,989	$154,989	$0	$ 0
Liabilities:				
Warrant derivative liabilities	$852	$0	$852	$ 0

	Fair Value Measurements at December 31, 2014			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds[1]	$143,913	$143,913	$0	$ 0
Liabilities:				
Warrant derivative liabilities	$474	$0	$474	$ 0

(1) Included in cash and cash equivalents on our condensed consolidated balance sheets.

3. Inventory

Inventory consisted of the following, in thousands:

	June 30, 2015	December 31, 2014
Raw materials	$2,470	$1,167
Work in process	3,748	3,520
Finished goods at Arena GmbH	7	3,681
Finished goods at Eisai	4,112	2,463
Finished goods at Ildong	664	0
Total inventory	$11,001	$10,831

4. Land, Property and Equipment

Land, property and equipment consisted of the following, in thousands:

	June 30, 2015	December 31, 2014
Cost	$179,157	$174,938
Less accumulated depreciation and amortization	(97,745)	(92,019)
Land, property and equipment, net	$81,412	$82,919

5

Table of Contents

5. Accounts Payable and Other Accrued Liabilities

Accounts payable and other accrued liabilities consisted of the following, in thousands:

	June 30, 2015	December 31, 2014
Accounts payable	$2,662	$2,844
Accrued compensation	4,409	4,792
Other accrued liabilities	1,144	2,573
Total accounts payable and other accrued liabilities	$8,215	$10,209

6. Derivative Liabilities

In August 2008, we issued a warrant to purchase 1,106,344 shares of our common stock at an exercise price of $7.71 per share that expires on August 14, 2015. As a result of the warrant's anti-dilution provision and certain of our subsequent equity issuances at prices below the adjustment price of $6.72 defined in the warrant agreement, the number of shares issuable upon exercise of the warrant increased and the exercise price decreased. At June 30, 2015, the number of shares issuable upon exercise of the outstanding warrant was 1,965,418 at an exercise price of $4.34 per share. The outstanding warrant, which was valued at $0.9 million and $0.5 million at June 30, 2015, and December 31, 2014, respectively, is recorded as a current derivative liability on our condensed consolidated balance sheets.

Our outstanding warrant was revalued on each balance sheet date, with changes in the fair value between reporting periods recorded in the interest and other income (expense) section of our condensed consolidated statements of operations and comprehensive income (loss).

7. Marketing and Supply Agreement with Eisai

In November 2013, our wholly owned subsidiary, Arena Pharmaceuticals GmbH, or Arena GmbH, and Eisai Inc. and Eisai Co., Ltd. (collectively with Eisai Inc., Eisai) entered into the Second Amended and Restated Marketing and Supply Agreement, or Eisai Agreement. The Eisai Agreement amended and restated the previous agreement and expanded Eisai's exclusive commercialization rights for lorcaserin to all of the countries in the world, except for South Korea, Taiwan, Australia, New Zealand and Israel. Lorcaserin is approved in the United States for chronic weight management in adults who are overweight with a comorbidity or obese, and was made available to patients by prescription in the United States by Eisai in June 2013. In addition to providing commercialization rights, which are subject to applicable regulatory approval, we manufacture and sell lorcaserin to Eisai and provide Eisai with services related to development and regulatory activities. Under the Eisai Agreement, we have received an upfront payment and payments from sales of lorcaserin, and are entitled to receive payments from future sales of lorcaserin, milestone payments based on the achievement of regulatory filings and approvals, one-time purchase price adjustment payments and other payments.

Prior to entering into the Eisai Agreement, Arena GmbH and Eisai Inc. entered into the original marketing and supply agreement in July 2010, under which we granted Eisai Inc. exclusive commercialization rights for lorcaserin solely in the United States and its territories and possessions. In May 2012, Arena GmbH and Eisai Inc. amended and restated such agreement by entering into the first amended agreement, which expanded Eisai Inc.'s exclusive commercialization rights to include most of North and South America.

Table of Contents

The following table summarizes the revenues we recognized under our collaboration with Eisai for the periods presented, in thousands:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net product sales	$3,893	$3,529	$8,329	$6,411
Amortization of upfront payments	1,885	1,885	3,770	3,860
Reimbursement of development expenses	1,156	6,568	1,347	7,313
Milestone payment	0	0	0	500
Reimbursement of patent and trademark expenses	172	101	232	228
Subtotal other Eisai collaborative revenue	3,213	8,554	5,349	11,901
Total	$7,106	$12,083	$13,678	$18,312

The following table summarizes the deferred revenues under our collaboration with Eisai, in thousands:

	June 30, 2015	December 31, 2014
Upfront payments	$90,704	$94,474
Net product sales	16,833	7,081
Total deferred revenues attributable to Eisai	107,537	101,555
Less current portion	(24,374)	(14,622)
Deferred revenues attributable to Eisai, less current portion	$83,163	$86,933

Upfront and Milestone Payments.

In connection with entering into the Eisai Agreement, we received from Eisai an upfront payment of $60.0 million. This payment is in addition to the $50.0 million and $5.0 million in upfront payments we received from Eisai in connection with entering into the original agreement and the first amended agreement, respectively. Revenues from these upfront payments were deferred, as we determined that the exclusive rights did not have standalone value without our ongoing development and regulatory activities. Accordingly, these payments are recognized ratably as revenue over the periods in which we expect the services to be rendered, which are approximately 15 years for the Eisai Agreement and first amended agreement and 16 years for the original agreement. In addition to the upfront payments, we have received from Eisai a total of $86.5 million in milestones payments, and we are eligible to receive up to an aggregate of $176.0 million in additional regulatory and development milestone payments.

Product Purchase Price and Purchase Price Adjustment Payments.

We manufacture lorcaserin at our facility in Switzerland, and sell lorcaserin to Eisai for Eisai's commercialization in the United States and, subject to applicable regulatory approval, in the other territories under the Eisai Agreement (other than Europe, China and Japan) for a purchase price starting at 31.5% and 30.75%, respectively (and starting at 27.5% in Europe, China and Japan), of Eisai's aggregate annual net product sales (which are the gross invoiced sales less certain deductions described in the Eisai Agreement), or the Eisai Product Purchase Price, in the respective territory. The Eisai Product Purchase Price will increase on a tiered basis in the United States and the other territories (other than Europe, China and Japan) to as high as 36.5% and 35.75%, respectively, on the portion of Eisai's annual aggregate net product sales exceeding $750.0 million in all territories other than Europe, China and Japan. The Eisai Product Purchase Price will increase to 35% in Europe, China and Japan on the portion of Eisai's annual aggregate net product sales exceeding $500.0 million in such territories. The Eisai Product Purchase Price is subject to reduction (for sales in a particular country), including in the event of generic competition in the applicable country. The revenue we recognize for BELVIQ product revenue related to the use of vouchers and product samples is based on our cost of goods sold.

In addition to payments for purchases of lorcaserin, we are eligible to receive up to an aggregate of $1.56 billion in one-time purchase price adjustment payments and other payments. These payments include up to an aggregate of $1.19 billion that are based on Eisai's annual net product sales of lorcaserin in all of the territories under the Eisai Agreement on an aggregate basis, with the first and last amounts payable with annual net product sales of $250.0

million and $2.5 billion, respectively. Of these payments, Eisai will pay us a total of $330.0 million for annual net product sales of up to $1.0 billion. The $1.56 billion also includes $370.0 million in one-time purchase price adjustment payments we are eligible to receive based on annual net product sales in the non-US territories, comprised of $185.0 million based on Eisai's annual net product sales in the non-US

Table of Contents

territories in North and South America and $185.0 million based on Eisai's annual net product sales in the territories outside of North and South America. The first and last amounts are payable upon first achievement of annual net product sales of $100.0 million and $1.0 billion, respectively, with respect to each of the following areas: (i) the non-US territories in North and South America and (ii) the territories outside of North and South America. In addition, we are also eligible to receive certain payments by Eisai if certain annual minimum sales requirements in Mexico, Canada and Brazil are not met during the first ten years after initial commercial sale in such territories.

The amount that Eisai pays us for lorcaserin product supply is based on Eisai's estimated price at the time the order is shipped, which is Eisai's estimate of the Eisai Product Purchase Price, and is subject to change on April 1 and October 1 of each year. Eisai's estimate of the Eisai Product Purchase Price was changed as of October 1, 2013, and there was no further change as of April 1, 2014, October 1, 2014, or April 1, 2015. At the end of Eisai's fiscal year (March 31), the estimated price paid to us for product that Eisai sold to their distributors is compared to the Eisai Product Purchase Price of such product, and the difference is either refunded back to Eisai (for overpayments) or paid to us (for underpayments). On a monthly basis, Eisai provides us the total amount of net product sales for the month, details of the total deductions from gross to net product sales and the sales in units. We recognize our revenues monthly based on our percentage of Eisai's monthly net product sales figures. When the revenues we recognize differ from the estimated price that Eisai paid us for such product, the difference is reclassified from deferred revenues to a receivable or payable account, as appropriate. We also adjust the deferred revenues balance for the product supply held at Eisai based on the most current net product sales figures provided to us, with the difference reclassified from deferred revenues to a receivable or payable account.

In the three months ended June 30, 2015, we recognized revenues from our portion of Eisai net product sales of BELVIQ of $3.9 million, of which $3.8 million related to sales at the Eisai Product Purchase Price and $0.1 million related to redemptions of vouchers. In the six months ended June 30, 2015, we recognized revenues from our portion of Eisai net product sales of BELVIQ of $8.3 million, of which $7.8 million related to sales at the Eisai Product Purchase Price and $0.5 million related to redemptions of vouchers. The Eisai Product Purchase Price for the product Eisai has sold to date was lower than the initial estimated price that Eisai paid us for such product, primarily because (i) the price that Eisai paid us did not include deductions for the use of vouchers and savings cards or for certain items related to product launch and (ii) the subsequent allocation of certain bottles of BELVIQ for product sampling initiated by Eisai as part of its commercialization efforts. In January 2015, Eisai announced the launch of a new savings card which enables eligible patients without commercial coverage for BELVIQ to pay no more than $75 for each monthly prescription while those patients with commercial coverage for BELVIQ are able to use the card to obtain additional savings if their copay is greater than $50 per monthly prescription. The new savings card is subject to certain restrictions, including the exclusion of patients who are eligible for state or federal healthcare programs. These excess payments, which total the $10.0 million classified as Payable to Eisai on our condensed consolidated balance sheet at June 30, 2015, are primarily related to the above deductions, product sampling and the January 2015 launch of the new savings card. On a quarterly basis, subsequent to the end of each calendar quarter, we refund to Eisai the portion of these excess payments related to product sampling for product shipped to physicians during the quarter. On an annual basis, subsequent to the end of Eisai's fiscal year, we refund to Eisai the portion of these excess payments related to product sold by Eisai to their distributors through March 31.

Development Payments.

In connection with the US approval of BELVIQ, the US Food and Drug Administration, or FDA, is requiring (i) an evaluation as part of the cardiovascular outcomes trial, or CVOT, of the effect of long-term treatment with BELVIQ on the incidence of major adverse cardiovascular events, or MACE, in overweight and obese patients with cardiovascular disease or multiple cardiovascular risk factors and (ii) the conduct of postmarketing studies to assess the safety and efficacy of BELVIQ for weight management in obese pediatric and adolescent patients. In addition to the FDA-required studies, we and Eisai initially prioritized the development areas of a once-daily formulation, smoking cessation, co-administration with phentermine, as well as potentially exploring, including as part of the CVOT, BELVIQ's effect on conversion to type 2 diabetes and improvements in cardiovascular outcomes.

Table of Contents

The chart below summarizes the general agreement regarding cost sharing between Eisai and us for significant development activities under the Eisai Agreement. In addition, Eisai or we may from time to time conduct approved development of lorcaserin at such party's own expense.

Eisai Second Amended and Restated Marketing and Supply Agreement: Cost Sharing for Development

	United States	Rest of North and South America	Remaining Territories
BELVIQ - Pre-approval*	Not Applicable	General Eisai: 90%; Arena: 10% Certain stability work Eisai: 50%; Arena: 50%	Up to a total of $100.0 million - Eisai: 50%; Arena: 50% Thereafter, Eisai: 100%
BELVIQ - Post-approval*	General Eisai: 90%; Arena 10% Non-FDA required portion of CVOT Up to $80.0 million - Eisai: 50%; Arena: 50% Thereafter, Eisai: 100% Certain pediatric studies Eisai: 50%; Arena: 50%	General Eisai: 90%; Arena: 10% Certain stability work Eisai: 50%; Arena: 50%	Up to a total of $50.0 million - Eisai: 50%; Arena: 50% Thereafter, Eisai: 90%; Arena: 10%
Lorcaserin products other than BELVIQ - Pre-approval	Up to a total of $250.0 million (as reduced by up to $80.0 million for non-FDA required portion of CVOT) -Eisai: 50%; Arena: 50%		
Lorcaserin products other than BELVIQ - Post-approval	Up to a total of $100.0 million in the aggregate across all additional products - Eisai: 50%; Arena: 50% Thereafter, Eisai: 90%; Arena: 10%		

* Development required by a regulatory authority, with the exception of the non-FDA required portions of the CVOT.

Certain Other Terms.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2014, for additional information regarding termination, indemnification, product liability, certain limitations and other provisions included in the Eisai Agreement.

8. Marketing and Supply Agreement with Ildong

In November 2012, Arena GmbH and Ildong Pharmaceutical Co., Ltd., or Ildong, entered into the Marketing and Supply Agreement, or Ildong Agreement. Under this agreement, we granted Ildong exclusive rights to commercialize BELVIQ in South Korea for weight loss or weight management in obese and overweight patients. We also provide certain services and will manufacture and sell BELVIQ to Ildong. Ildong has agreed not to conduct activities outside of our agreement related to the approval or commercialization of any other pharmaceutical product for weight loss, weight management or obesity in South Korea, with the exception of phentermine.

In connection with entering into the Ildong Agreement, we received from Ildong an upfront payment of $5.0 million, less withholding taxes. Revenues from this upfront payment were deferred, as we determined that the exclusive rights did not have standalone value without our ongoing development and regulatory activities. Accordingly, this payment is recognized ratably as revenue over the period in which we expect the services to be rendered, which is approximately 14 years. In addition to the upfront payment, we received a milestone payment of $3.0 million, less withholding taxes, in March 2015, which we earned upon the February 2015 approval of BELVIQ for marketing in South Korea for weight management.

Table of Contents

We manufacture BELVIQ at our facility in Switzerland, and sell BELVIQ to Ildong for a purchase price starting at the higher of the defined minimum amount or 35% of Ildong's annual net product sales (which are the gross invoiced sales less certain deductions described in the Ildong Agreement), or the Ildong Product Purchase Price. The Ildong Product Purchase Price will increase on a tiered basis up to the higher of the defined minimum amount or 45% on the portion of annual net product sales exceeding $15.0 million. However, in no event will the Ildong Product Purchase Price be less than a defined minimum amount adjusted annually based on a consumer price index. For the three and six months ended June 30, 2015, the Ildong Product Purchase Price equaled the defined minimum amount (which exceeded the 45% tier). If certain annual net product sales amounts are not met, we can convert Ildong's right to commercialize BELVIQ in South Korea to be non-exclusive. We recognized revenues from our portion of Ildong net product sales of BELVIQ of $0.4 million and $2.6 million for the three and six months ended June 30, 2015, respectively.

9. Share-based Activity

Share-based Compensation.

We recognized share-based compensation expense as follows, in thousands:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Research and development	$2,185	$1,742	$4,241	$3,523
General and administrative	1,929	1,600	3,706	3,020
Total share-based compensation expense	$4,114	$3,342	$7,947	$6,543
Total share-based compensation expense capitalized into inventory	$43	$39	$105	$39

Share-based Award Activity.

The following table summarizes our stock option activity during the six months ended June 30, 2015, in thousands (except per share data):

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2015	15,831	$5.25
Granted	3,037	4.47
Exercised	(745)	2.06
Forfeited/cancelled/expired	(565)	