

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1995-06-13** | Period of Report: **1995-03-31**
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FILER

CIRCA PHARMACEUTICALS INC

CIK: **13006** | IRS No.: **111966265** | State of Incorporation: **NY** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **001-08338** | Film No.: **95546620**
SIC: **2834** Pharmaceutical preparations

Mailing Address
33 RALPH AVENUE
COPIAGUE NY 11726

Business Address
33 RALPH AVE
COPIAGUE NY 11726
5168428383

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No.1

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

For the quarterly period ended March 31, 1995

or

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

For the transition period from _____ to _____

Commission File Number 0-8049

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

New York 11-1966265
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) No.)

33 RALPH AVENUE, COPIAGUE, NEW YORK 11726
(Address of principle executive offices) (Zip Code)

(516) 842-8383
(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 X No

The number of shares of Common Stock, par value \$.01 per share,
outstanding were 21,760,212 as of April 30, 1995.

CIRCA PHARMACEUTICALS, INC.

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PART I - FINANCIAL INFORMATION
 CIRCA PHARMACEUTICALS, INC.
 CONSOLIDATED BALANCE SHEETS

ITEM 1.

| | March 31, 1995 (Unaudited) | December 31, 1994 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 23,070,000 | \$ 19,667,000 |
| Marketable securities | 32,738,000 | 30,534,000 |
| Accounts receivable, net | 2,080,000 | 3,630,000 |
| Inventory | 1,409,000 | 1,697,000 |
| Other current assets | 2,123,000 | 2,128,000 |
| Total current assets | 61,420,000 | 57,656,000 |
| | | |
| Property, plant and equipment, net | 13,253,000 | 12,488,000 |
| Investments in joint ventures | 31,531,000 | 31,824,000 |
| Other assets | 1,879,000 | 1,889,000 |
| | \$108,083,000 | \$103,857,000 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 5,731,000 | \$ 6,219,000 |
| Deferred partnership liability | 8,833,000 | 14,033,000 |
| Deferred income | 1,375,000 | 1,604,000 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, par value \$.01 per share; authorized 10,000,000 shares | | |
| Common stock, par value \$.01 per share; authorized - 70,000,000 shares; issued and outstanding - 22,113,420 shares in 1995 and 22,110,120 in 1994 | 221,000 | 221,000 |
| Capital in excess of par value | 62,854,000 | 62,825,000 |

| | | |
|---|---------------|---------------|
| Retained earnings | 32,812,000 | 25,746,000 |
| Unrealized gain (loss) on marketable securities | 1,842,000 | (809,000) |
| Treasury stock, at cost; 367,308 shares | (3,168,000) | (3,168,000) |
| Unearned compensation-stock awards | (2,417,000) | (2,814,000) |
| Total shareholders' equity | 92,144,000 | 82,001,000 |
| | \$108,083,000 | \$103,857,000 |

See accompanying notes to consolidated financial statements

PART I - FINANCIAL INFORMATION
CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended March 31, | |
|--------------------------------------|---------------------------------|--------------|
| | 1995 | 1994 |
| Royalty | \$5,200,000 | \$ 144,000 |
| Net sales | 2,717,000 | 1,090,000 |
| Total revenues | 7,917,000 | 1,234,000 |
| Operating costs and expenses | | |
| Cost of sales | 1,591,000 | 785,000 |
| Research & development | 1,896,000 | 1,498,000 |
| Manufacturing overhead | 642,000 | 949,000 |
| Selling and administrative | 2,517,000 | 1,460,000 |
| Income (loss) from operations | 1,271,000 | (3,458,000) |
| Equity in earnings of joint ventures | 5,211,000 | 5,526,000 |
| Investment income | 684,000 | 1,957,000 |
| Other expenses, net | (5,000) | (151,000) |
| Income before income taxes | 7,161,000 | 3,874,000 |
| Income taxes | 95,000 | - |
| Net income | \$7,066,000 | \$ 3,874,000 |
| Net income per share | \$ 0.32 | \$ 0.18 |
| Weighted average shares outstanding | 21,744,000 | 21,711,000 |

See accompanying notes to consolidated financial statements
PART I - FINANCIAL INFORMATION
CIRCA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------|
| | 1995 | 1994 |
| Net cash provided by operating activities | \$ 4,106,000 | \$ 1,466,000 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment, net | (1,179,000) | (18,000) |
| Decrease in marketable securities | 447,000 | 1,349,000 |
| Proceeds from sale of shares of Marsam common stock | | 1,108,000 |
| Net cash provided by (used in) investing activities | (732,000) | 2,439,000 |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Exercise of stock options | 29,000 | 14,000 |
| Net cash provided by financing activities | 29,000 | 14,000 |
| Increase in cash and cash equivalents | 3,403,000 | 3,919,000 |
| Cash and cash equivalents at beginning of period | 19,667,000 | 2,411,000 |
| Cash and cash equivalents at | | |

end of period

\$23,070,000

\$ 6,330,000

See accompanying notes to consolidated financial statements

PART I - FINANCIAL INFORMATION
CIRCA PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting principally of normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 31, 1995 and the consolidated results of operations and cash flows for the three months ended March 31, 1995 and 1994. The accompanying consolidated financial statements and related notes should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994. The results of operations for the three months ended March 31, 1995 and 1994 are not necessarily indicative of the results to be expected for the full year. Certain 1994 amounts have been reclassified to conform with the current period presentation. Dividends received from joint venture of \$4,500,000 in the three months ended March 31, 1995 and 1994 have been reclassified from cash flow from investing activities to cash flow from operating activities.

2. Components of inventory are summarized as follows:

| | March 31, 1995 | December 31, 1994 |
|-----------------|-------------------|----------------------|
| Raw materials | \$ 295,000 | \$ 153,000 |
| Work in process | 299,000 | 268,000 |
| Finished goods | 815,000 | 1,277,000 |
| | \$1,409,000 | \$1,698,000 |

3. In July 1989, the Company and Rhone-Poulenc Rorer, Inc. ("RPR") formed a partnership to develop and market a

pharmaceutical product used in the treatment of hypertension. Dilacor XR was launched by RPR during 1992. The partnership agreement was amended in April 1993, such that after September 1, 1993 the Company's financial participation would be to earn royalty income from future sales of the branded product, Dilacor XR. For the year ended December 31, 1994, the Company earned a royalty of 1% on the net sales of Dilacor XR which increased to 20% for the years ending December 31, 1995 and 1996, increases to 22% for the years ending December 31, 1997 through 2000 and decreases to 3% thereafter. Royalty income is initially applied to repay the Company's partnership liability to RPR. Effective January 1, 1995, the Company and RPR agreed that royalty income to the Company would be measured based on the market demand for Dilacor XR, as evidenced by prescriptions dispensed. At March 31, 1995, the outstanding partnership liability was \$8,833,000.

4. The Company has recognized income from its 50% interest in Somerset Pharmaceuticals, Inc. ("Somerset") of \$5,608,000 and \$5,329,000 for the three month periods ended March 31, 1995 and 1994, respectively. Equity in earnings of joint ventures in the

PART I - FINANCIAL INFORMATION

CIRCA PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

first quarter of 1995 also included net losses from the Company's developmental stage joint ventures, including ANCIRC, a joint venture with Andrx Corporation, which commenced operations in July 1994. Equity in earnings of joint ventures in the first quarter of 1994 included net income from American Triumvirate Insurance Company ("ATIC"). In December 1994, the Company sold its 50% interest in ATIC.

The following unaudited information is provided for unconsolidated joint ventures, accounted for utilizing the equity method, in the aggregate:

| | March 31, | |
|---------------|--------------|--------------|
| | 1995 | 1994 |
| Net revenues | \$25,750,000 | \$24,157,000 |
| Gross profits | \$22,196,000 | \$20,757,000 |
| Net income | \$ 9,421,000 | \$10,254,000 |

5. As of March 31, 1995, the Company had commitments to third parties of approximately \$2,600,000 for research and development projects to be expended over the next three years.

6. Net income per share is based on the weighted average

number of common shares and equivalents outstanding for each period. The effect of stock options was less than 3% of the weighted average shares outstanding in 1995 and 1994. Accordingly, all common share equivalents were excluded from earnings per share for the three months ended March 31, 1995 and 1994.

7. For the three month period ended March 31, 1995, the Company has provided \$95,000 for federal and state income taxes. At March 31, 1995, the Company's net operating loss carryforward, for federal income tax purposes, was approximately \$73,000,000, which, if not utilized, will begin to expire in the year 2006.

8. On March 29, 1995, the Company and Watson Pharmaceuticals, Inc. ("Watson") (NASDAQ:WATS), a pharmaceutical firm located in Corona, California, signed a definitive merger agreement ("Merger Agreement") pursuant to which a wholly-owned subsidiary of Watson would be merged into the Company in a transaction intended to be accounted for as a "pooling-of-interests". Under the Merger Agreement, Watson would exchange 0.86 shares of Watson for each share of Circa subject to adjustments under certain circumstances. The merger is subject to approval by each company's shareholders, and may be terminated under certain

PART I - FINANCIAL INFORMATION

CIRCA PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Continued)

circumstances including the trading of Watson common stock below an average price of \$25 per share for the 20 business days ending prior to the 13th business day before the shareholders' meetings. In the event of termination under specified conditions, one party to the Merger Agreement may be entitled to receive a fee of \$15,000,000 from the other and payment of its expenses.

9. Three purported class actions, Robbins v. Circa Pharmaceuticals, Inc. et al., Zimmerman v. Circa Pharmaceuticals, Inc. et al. and Ballas v. Melvin Sharoky, M.D. et al., have been commenced in Supreme Court of the State of New York, in the Counties of Suffolk, Suffolk and Kings, respectively. Each action purports to be brought on behalf of stockholders of Circa, and names as defendants Circa, its directors, and Lawrence Raisfeld. In addition to the persons described above, the Robbins and Zimmerman complaints also name Watson as a defendant. Each of the complaints alleges, among other things, that actions of the individual defendants in connection with the Merger Agreement constituted a breach of their fiduciary duties, and the Robbins and Zimmerman complaints allege that Watson aided and abetted the individual defendants in those alleged breaches. Each of the complaints seeks, among other things, compensatory

damages, an injunction against consummation of the Merger Agreement, and other equitable relief. Circa believes that these actions are without merit, and intends to defend them vigorously.

10. The United States Department of Justice has had a long-standing open inquiry regarding possible violations by the Company of the False Claims Act in respect to drugs sold by the Company prior to 1990, and paid for, directly or indirectly, by the Federal Government. The Government's inquiry relates to allegations that the Company improperly obtained approval from the Food and Drug Administration ("FDA") to manufacture and sell such drugs, and that the Company's subsequent manufacture and sale of such drugs violated applicable FDA regulations. No action has been commenced by the Department of Justice in connection with this matter, although from time to time it has requested that the Company agree to extend the applicable statute of limitations, which the Company has done. In an effort to eliminate any contingent liabilities with respect to this matter in the context of the Watson transaction, the Company recently initiated discussions with the Government with respect to the parties respective positions and as to possible resolutions. Based on the information currently available including consultation with outside counsel, the Company does not believe that the resolution of this matter will be materially adverse to the Company's financial position.

PART I - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CIRCA PHARMACEUTICALS, INC.

ITEM 2.

Results of Operations

Three Months Ended March 31, 1995

The Company reported net income of \$7,066,000 for the three months ended March 31, 1995, as compared to net income of \$3,874,000 for the same period in 1994, representing an increase of 82%.

In the first quarter of 1995, the Company recognized \$5,200,000 of royalty income from Dilacor XR, as compared to \$144,000 for the first quarter of 1994. Dilacor XR, a treatment for hypertension and angina, is marketed by Rhone-Poulenc Rorer, Inc. ("RPR"). The Company's royalty participation in Dilacor XR increased from 1% in 1994 to 20% in 1995. Effective January 1, 1995, the Company and RPR agreed that royalty income to Circa would be measured based on the market demand for the product, as evidenced by prescriptions written.

The Company's net sales increased to \$2,717,000 for the first quarter 1995, as compared to \$1,090,000 for the first quarter 1994. The increase of \$1,627,000 or 149% is primarily the result of the sale of glipizide, for which the Company received approval to manufacture and distribute from the Food and Drug Administration in November 1994. Net sales for 1994 were attributable to sales of nitroglycerin transdermal patches. Glipizide sales also had the effect of increasing the gross profit percentage from 28% in 1994 to 41% in 1995.

Research and development expenses were \$1,896,000 in 1995, compared to \$1,498,000 in 1994, representing an increase of \$398,000 or 27%. The primary reason for the increase was the Company's commitment to pursue alternative drug-delivery systems such as gum products as well as increased activity in proprietary prescription and over-the-counter ("OTC") products. Manufacturing overhead was \$642,000 in 1995, compared to \$949,000 in 1994, representing a decrease of \$307,000 or 32%. As the Company increases its operations, including production of its own products, contract services and services to joint ventures, these costs will be absorbed into cost of sales. Selling and administrative expenses were \$2,517,000 in 1995, compared to \$1,460,000 in 1994, representing an increase of \$1,057,000 or 72%. The increase was primarily attributable to expansion of the sales effort related to glipizide, OTC products and pharmaceutical services.

PART I - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CIRCA PHARMACEUTICALS, INC.

(Continued)

Equity in earnings of joint ventures for the 1995 first quarter was \$5,211,000, as compared to \$5,526,000 for the first quarter of 1994, representing a decrease of 6%. Equity in earnings of joint ventures in the 1995 first quarter included \$5,608,000 from the Company's 50% interest in Somerset Pharmaceuticals, Inc., as compared to \$5,329,000 for the 1994 first quarter. Equity in earnings of joint ventures in the 1995 first quarter also included net losses from the Company's developmental stage joint ventures, including ANCIRC, a joint venture with Andrx Corporation, which commenced operations in July 1994. Equity in earnings of joint ventures in the first quarter of 1994 included net income from American Triumvirate Insurance Company ("ATIC"). In December 1994, the Company sold its 50% interest in ATIC.

Investment income was \$684,000 in 1995, compared to \$1,957,000 in 1994, representing a decrease of \$1,273,000 or 65%. The 1994 first quarter included a gain of \$956,000 on the sale of 66,650 shares of Marsam Pharmaceuticals Inc. common stock. The Company did not sell any shares of Marsam in the first quarter of 1995.

Other expenses, net were \$5,000 in 1995, compared to \$151,000 in 1994, representing a decrease of \$146,000. The decrease was primarily attributable to the absence of imputed interest expense related to the installment obligations on two legal settlements that were completely paid in December 1994.

For the quarter ended March 31, 1995, the Company provided \$95,000 for federal and state taxes. At March 31, 1995, the Company's net operating loss carryforward, for federal income tax purposes, was approximately \$73,000,000, which, if not utilized, will begin to expire in 2006.

Liquidity and Capital Resources

Working capital increased from \$51,400,000 at December 31, 1994 to \$55,700,000 at March 31, 1995. The increase of \$4,300,000 was primarily attributable to \$4,500,000 of dividends received from Somerset and \$2,700,000 of increase in unrealized holding gain included in shareholders' equity. These increases were offset by additions to property, plant and equipment of \$1,200,000 and working capital used for operating activities.

At March 31, 1995, the Company had commitments to third parties of approximately \$2,600,000 for research and

PART I - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
CIRCA PHARMACEUTICALS, INC.

(Continued)

development projects to be expanded over the next three years. The Company anticipates capital expenditures relating to its expansion into alternative drug-delivery systems, including gum and sustained release products. Research and development commitments and capital expenditures will be funded through current working capital. Primary sources of working capital for 1995 will continue to be dividends and management fees from Somerset. Additionally, a source of working capital in 1995 will be proceeds from the sale of the Company's products and services. The Company anticipates that its existing capital resources are sufficient to meet its requirements based on its current business plans.

PART II - OTHER INFORMATION
CIRCA PHARMACEUTICALS, INC.

Item 1. Legal Proceedings

See Part I, Item 1, Notes 9 and 10, which are hereby incorporated by reference.

Item 6. Exhibit and Reports on Form 8-K

(a) Exhibit

Exhibit 10.1. Agreement between Rhone-Poulenc Rorer, Inc. and the Company dated May 3, 1995. Re: Payments

to Circa under Fourth Amendment to General Partnership Agreement and Preceding Agreements dated April 27, 1993.

(b) Reports on Form 8-K

A Report on Form 8-K was filed on March 30, 1995 with respect to the Company's execution of the Merger Agreement as described in Part I, Item 1, Note 8.

A Report on Form 8-K was filed on April 11, 1995 with respect to the legal matters as described in Part I, Item 1, Note 9 and with respect to the amendment to the Company's Stockholders Protection Rights Agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIRCA PHARMACEUTICALS, INC.

DATE: June 12, 1995

/s/Melvin Sharoky, M.D.

Melvin Sharoky, M.D., President and
Chief Executive Officer

DATE: June 12, 1995

/s/Angelo C. Malahias

Angelo C. Malahias, Vice President
and Chief Financial Officer

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This schedule contains summary financial information extracted from Circa Pharmaceuticals, Inc. consolidated financial statements for the quarterly period ended March 31, 1995 and is qualified in its entirety by reference to such financial statements.

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