Catalyst Pharmaceutical Partners, Inc.
Form 10-Q
May 15, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[Mark One]

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2008

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 001-33057

CATALYST PHARMACEUTICAL PARTNERS, INC.

(Exact name of registrant as specified in its charter)

Delaware	76-0837053
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
355 Alhambra Circle Suite 1370 Coral Gables, Florida	33134
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (305) 529-2522

Indicate by checkmark 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 report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 12,567,226 shares of common stock, $0.001 par value per share, were outstanding as of May 9th, 2008.

CATALYST PHARMACEUTICAL PARTNERS, INC.
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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

CATALYST PHARMACEUTICAL PARTNERS, INC.
(a development stage company)
BALANCE SHEETS

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14,716,512	$ 15,943,896
Interest receivable	41,167	63,709
Prepaid expenses	585,185	524,081
Total current assets	15,342,864	16,531,686
Property and equipment, net	120,926	127,788
Deposits	25,448	20,448
Total assets	$ 15,489,238	$ 16,679,922
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 316,578	$ 219,866
Accrued expenses and other liabilities	121,503	83,419
Total current liabilities	438,081	303,285
Accrued expenses and other liabilities, non-current	51,053	53,880
Total liabilities	489,134	357,165
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.001 par value, 5,000,000 shares authorized: none outstanding		
Common stock, $.001 par value, 100,000,000 shares authorized 12,567,226 shares and 12,527,564 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	12,567	12,528
Additional paid-in capital	26,470,291	26,208,936
Deficit accumulated during the development stage	(11,482,754)	(9,898,707)
Total stockholders equity	15,000,104	16,322,757
Total liabilities and stockholders equity	$ 15,489,238	$ 16,679,922

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

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CATALYST PHARMACEUTICAL PARTNERS, INC.
(a development stage company)
CONDENSED STATEMENTS OF OPERATIONS (unaudited)

	For the Three Months Ended March 31,		Cumulative Period from January 4, 2002 (date of inception) to March 31,
	2008	2007	2008
Revenues	$	$	$
Operating costs and expenses:			
Research and development	1,084,359	812,520	7,229,440
General and administrative	639,673	684,626	5,479,431
Total operating costs and expenses	1,724,032	1,497,146	12,708,871
Loss from operations	(1,724,032)	(1,497,146)	(12,708,871)
Interest income	139,985	245,068	1,226,117
Loss before income taxes	(1,584,047)	(1,252,078)	(11,482,754)
Provision for income taxes			
Net loss	$ (1,584,047)	$ (1,252,078)	$ (11,482,754)
Net loss per share basic and diluted	$ (0.13)	$ (0.10)	
Weighted average shares outstanding basic and diluted	12,552,944	12,518,809	

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

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CATALYST PHARMACEUTICAL PARTNERS, INC.
(a development stage company)
CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)
For the three months ended March 31, 2008

	Preferred Stock	Common Stock	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at December 31, 2007	$	$ 12,528	$ 26,208,936	$ (9,898,707)	$ 16,322,757
Issuance of stock options for services			152,676		152,676
Amortization of restricted shares for services			12,927		12,927
Issuance of restricted stock units, net of cancellations		39	95,752		95,791
Net loss				(1,584,047)	(1,584,047)
Balance at March 31, 2008	$	$ 12,567	$ 26,470,291	$ (11,482,754)	$ 15,000,104

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

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CATALYST PHARMACEUTICAL PARTNERS, INC.
(a development stage company)
CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	For the Three Months Ended March 31,		Cumulative Period from January 4, 2002 (date of inception) through March 31,
	2008	2007	2008
Operating Activities:			
Net loss	$ (1,584,047)	$ (1,252,078)	$ (11,482,754)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	8,207	2,090	30,635
Stock-based compensation	263,404	200,368	3,699,735
Change in assets and liabilities			
Decrease (increase) in interest receivable	22,542	(443)	(41,167)
(Increase) in other prepaid expenses and deposits	(66,104)	(126,360)	(610,633)
(Decrease) increase in accounts payable	96,712	(135,607)	316,577
(Decrease) increase in accrued expenses and other liabilities	35,257	(53,619)	115,037
Net cash used in operating activities	(1,224,029)	(1,365,649)	(7,972,570)
Investing Activities:			
Capital expenditures	(1,345)	(4,113)	(94,041)
Net cash used in investing activities	(1,345)	(4,113)	(94,041)
Financing Activities:			
Proceeds from issuance of common stock			18,789,536
Proceeds from issuance of preferred stock			3,895,597
Payment of employee withholding tax related to RSUs	(2,010)		(2,010)
Net cash (used in) provided by financing activities	(2,010)		22,683,123
Net (decrease) increase in cash	(1,227,384)	(1,369,762)	14,616,512
Cash and cash equivalents at beginning of period	15,943,896	20,434,702	100,000
Cash and cash equivalents at end of period	$ 14,716,512	$ 19,064,940	$ 14,716,512
Supplemental disclosure of non-cash investing and financing activities:			
Non-cash incentive received from lessor	$	$	$ 52,320

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

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CATALYST PHARMACEUTICAL PARTNERS, INC.
(a development stage company)
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Organization and Description of Business.

Catalyst Pharmaceutical Partners, Inc. (the Company) is a development-stage biopharmaceutical company focused on the acquisition, development and commercialization of prescription drugs for the treatment of drug addiction and obsessive compulsive disorders. The Company was incorporated in Delaware in July 2006. It is the successor by merger to Catalyst Pharmaceutical Partners, Inc., a Florida corporation, which commenced operations in January 2002.

The Company has incurred operating losses in each period from inception through March 31, 2008. The Company has been able to fund its cash needs to date through an initial funding from its founders, four subsequent private placements and an initial public offering (IPO) of its common stock.

Capital Resources

At the present time, the Company estimates that it will require additional funding to complete the Phase III clinical trial that its management believes the Company will be required to complete before the Company is in a position to file a new drug application, or NDA for our initial product candidate, CPP-109. The Company will also require additional working capital to support its operations in periods after the middle of 2009.

The Company expects to raise required additional funds through public or private equity offerings, debt financings, corporate collaborations or other means. The Company may also seek to raise additional capital to fund additional product development efforts, even if it has sufficient funds for its planned operations. Any sale by the Company of additional equity or convertible debt securities could result in dilution to the Company s stockholders. There can be no assurance that any such required additional funding will be available to the Company at all or available on terms acceptable to the Company. Further, to the extent that the Company raises additional funds through collaborative arrangements, it may be necessary to relinquish some rights to the Company s technologies or grant sublicenses on terms that are not favorable to the Company. If the Company is not able to secure additional funding when needed, the Company may have to delay, reduce the scope of or eliminate one or more research and development programs, which could have an adverse effect on the Company s business.

2. Basis of Presentation and Significant Accounting Policies.

a. **DEVELOPMENT STAGE COMPANY.** Since inception, the Company has devoted substantially all of its efforts to business planning, research and development, recruiting management and technical staff, acquiring operating assets and raising capital. Accordingly, the Company is considered to be in the development stage and the Company s financial statements are presented in accordance with Statement of Financial Accounting Standard No. 7, *Accounting and Reporting by Development Stage Enterprises*. The Company s primary focus is on the development and commercialization of CPP-109, which is the chemical compound gamma-vinyl-GABA, commonly referred to as vigabatrin, as a potential treatment for drug addiction, including cocaine addiction, methamphetamine addiction, and certain obsessive compulsive disorders.

b. **INTERIM FINANCIAL STATEMENTS.** The accompanying unaudited interim condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting of interim financial information. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

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2. Basis of Presentation and Significant Accounting Policies. (continued)

In the opinion of management, the accompanying unaudited interim condensed financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of the dates and for the periods presented. Accordingly, these statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2007 included in the Form 10-K filed by the Company with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for any future period or for the full 2008 fiscal year.

c. **USE OF ESTIMATES.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

d. **COMPREHENSIVE INCOME (LOSS).** SFAS No. 130, *Reporting Comprehensive Income (Loss)* , requires that all components of comprehensive income (loss) be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is net income (loss), plus certain other items that are recorded directly into stockholders equity. The Company has reported comprehensive income (loss) in the statement of stockholders equity as net loss.

e. **EARNINGS (LOSS) PER SHARE.** Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents, such as unvested restricted common stock and stock options. Due to the net loss for all periods presented, all common stock equivalents were excluded because their inclusion would have been anti-dilutive.

Potentially dilutive common stock equivalents as of March 31, 2008 include (i) stock options to purchase up to 2,627,149 shares of common stock at exercise prices ranging from $0.69 to $6.00 per share and (ii) 15,241 shares of restricted common stock that will vest over the next two years.

Potentially dilutive common stock equivalents as of March 31, 2007 include (i) stock options to purchase up to 2,458,149 shares of common stock at exercise prices ranging from $0.69 to $6.00 per share and (ii) 15,000 shares of unvested restricted common stock.

f. **CASH AND CASH EQUIVALENTS.** The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company has substantially all of its cash and cash equivalents deposited with one financial institution. The Company had cash balances at certain financial institutions in excess of federally insured limits periodically throughout the period.

g. **PREPAID EXPENSES**. Prepaid expenses consist primarily of advances under research and development contracts, including advances to the Contract Research Organization (CRO) that is overseeing the Company s U.S. Phase II cocaine and methamphetamine clinical trials. Such advances are recorded as expense as the related goods are received or the related services are performed.

h. **STOCK COMPENSATION PLANS.** Through July 2006, the Company did not have a formal stock option plan, although stock options were granted pursuant to written agreements. In July 2006, the Company adopted the 2006 Stock Incentive Plan (the Plan). See Note 8.

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2. Basis of Presentation and Significant Accounting Policies. (continued)

As of March 31, 2008, there were outstanding stock options to purchase 2,627,149 shares of common stock (including options to purchase 329,791 shares granted under the Plan), of which stock options to purchase 2,374,780 shares of common stock were exercisable as of March 31, 2008. Additionally, as of March 31, 2008 there were 55,484 shares of restricted common stock granted under the Plan, of which 40,243 were vested.

For the three month periods ended March 31, 2008 and 2007, the Company recorded stock-based compensation expense as follows:

	2008	2007
Research and development	$ 174,556	$ 78,393
General and administrative	88,848	121,975
Total stock-based compensation	$ 263,404	$ 200,368

i. **RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements (SFAS No. 157)*. This standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. There are numerous previously issued statements dealing with fair values that are amended by SFAS No. 157. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,* which scopes out leasing transactions accounted for under SFAS No. 13, *Accounting for Leases* . In February 2008, FSP FAS 157-2, *Effective Date of FASB Statement No. 157* , was issued, which delays the effective date of SFAS No. 157 to fiscal years and interim periods within those fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The implementation of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on the Company s results of operations or financial condition. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 were effective for the Company beginning January 1, 2008. The adoption of SFAS No. 159 did not have any impact on the Company s results of operations or financial position.

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2. Basis of Presentation and Significant Accounting Policies. (continued)

In June 2007, the FASB ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. The guidance in EITF Issue 07-3 requires the Company to defer and capitalize nonrefundable advance payments made for goods or services to be used in research and development activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, the Company would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is applied prospectively to new contracts entered into on or after December 15, 2007. The Company adopted EITF Issue 07-3 effective January 1, 2008. The adoption of EITF Issue 07-3 did not have a material impact on the Company s results of operations or financial condition.

3. Prepaid Expenses

Prepaid expenses consist of the following:

	March 31, 2008	December 31, 2007
Advances to CRO	$ 226,599	$ 314,503
Prepaid clinical research fees	170,416	121,303
Prepaid insurance	150,697	82,162
Other	37,473	6,113
Total prepaid expenses	$ 585,185	$ 524,081

4. Property and Equipment.

Property and equipment, net consists of the following:

	March 31, 2008	December 31, 2007
Computer equipment	$ 27,211	$ 25,866
Furniture and equipment	44,175	44,175
Leasehold improvements	80,176	80,176
	151,562	150,217
Less: Accumulated depreciation	(30,636)	(22,429)
Total property and equipment, net	$ 120,926	$ 127,788

Depreciation expense was $8,207 and $2,090, respectively, for the three month periods ended March 31, 2008 and 2007.

5. Accrued Expenses and Other Liabilities.

Accrued expenses and other liabilities consist of the following:

	March 31, 2008	December 31, 2007
Deferred rent and lease incentive	$ 9,966	$ 9,470
Accrued compensation and benefits	20,237	40,831

Accrued professional fees		77,500		10,000
Other		13,800		23,118
Current accrued expenses and other liabilities		121,503		83,419
Deferred rent and lease incentive- non-current		51,053		53,880
Non-current accrued expense and other liabilities		51,053		53,880
Total accrued expenses and other liabilities	$	172,556	$	137,299

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6. Commitments.

The Company has contracted with a CRO, various drug manufacturers, and other vendors to assist in clinical trial work, analysis, and the filing of an NDA with the FDA. The contracts are cancelable at any time, but obligate the Company to reimburse the providers for any time or costs incurred through the date of termination.

The Company has entered into a license agreement with Brookhaven Science Associates, LLC, as operator of Brookhaven National Laboratory under contract with the United States Department of Energy (Brookhaven), whereby the Company has obtained an exclusive license for several patents and patent applications in the U.S. and outside the U.S. relating to the use of vigabatrin as a treatment for cocaine and other addictions. This license agreement runs concurrently with the term of the last to expire of the licensed patents, the last of which currently expires in 2021. The Company paid a fee to obtain the license in the amount of $50,000. Under the license agreement, the Company has agreed to pay Brookhaven a fee of $100,000 in the year of NDA approval of CPP-109, $250,000 in each of the second and third years following approval and $500,000 per year thereafter until the license agreement expires. The Company is also obligated to reimburse Brookhaven for certain of their patent related expenses. The Company believes that as of March 31, 2008 it had a contingent liability of approximately $166,000, related to this obligation. Of these costs, approximately $69,000 will become payable in six equal monthly installments at the time the Company submits a new drug application (NDA) to the U.S. Food and Drug Administration (FDA), and the remaining $97,000 will be due commencing within 60 days of obtaining FDA regulatory approval to sell any product. The Company also has the right to enter into sub-license agreements, and if it does, a royalty of 20% of any sub-license fees will be payable to Brookhaven.

During November 2007, Brookhaven formally advised the Company that they believe that the amount potentially due from the Company to Brookhaven for patent related expenses as of that date was approximately $1,000,000. The Company believes that it is potentially only liable to Brookhaven for the approximately $166,000 described above, and it has advised Brookhaven that it disputes their determination of patent-related expenses due under the license agreement. The Company intends to consult with Brookhaven in an effort to resolve this dispute. However, there can be no assurance as to the outcome of this matter. In any event, no patent-related expenses are due to Brookhaven under the license agreement until the submission by the Company of an NDA for CPP-109. As the Company has not filed yet an NDA for CPP-109, no amounts are accrued relating to this matter in the accompanying March 31, 2008 and December 31, 2007 condensed balance sheets.

7. Income Taxes.

The Company is subject to income taxes in the U.S. federal jurisdiction and various states jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2003. If the Company were to subsequently record an unrecognized tax benefit, associated penalties and tax related interest expense would be reported as a component of income tax expense.

8. Stock Compensation.

Stock Options

The Company granted 59,000 and 84,000 common stock options to employees, officers, directors and consultants, generally at exercise prices equal to the market value of the stock at the date of grant, during the quarters ended March 31, 2008 and 2007, respectively. The Company recorded stock-based compensation related to stock options totaling $152,676 and $195,330, respectively, during the three months ended March 31, 2008 and 2007. The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2008 and 2007 was $3.23 and $2.73, respectively. The total fair value of vested stock options for the three months ended March 31, 2008 and 2007 was $160,941 and $129,753, respectively.

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8. Stock Compensation (continued)

The calculated value of the employee stock options was determined using the Black-Scholes option-pricing model with the following assumptions:

	Three months ended March 31,	
	2008	**2007**
Risk free interest rate	2.84 to 2.98%	4.57%
Expected term	4 to 5 years	4 to 5 years
Expected volatility	80%	100%
Expected dividend yield	%	%
Expected forfeiture rate	%	%

As of March 31, 2008, there was approximately $649,000 of unrecognized compensation expense related to non-vested stock compensation awards granted under the Plan. The cost is expected to be recognized over a weighted average period of approximately 1.10 years.

Restricted Stock Units

During the quarters ended March 31, 2008 and 2007, the Company granted 30,000 and 15,000 restricted stock units, respectively. The Company recorded stock-based compensation related to restricted stock units totaling $110,728 and $5,038, respectively, during the three month periods ended March 31, 2008 and 2007. As of March 31, 2008, there was $43,152 of total restricted stock unit compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.05 years.

9. Related Party Transactions.

Since its inception in 2002, the Company has entered into various consulting agreements with non-employee officers and with members of the Company s Scientific Advisory Board. During the three month periods ended March 31, 2008 and 2007, the Company paid approximately $112,000 and $13,000, respectively, in consulting fees to related parties.

10. Reclassifications

Certain prior period amounts in the condensed financial statements have been reclassified to conform to the current year presentation.