

LA JOLLA PHARMACEUTICAL CO  
Form 10-Q  
November 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 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: 1-36282

LA JOLLA PHARMACEUTICAL COMPANY  
(Exact name of registrant as specified in its charter)

California 33-0361285  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

10182 Telesis Court, 6th Floor 92121  
San Diego, CA (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (858) 207-4264

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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 October 31, 2015, La Jolla Pharmaceutical Company had 18,241,509 shares of common stock, \$0.0001 par value per share, outstanding.

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LA JOLLA PHARMACEUTICAL COMPANY  
FORM 10-Q  
QUARTERLY REPORT

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014 1

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2015 and 2014 2

Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 3

Notes to Condensed Consolidated Financial Statements 4

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 14

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk 19

ITEM 4. Controls and Procedures 19

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings 20

ITEM 1A. Risk Factors 20

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds 20

ITEM 3. Defaults Upon Senior Securities 20

ITEM 4. Mine Safety Disclosures 20

ITEM 5. Other Information 20

ITEM 6. Exhibits 20

SIGNATURES 21

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## LA JOLLA PHARMACEUTICAL COMPANY

## Condensed Consolidated Balance Sheets

(in thousands, except share and par value amounts)

|  | September 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 135,055                           | \$ 48,555            |
| Restricted cash  | 237                                  | 37                   |
| Prepaid clinical expenses  | 360                                  | 1,528                |
| Prepaid expenses and other current assets  | 484                                  | 137                  |
| Total current assets   | 136,136                              | 50,257               |
| Property and equipment, net  | 1,751                                | 279                  |
| Other assets   | 57                                   | —                    |
| Total assets   | \$ 137,944                           | \$ 50,536            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                      |                      |
| Current liabilities:   |                                      |                      |
| Accounts payable   | \$ 2,567                             | \$ 730               |
| Accrued expenses   | 1,145                                | 926                  |
| Accrued payroll and related expenses   | 629                                  | 424                  |
| Total current liabilities  | 4,341                                | 2,080                |
| Shareholders' equity:  |                                      |                      |
| Common Stock, \$0.0001 par value; 100,000,000 shares authorized, 18,241,509 and 15,225,980 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively                         | 2                                    | 2                    |
| Series C-1 <sup>2</sup> Convertible Preferred Stock, \$0.0001 par value; 11,000 shares authorized, 3,906 and 3,917 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively | 3,906                                | 3,917                |
| Series F Convertible Preferred Stock, \$0.0001 par value; 10,000 shares authorized, 2,737 and 2,798 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively                | 2,737                                | 2,798                |
| Additional paid-in capital   | 643,651                              | 528,353              |
| Accumulated deficit  | (516,693)                            | (486,614)            |
| Total shareholders' equity   | 133,603                              | 48,456               |
| Total liabilities and shareholders' equity   | \$ 137,944                           | \$ 50,536            |

See accompanying notes to the condensed consolidated financial statements.

## LA JOLLA PHARMACEUTICAL COMPANY

## Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share amounts)

|   | Three Months Ended |            | Nine Months Ended |             |
|---|--------------------|------------|-------------------|-------------|
|   | September 30,      |            | September 30,     |             |
|   | 2015               | 2014       | 2015              | 2014        |
| Revenue   |                    |            |                   |             |
| Contract revenue - related party                              | \$647              | \$—        | \$647             | \$—         |
| Total revenue   | 647                | —          | 647               | —           |
| Expenses  |                    |            |                   |             |
| Research and development                                      | 7,781              | 2,625      | 19,637            | 6,218       |
| General and administrative                                    | 3,353              | 2,436      | 11,122            | 8,259       |
| Total expenses  | 11,134             | 5,061      | 30,759            | 14,477      |
| Loss from operations  | (10,487            | ) (5,061   | ) (30,112         | ) (14,477   |
| Other income, net   | 13                 | 9          | 33                | 13          |
| Net loss and comprehensive loss                               | \$(10,474          | ) \$(5,052 | ) \$(30,079       | ) \$(14,464 |
| Basic and diluted net loss per share                          | \$(0.70            | ) \$(0.37  | ) \$(1.99         | ) \$(1.58   |
| Shares used in computing basic and diluted net loss per share | 14,899             | 13,646     | 15,129            | 9,131       |

See accompanying notes to the condensed consolidated financial statements.

LA JOLLA PHARMACEUTICAL COMPANY  
 Unaudited Condensed Consolidated Statements of Cash Flows  
 (in thousands)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2015                               | 2014        |
| Operating activities   |                                    |             |
| Net loss   | \$(30,079                          | ) \$(14,464 |
| Adjustments to reconcile net loss to net cash used for operating activities:                             |                                    |             |
| Share-based compensation expense   | 9,330                              | 6,595       |
| Third party share-based compensation expense   | 1,013                              | —           |
| Depreciation expense   | 209                                | 10          |
| Changes in operating assets and liabilities:   |                                    |             |
| Restricted Cash  | (200                               | ) —         |
| Prepaid clinical expenses  | 1,168                              | —           |
| Prepaid expenses and other current assets  | (347                               | ) (110      |
| Other assets   | (57                                | ) —         |
| Accounts payable   | 1,837                              | (151        |
| Accrued expenses   | 219                                | 713         |
| Accrued payroll and related expenses   | 205                                | (68         |
| Net cash used for operating activities   | (16,702                            | ) (7,475    |
| Investing activities   |                                    |             |
| Purchase of property and equipment   | (1,681                             | ) (86       |
| Net cash used for investing activities   | (1,681                             | ) (86       |
| Financing activities   |                                    |             |
| Net proceeds from the issuance of common stock   | 104,596                            | 53,063      |
| Net proceeds from the exercise of stock options for common stock   | 287                                | —           |
| Net cash provided by financing activities  | 104,883                            | 53,063      |
| Net increase in cash and cash equivalents  | 86,500                             | 45,502      |
| Cash and cash equivalents at beginning of period   | 48,555                             | 8,629       |
| Cash and cash equivalents at end of period   | \$135,055                          | \$54,131    |
| Supplemental disclosure of cash flow information   |                                    |             |
| Non-cash investing and financing activity:   |                                    |             |
| Conversion of Series C-1 <sup>2</sup> Convertible Preferred Stock into common stock                      | \$11                               | \$—         |
| Conversion of Series F Convertible Preferred Stock into common stock                                     | \$61                               | \$452       |
| Conversion of Series C-1 <sup>2</sup> and D-1 <sup>2</sup> Convertible Preferred Stock into common stock | \$—                                | \$3,099     |

See accompanying notes to the condensed consolidated financial statements.

LA JOLLA PHARMACEUTICAL COMPANY

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

September 30, 2015

1. Business

La Jolla Pharmaceutical Company (collectively with its subsidiaries, the "Company") is a biopharmaceutical company focused on the discovery, development and commercialization of innovative therapies intended to significantly improve outcomes in patients suffering from life-threatening diseases. The Company has several product candidates in development. LJPC-501 is the Company's proprietary formulation of angiotensin II for the potential treatment of catecholamine-resistant hypotension. LJPC-401 is the Company's novel formulation of hepcidin for the potential treatment of conditions characterized by iron overload, such as hereditary hemochromatosis, beta thalassemia and sickle cell disease. LJPC-30Sa and LJPC-30Sb are the Company's next-generation gentamicin derivatives for the potential treatment of serious bacterial infections and rare genetic disorders, such as cystic fibrosis and Duchenne muscular dystrophy. The Company was incorporated in 1989 as a Delaware corporation and reincorporated in California in 2012.

In September 2015, the Company completed a common stock offering and received approximately \$104.6 million, net of issuance costs (see Note 4).

The Company has a history of incurring significant operating losses and negative cash flows from operations. Since January 2012, when the Company was effectively restarted with new assets and a new management team, through September 30, 2015, the Company's cash used in operating activities was \$36.5 million. The Company had available cash and cash equivalents of \$135.1 million at September 30, 2015. Based on current operating plans and projections, management believes that the available cash and cash equivalents will be sufficient to fund operations into 2018.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of the Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2015. The unaudited condensed consolidated financial statements contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the condensed consolidated balance sheet of the Company at September 30, 2015, the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2015, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2015. Estimates were made relating to useful lives of fixed assets, valuation allowances, impairment of assets, share-based compensation expense and accruals for clinical trial and research and development expenses. Actual results could differ materially from those estimates. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Effective January 14, 2014, the Company effected a 1-for-50 reverse split (the "2014 Reverse Stock Split") of its outstanding common stock (See Note 4). All common stock share and per share information in the accompanying unaudited condensed consolidated financial statements have been restated to reflect retrospective application of the 2014 Reverse Stock Split for all periods presented, except for par value per share and the number of authorized share amounts, which were not affected. All stock options and the shares of common stock underlying outstanding convertible preferred stock were ratably adjusted to give effect to the 2014 Reverse Stock Split.

Certain amounts previously reported in the financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not affect net loss, shareholders' equity or cash flows.



### Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of La Jolla Pharmaceutical Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity from the date of purchase of less than three months to be cash equivalents. The carrying value of the Company's money market funds is included in cash equivalents and approximates the fair value.

### Restricted Cash

Under the terms of the Company's credit card arrangements, there is a requirement to maintain a collateral cash account pledged as security for such credit cards. Under the terms of the leases of certain of the Company's facilities, there is a requirement to maintain a certificate of deposit as security during the terms of such leases. As of September 30, 2015 and December 31, 2014, restricted cash of \$237,000 and \$37,000, respectively, was pledged as collateral for the credit cards and leases.

### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. As of September 30, 2015 and December 31, 2014, the carrying value of property and equipment, net was \$1,751,000 and \$279,000, respectively, which was comprised of lab equipment, furniture, computer equipment, software and leasehold improvements. Depreciation expense was \$114,000 and \$209,000 for the three and nine months ended September 30, 2015, respectively, and \$5,000 and \$10,000 for the three and nine months ended September 30, 2014, respectively.

### Revenue Recognition

In accordance with GAAP, the Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured. The Company currently recognizes revenue from payments received under a services agreement with a related party. Under the terms of this services agreement, the Company receives payments from this related party for research and development services that the Company provides at a negotiated, arms-length rate.

### Clinical Trial Expenses

Payments in connection with the Company's clinical trials are often made under contracts with multiple contract research organizations that conduct and manage clinical trials on the Company's behalf. The financial terms of these contracts are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Generally, these contracts set forth the scope of work to be performed at a fixed fee, unit price or on a time and materials basis. Payments under these contracts depend on factors such as the successful enrollment or treatment of patients or the completion of other clinical trial milestones. As of September 30, 2015 and December 31, 2014, the prepaid clinical expenses of \$360,000 and \$1,528,000 on the condensed consolidated balance sheets represent the

initial upfront payments to clinical research organizations for two clinical trials that commenced in 2015. The Company amortizes prepaid clinical trial costs to expense based on estimates regarding work performed, including actual level of patient enrollment, completion of patient studies and progress of the clinical trials.

Expenses related to clinical trials are accrued based on estimates regarding work performed, including actual level of patient enrollment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrollment or treatment are accrued when reasonably certain. If the contracted amounts are modified, the accruals are modified accordingly on a prospective basis. Revisions in the scope of a contract are charged to expense in the period in which the facts that give rise to the revision occur.

### Research and Development Expenses

Research and development expenses include salaries and benefits, facilities and other overhead expenses, research-related manufacturing expenses, contract services and clinical and preclinical-related services performed by clinical research organizations, research institutions and other outside service providers. Research and development expenses are charged to operations as incurred when these expenditures relate to the Company's research and development efforts and have no alternative future uses.

In accordance with certain research and development agreements, the Company is obligated to make certain upfront payments upon execution of the agreement. Advance payments, including nonrefundable amounts, for materials or services that will be used or rendered for future research and development activities are deferred and capitalized. Such amounts will be recognized as an expense as the related goods are delivered or the related services are performed.

Acquisition or milestone payments that the Company makes in connection with in-licensed technology are expensed as incurred when there is uncertainty in receiving future economic benefits from the licensed technology. The Company considers the future economic benefits from the licensed technology to be uncertain until such licensed technology is incorporated into products that are approved for marketing by the U.S. Food and Drug Administration (the "FDA") or when other significant risk factors are abated. For accounting purposes, management has viewed future economic benefits for all of the Company's licensed technology to be uncertain.

### Share-Based Compensation

The Company accounts for share-based payment arrangements in accordance with Accounting Standards Codification ("ASC") 718, Compensation - Stock Compensation and ASC 505-50, Equity - Equity Based Payments to Non-Employees, which requires the recognition of compensation expense, using a fair-value based method, for all costs related to share-based payments, including stock options and restricted stock awards. These standards require companies to estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. See Note 4 for further discussion of the Company's share-based compensation plans.

### Net Loss Per Share

Basic net loss per share is calculated based on the weighted-average number of common shares outstanding. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding plus common stock equivalents outstanding. Outstanding convertible preferred stock, stock options and unvested restricted stock awards are considered common stock equivalents and are included in the calculation of diluted net loss per share using the treasury stock method when their effect is dilutive. Common stock equivalents are not included in the computation of diluted net loss per share if the inclusion of these securities is anti-dilutive. As of September 30, 2015 and September 30, 2014, there were common stock equivalents of 9.1 million shares and 8.1 million shares, respectively, which were excluded from the calculation of diluted net loss per share because they were anti-dilutive.

### Comprehensive Loss

Comprehensive loss for the periods reported was comprised solely of the Company's net loss. The comprehensive loss for the three and nine months ended September 30, 2015 was \$10.5 million and \$30.1 million, respectively, and for the three and nine months ended September 30, 2014 was \$5.1 million and \$14.5 million, respectively. There were no other changes in equity that were excluded from net loss for all periods presented.



## Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and to provide related footnote disclosures. The ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The ASU is effective for annual periods ending after December 15, 2016, which for the Company is the annual period ending on December 31, 2016, and interim periods within annual periods beginning after December 15, 2016, which for the Company is the annual period ending December 31, 2017. Early adoption is permitted. The Company does not intend to early adopt this standard. The adoption of this standard will not have a material impact on the Company's financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 781): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. This update is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015, which for the Company is the annual period ending on December 31, 2016. Early adoption is permitted. The Company does not intend to early adopt this standard. Entities may apply the amendments in this update either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this standard will not have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This guidance was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, which for the Company is the annual period ending on December 31, 2017. Early adoption was not originally permitted. In July 2015, the FASB approved the deferral of the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. The Company does not intend to early adopt this standard. The standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. The adoption of this update will not have a material impact on its financial position or results of operations.

### 3. Contract Revenue - Related Party

During the three months ended September 2015, the Company entered into a services agreement with a private company that is a related party. Pursuant to the services agreement, the Company provides certain services to this related party, including, but not limited to, research and development and clinical trial design and management. In exchange for providing such services pursuant to the services agreement, the Company receives payments at a negotiated, arms-length rate. As a result, the consideration received by the Company for its services under the services agreement is considered to be no less favorable to the Company than comparable terms that the Company could obtain from an unaffiliated third party in an arms-length transaction. The services agreement may be canceled by either party upon 60-days' written notice to the other party. Additionally, the Company anticipates receiving a non-voting profits interest in the related party, providing the Company with the potential to receive a portion of the future distributions of profits, if any.

During the three and nine months ended September 30, 2015, the Company recognized approximately \$647,000 of contract revenue for services and costs provided under the services agreement.

#### 4. Shareholders' Equity

##### Common Stock

##### 2015 Common Stock Offering

In September 2015, the Company offered and sold an aggregate of 2,932,500 shares of common stock in an underwritten offering at a public offering price of \$38.00 per share, with gross proceeds of approximately \$111.4 million. The Company received net proceeds of approximately \$104.6 million, net of approximately \$6.8 million in underwriting commissions, discounts and other issuance costs.

##### 2014 Common Stock Offering

In July 2014, the Company offered and sold an aggregate of 5,395,000 shares of common stock in an underwritten offering at a public offering price of \$10.50 per share, with gross proceeds of approximately \$56.6 million. The Company received net proceeds of approximately \$53.1 million, net of approximately \$3.5 million in underwriting commissions, discounts and other issuance costs.

##### 2014 Reverse Stock Split

In January 2014, the Company enacted the 2014 Reverse Stock Split. The 2014 Reverse Stock Split was approved by the Company's shareholders in June 2013 and resulted in every 50 shares of the Company's issued and outstanding common stock to be automatically combined into one share of the Company's common stock. No fractional shares were issued in connection with the 2014 Reverse Stock Split. Shareholders who were entitled to fractional shares instead became entitled to receive a cash payment in lieu of receiving fractional shares equal to the fractional share interest. The 2014 Reverse Stock Split affected all of the holders of the Company's common stock uniformly. Shares of the Company's common stock underlying outstanding stock options were proportionately reduced, and the exercise prices of outstanding stock options were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of the Company's common stock underlying outstanding convertible preferred stock were proportionately reduced, and the conversion rates were proportionately decreased in accordance with the terms of the agreements governing such securities.

##### Amendment to Articles of Incorporation

In August 2014, at the Company's annual meeting of shareholders, the Company's shareholders approved an amendment to the Company's articles of incorporation to reduce the number of authorized common shares available for issuance to 100,000,000 shares from 12,000,000,000 shares.

##### Preferred Stock

As of September 30, 2015, the Company is authorized to issue 8,000,000 shares of preferred stock, with a par value of \$0.0001 per share, in one or more series, of which 11,000 are designated as Series C-1<sup>2</sup> Convertible Preferred Stock (the "Series C-1<sup>2</sup> Preferred") and 10,000 are designated as Series F Convertible Preferred Stock (the "Series F Preferred"). During the nine months ended September 30, 2015, the Company issued 19,134 and 17,360 shares of common stock upon the conversion of Series C-1<sup>2</sup> Preferred and Series F Preferred, respectively. During the year ended December 31, 2014, the Company issued 5,341,670 shares of common stock upon the conversion of Series C-1<sup>2</sup> Preferred and 129,105 shares of common stock upon the conversion of Series F Preferred. The Series C-1<sup>2</sup> Preferred is convertible into common stock at a rate of approximately 1,724 shares of common stock for each share of Series C-1<sup>2</sup> Preferred, and the Series F Preferred is convertible into common stock at a rate of approximately 286

shares of common stock for each share of Series F Preferred. As of September 30, 2015, there were 3,906 shares of Series C-1<sup>2</sup> Preferred and 2,737 shares of Series F Preferred issued and outstanding. As such, as of September 30, 2015, the issued and outstanding Series C-1<sup>2</sup> Preferred and Series F Preferred were convertible into 6,735,378 and 782,032 shares of common stock, respectively.

The holders of preferred stock do not have voting rights, other than for general protective rights required by the California General Corporation Law. The Series C-1<sup>2</sup> Preferred and the Series F Preferred do not have dividends.



The Series C-1<sup>2</sup> Preferred and the Series F Preferred have a liquidation preference in an amount equal to \$1,000 per share. As of September 30, 2015, the aggregate liquidation preference was approximately \$3,906,000 and \$2,737,000 on the Series C-1<sup>2</sup> Preferred and Series F Preferred, respectively.

## Share-Based Compensation

### Stock Options

#### 2013 Equity Incentive Plan

In September 2013, the Company adopted an equity compensation plan entitled the 2013 Equity Incentive Plan (the “2013 Equity Plan”). The 2013 Equity Plan is an omnibus equity compensation plan that permits the issuance of various types of equity-based compensation awards, including stock options, restricted stock awards, stock appreciation rights and restricted stock units, as well as cash awards, to employees, directors and eligible consultants of the Company. The 2013 Equity Plan has a ten-year term and permits the issuance of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. The administrator under the plan has broad discretion to establish the terms of awards, including the size, term, exercise price and vesting conditions. Generally, grants to employees vest over four years, with 25% vesting on the one-year anniversary, and the remainder vesting either quarterly or monthly thereafter; grants to non-employee directors generally vest over three years, with 33% vesting on the one-year anniversary, and the remainder vesting either quarterly or monthly thereafter.

The 2013 Equity Plan previously allowed for automatic annual increases to the number of shares of common stock authorized for issuance under the 2013 Equity Plan on the first day of each year, with such increases based on 10% of the outstanding shares of the Company’s common stock as of the last day of the previous year. On January 1, 2014, the total shares available for grant under the 2013 Equity Plan increased to 440,441. At the 2014 annual meeting of shareholders, the Company’s shareholders approved and adopted an amendment to the 2013 Equity Plan to increase the number of shares of common stock authorized for issuance up to a total of 1,100,000 shares and eliminated the automatic annual increase on the first day of each year. At the 2015 annual meeting of shareholders, the Company’s shareholders approved and adopted an amendment to the 2013 Equity Plan to increase the number of shares of common stock authorized for issuance up to a total of 3,100,000 shares.

As of September 30, 2015, there were 1,613,525 shares available for future grants under the 2013 Equity Plan.

### Share-Based Award Activity

The Company’s stock option and 2013 Equity Plan restricted stock award activity for the nine months ended September 30, 2015 and the year ended December 31, 2014 was comprised of the following:

|                                  | Outstanding Stock Options and 2013 Equity Plan Restricted Stock Awards |   |   |                           |
|----------------------------------|--|---|---|---------------------------|
|                                  | Shares Underlying Stock Options and Restricted Stock Awards            | Weighted-Average Exercise Price per Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding at December 31, 2013 | 54,000   | \$6.00                                    |   |                           |
| Granted                          | 567,876  | \$9.88                                    |   |                           |
| Restricted stock awards vested   | (2,976)  | \$0.00                                    |   |                           |
| Outstanding at December 31, 2014 | 618,900  | \$9.54                                    |   |                           |
| Granted                          | 942,285  | \$23.83                                   |   |                           |

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|   |           |   |         |            |               |
|---|-----------|---|---------|------------|---------------|
| Exercised   | (42,535   | ) | \$9.74  |            |               |
| Forfeited   | (24,465   | ) | \$10.19 |            |               |
| Outstanding at September 30, 2015                 | 1,494,185 |   | \$18.54 | 9.21 years | \$ 15,765,631 |
| Vested and expected to vest at September 30, 2015 | 1,494,185 |   | \$18.54 | 9.21 years | \$ 15,765,631 |
| Exercisable at September 30, 2015                 | 211,408   |   | \$10.60 | 8.67 years | \$ 3,643,505  |

9

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In April 2015, the Company made a stock option grant to the Company's recently appointed Chief Financial Officer to purchase 60,000 shares of common stock at an exercise price equal to the fair market value of the Company's common stock on the grant date. This grant was awarded as an Inducement Grant outside of the 2013 Equity Plan. The stock option will vest and become exercisable with respect to 25% of the underlying shares on the first anniversary of the grant date, and then with respect to the remaining shares, on a quarterly basis over the next three years, subject to continued service during that time.

As of September 30, 2015, the Company has reserved 3,047,710 shares of common stock for future issuance upon exercise of all outstanding stock options granted or to be granted under the 2013 Equity Plan, which excludes the 60,000 shares underlying the stock option discussed above that was issued in April 2015.

The weighted-average grant date fair values of the stock options granted during the three and nine months ended September 30, 2015 was \$21.49 and \$21.13 per underlying share, respectively. The weighted-average grant date fair values of stock options granted during the three and nine months ended September 30, 2014 was \$8.38 and \$9.49 per underlying share, respectively. As of September 30, 2015, approximately \$19,856,000 of total unrecognized share-based compensation expense related to non-vested stock options remains and is expected to be recognized over a weighted-average period of approximately 3.0 years. During the three and nine months ended September 30, 2015, stock options to purchase 35,035 and 42,535 shares of common stock, respectively, were exercised with an intrinsic value of \$641,000 and \$752,000, respectively. No stock option exercises occurred during the year ended December 31, 2014.

#### Third Party Share-Based Compensation Expense

The Company initially estimates the fair value of stock options and warrants issued to non-employees, other than non-employee directors, on the grant date using the Black-Scholes model. Thereafter, the Company re-measures the fair value using the Black-Scholes model as of each balance sheet date as the stock options and warrants vest.

In December 2014, the Company granted warrants to purchase 51,000 shares of common stock to two outside third parties at an exercise price equal to the fair market value of the stock on the date of each grant. One grant will vest 25% on each anniversary date over four years. The other grant vests 100% on the one-year anniversary of the grant. The Company recognized compensation expense for these warrant grants of approximately \$197,000 and \$613,000 for the three and nine months ended September 30, 2015, respectively.

In February 2015, the Company granted a stock option to purchase 60,000 shares of common stock to a consultant at an exercise price equal to the fair market value of the Company's common stock on the grant date. This grant was made from the 2013 Equity Plan. The stock option vested with respect to 25% of the underlying shares on the grant date with the remainder to vest quarterly over three years. The Company recognized third party compensation expense for this stock option grant of approximately zero and \$362,000 for the three and nine months ended September 30, 2015, respectively. In July 2015, this consultant became an employee of the Company.

In August 2015, the Company granted a stock option to purchase 40,000 shares of common stock to a consultant at an exercise price equal to the fair market value of the Company's common stock on the grant date. This grant was made from the 2013 Equity Plan. The vesting of this stock option is contingent on the achievement of a performance milestone by the end of 2016, at which time any unvested shares underlying the option will be canceled. The Company recognized compensation expense for this stock option grant of approximately \$38,000 for the three and nine months ended September 30, 2015.

#### Stock Option Valuation

The fair value of each stock option award is estimated on the grant date using a Black-Scholes option pricing model (the “Black-Scholes model”), which uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company’s common stock. In determining the expected life of employee stock options, the Company uses the “simplified” method. The expected life assumptions for non-employees were based upon the contractual term of the stock options. The risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the stock options in effect at the time of the grants. The dividend yield assumption is based on the expectation of no future dividend payments by the Company.

The Company estimated the fair value of each stock option grant on the grant date using the Black-Scholes model with the following weighted-average assumptions:

|                         | Nine Months Ended<br>September 30, |   |            |   |
|-------------------------|------------------------------------|---|------------|---|
|                         | 2015                               |   | 2014       |   |
| Volatility              | 147                                | % | 188        | % |
| Expected life (years)   | 4.91 years                         |   | 6.73 years |   |
| Risk-free interest rate | 1.4                                | % | 2.2        | % |
| Dividend yield          | —                                  | % | —          | % |

#### Restricted Stock Awards

Restricted stock awards ("RSAs") are grants that entitle the holder to acquire shares of common stock for no cash consideration or at a fixed price, which is typically nominal. The Company accounts for RSAs as issued and outstanding common stock, even though: (a) shares covered by an RSA cannot be sold, pledged, or otherwise disposed of until the award vests; and (b) any unvested shares may be reacquired by the Company for the original purchase price following the awardee's termination of service. The valuation of RSAs is based on the fair market value of the underlying shares on the grant date.

In September 2013, the Company issued RSAs consisting of approximately 1,327,048 shares to the CEO, 79,622 shares to a director and an aggregate of 336,185 shares to three non-officer employees. The grants to the CEO, director and one of the employees were for the replacement of canceled stock options and restricted stock units granted in April 2012, which was done in order to complete the capital restructuring that took place in September 2013. These RSAs were granted outside of the 2013 Equity Plan, but are governed in all respects by the 2013 Equity Plan. These RSAs were granted with a combination of performance-based and time-based vesting components. As of September 30, 2015, all performance-based vesting conditions had been satisfied, but the time-based service requirements, which provided for vesting in 2016, subject to continuous service through the vesting and delivery date, had not yet been satisfied. In July 2015, the vesting conditions for 1,042,680 shares of unvested and outstanding RSA's awarded to the CEO were amended to provide that vesting and delivery of the shares shall be deferred until March 15, 2017, subject to the CEO's continued service with the Company through such date.

On January 25, 2014, the Company granted RSAs representing 2,976 shares of common stock with a grant date fair market value of \$25,000 to a consultant for services. The RSAs vested immediately and were issued from the 2013 Equity Plan.

In August 2015, the Company issued a fully vested RSA representing the right to acquire 4,000 shares of common stock with a grant date fair value of approximately \$92,000.

The Company's RSA activity for the nine months ended September 30, 2015 and the year ended December 31, 2014 was comprised of the following:

|                               | Number of<br>Shares | Weighted-Average<br>Grant Date Fair<br>Market Value |
|-------------------------------|---------------------|---|
| Unvested at December 31, 2013 | 1,746,853           | \$ 11.80  |
| Granted                       | 2,976               | \$ 8.40   |
| Vested                        | (423,693 )          | \$ 9.18   |
| Forfeited                     | (47,129 )           | \$ 4.41   |
| Unvested at December 31, 2014 | 1,279,007           | \$ 12.86  |
| Vested                        | (188,414 )          | \$ 12.30  |

Unvested at September 30, 2015

1,090,593

\$ 12.95

11

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As of September 30, 2015, approximately \$178,000 of total unrecognized share-based compensation expense for research and development activities related to RSAs remains and is expected to be recognized over a weighted-average period of approximately 0.3 years. As of September 30, 2015, approximately \$3,117,000 of total unrecognized share-based compensation expense for general and administrative activities related to RSAs remains and is expected to be recognized over a weighted-average period of approximately 1.4 years.

#### Share-Based Compensation Expense

Share-based compensation expense recognized in the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2015 and 2014 is based on awards ultimately expected to vest.

Total share-based compensation expense related to all share-based awards for the three and nine months ended September 30, 2015 and 2014 was comprised of the following (in thousands):

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2015                                | 2014    | 2015                               | 2014    |
| Research and development:                                   |                                     |         |                                    |         |
| Stock options   | \$636                               | \$98    | \$1,609                            | \$142   |
| Restricted stock  | 240                                 | 147     | 1,452                              | 652     |
| Warrants  | 15                                  | —       | 40                                 | —       |
| Research and development share-based compensation expense   | 891                                 | 245     | 3,101                              | 794     |
| General and administrative:                                 |                                     |         |                                    |         |
| Stock options   | 1,443                               | 286     | 2,950                              | 575     |
| Restricted stock  | 545                                 | 1,212   | 3,719                              | 5,226   |
| Warrants  | 182                                 | —       | 573                                | —       |
| General and administrative share-based compensation expense | 2,170                               | 1,498   | 7,242                              | 5,801   |
| Total share-based compensation expense included in expenses | \$3,061                             | \$1,743 | \$10,343                           | \$6,595 |

## 5. Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred income tax assets and liabilities are recognized for temporary differences between financial statement and income tax basis, using enacted tax rates in effect for the years such differences are expected to reverse. The Company recognizes deferred tax assets to the extent that it believes such assets are more likely than not to be realized. Due to uncertainties surrounding the Company's ability to generate future taxable income, the Company believes that it is more likely than not that deferred tax assets will not be realized, and consequently a full valuation allowance has been established. The Company continues to maintain a full valuation allowance against its deferred tax assets as of September 30, 2015.

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. There have been no material changes in the Company's unrecognized tax benefits since December 31, 2014; and, as such, disclosures included in the Company's 2014 Annual Report on Form 10-K continue to be relevant for the nine months ended September 30, 2015.

## 6. Commitments and Contingencies

In January 2015, the Company entered into a 25-month lease agreement for 4,047 square feet of lab space. The lease term is from March 2015 through March 2017, and the Company's total lease payments through the end of the lease will be approximately \$93,000. The lease contains options to extend the lease for two additional six-month periods.

In February 2015, the Company entered into a 32-month sublease agreement as a sublessee for 18,599 square feet of office space to be used as the Company's corporate headquarters. The lease term is through October 2017, and the Company's total lease payments through the end of the lease will be approximately \$1,466,000. The Company also leases a total of 3,713 square feet of office space with a lease term through March 2018, and total lease payments through the end of the lease are approximately \$300,000.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, all references to "we," "our," "us," "La Jolla" and the "Company" refer to La Jolla Pharmaceutical Company, a California corporation, and its subsidiaries.

### Forward-Looking Statements

The forward-looking statements in this report involve significant risks, assumptions and uncertainties, and a number of factors, both foreseen and unforeseen, which could cause actual results to differ materially from our current expectations. Forward-looking statements include those that express a plan, belief, expectation, estimation, anticipation, intent, contingency, future development or similar expression. Accordingly, you should not rely upon forward-looking statements as predictions of future events. Forward-looking statements include, but are not limited to, statements regarding our expectations around timing of commencement and completion of future clinical trials, the ability to successfully develop drug candidates, our ability to obtain orphan drug status or other regulatory approvals, and the expected duration over which our cash balances will fund our operations. The outcomes of the events described in these forward-looking statements are subject to the risks, uncertainties and other factors described in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the "Risk Factors" section contained in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission, or SEC, on March 16, 2015, and in other reports and registration statements that we file with the SEC from time to time. We expressly disclaim any intent to update forward-looking statements.

### Introduction

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying unaudited condensed consolidated financial statements and notes, included in Item 1 of this Quarterly Report on Form 10-Q, to help provide an understanding of our financial condition, the changes in our financial condition and our results of operations. Our discussion is organized as follows:

- **Business Overview.** This section provides a general description of our business and significant events and transactions that we believe are important in understanding our financial condition and results of operations.
- **Program Overview.** This section provides a current status overview for each of our four product candidates in development.
- **Critical Accounting Policies and Estimates.** This section provides a description of our significant accounting policies, including the critical accounting policies and estimates, which are summarized in Note 2 to the accompanying unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.
- **Results of Operations.** This section provides an analysis of our results of operations presented in the accompanying unaudited condensed consolidated statements of operations and comprehensive loss by comparing the results for the three and nine months ended September 30, 2015 to the results for the three and nine months ended September 30, 2014.
- **Liquidity and Capital Resources.** This section provides an analysis of our historical cash flows, as well as our future capital requirements.

### Business Overview

La Jolla Pharmaceutical Company is a biopharmaceutical company focused on the discovery, development and commercialization of innovative therapies intended to significantly improve outcomes in patients suffering from life-threatening diseases. We have several product candidates in development. LJPC-501 is our proprietary formulation of angiotensin II for the potential treatment of catecholamine-resistant hypotension. LJPC-401 is our

novel formulation of hepcidin for the potential treatment of conditions characterized by iron overload, such as hereditary hemochromatosis, beta thalassemia and sickle cell disease. LJPC-30Sa and LJPC-30Sb are our next-generation gentamicin derivatives for the potential treatment of serious bacterial infections and rare genetic disorders, such as cystic fibrosis and Duchenne muscular dystrophy.

## Program Overview

### LJPC-501

LJPC-501 is our proprietary formulation of angiotensin II. Angiotensin II, the major bioactive component of the renin-angiotensin system, serves as one of the body's central regulators of blood pressure. We are developing LJPC-501 for the treatment of catecholamine-resistant hypotension, or CRH, which is an acute, life-threatening condition in which blood pressure drops to dangerously low levels in patients who respond poorly to current treatments. Angiotensin II has been shown to raise blood pressure in a randomized, placebo-controlled clinical trial in CRH, which was recently published in the journal *Critical Care*, as well as in animal models of hypotension. Preclinical pharmacology studies that we have conducted have demonstrated that catecholamine resistance may be in part a result of reduced endogenous production of angiotensin II. In October 2014, we presented positive data from a preclinical study of LJPC-501 for the treatment of CRH.

We initiated a Phase 3 clinical trial with LJPC-501 for the treatment of CRH, called the ATHOS (Angiotensin II for the Treatment of High-Output Shock) 3 trial, in March 2015. In February 2015, we reached agreement with the U.S. Food and Drug Administration, or FDA, on a Special Protocol Assessment, or SPA, for this multicenter, randomized, double-blind, placebo-controlled, Phase 3 clinical trial. In accordance with the SPA, the primary efficacy endpoint for the ATHOS 3 registration trial is increase in blood pressure at three hours. The ATHOS 3 trial is designed to enroll approximately 315 patients. Patients are to be randomized in a 1:1 fashion to receive either: (i) LJPC-501 plus standard-of-care vasopressors; or (ii) placebo plus standard-of-care vasopressors. Randomized patients are to receive their assigned treatment via continuous IV infusion for up to seven days. The primary efficacy endpoint in the study is to compare the change in mean arterial pressure in patients with CRH who receive an IV infusion of LJPC-501 plus standard-of-care vasopressors to those that receive placebo plus standard-of-care vasopressors. Secondary endpoints include comparison of changes in Cardiovascular Sequential Organ Failure Assessment, or SOFA scores, and the safety and tolerability of LJPC-501 in patients with CRH. Results from ATHOS 3 are expected by the end of 2016.

### LJPC-401

LJPC-401 is our novel formulation of hepcidin. Hepcidin, an endogenous peptide hormone, is the body's naturally occurring regulator of iron absorption and distribution. Hepcidin prevents excessive iron accumulation in vital organs, such as the liver and heart, where it can cause significant damage and even result in death.

We are developing LJPC-401 for the potential treatment of iron overload, which occurs as a result of diseases such as hereditary hemochromatosis (HH), beta thalassemia and sickle cell disease (SCD). HH is a disease caused by a genetic deficiency in hepcidin that results in excessive iron accumulation. HH is the most common genetic disease in Caucasians and causes liver cirrhosis, liver cancer, heart disease and/or failure, diabetes, arthritis and joint pain. Beta thalassemia and SCD are genetic diseases of the blood that can cause life-threatening anemia and usually require frequent and life-long blood transfusions. These blood transfusions cause excessive iron accumulation in the body, which is toxic to vital organs, such as the liver and heart. In addition, the underlying anemia causes excessive iron accumulation independent of blood transfusions.

LJPC-401 has been shown to be effective in reducing serum iron in preclinical testing. In October 2015, we initiated a Phase 1 clinical trial of LJPC-401 in patients at risk of iron overload due to conditions such as HH, beta thalassemia and SCD. We anticipate preliminary results from this Phase 1 clinical trial by the end of 2015.

### LJPC-30Sa and LJPC-30Sb

LJPC-30Sa and LJPC-30Sb are our next-generation gentamicin derivatives. Despite kidney toxicity, gentamicin has become one of the most commonly prescribed hospital antibiotics due to its broad spectrum of antimicrobial efficacy. Gentamicin consists primarily of a mixture of four distinct but closely related chemical entities that may contribute differentially to the product's toxicity profile.

LJPC-30Sa and LJPC-30Sb are purified components of the currently marketed gentamicin product that retain the biologic activity of gentamicin, yet appear to lack the traditional kidney toxicity associated with it. We are developing LJPC-30Sa and LJPC-30Sb not only for the potential treatment of serious bacterial infections but also for the potential treatment of rare genetic disorders, such as cystic fibrosis and Duchenne muscular dystrophy.

We believe that gentamicin's ability to induce a lack of fidelity in gene transcription, intrinsic to its antimicrobial mechanism of action, can also be leveraged in the correction of certain human genetic mutations that lead to rare genetic disorders, such as cystic fibrosis and Duchenne muscular dystrophy. In spite of favorable short-term clinical proof-of-efficacy data in cystic fibrosis, development of gentamicin as a chronic treatment for these genetic diseases has been limited by its toxicity profile.

Following a pre-IND meeting with the FDA, we have received guidance that we may proceed with a proposed Phase 1 clinical trial following the submission of an IND.

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

There have been no material changes to the critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed on March 16, 2015.

### Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in Note 2 to the accompanying unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report on form 10-Q.

### Results of Operations

#### Three and Nine Months Ended September 30, 2015 and 2014

The following summarizes the results of our operations for the three and nine months ended September 30, 2015 and 2014 (in thousands):

Three Months Ended

Nine Months Ended

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|                                    | September 30, |            | September 30, |             |
|------------------------------------|---------------|------------|---------------|-------------|
|                                    | 2015          | 2014       | 2015          | 2014        |
| Contract revenue - related party   | \$647         | \$—        | \$647         | \$—         |
| Research and development expense   | (7,781        | ) (2,625   | ) (19,637     | ) (6,218    |
| General and administrative expense | (3,353        | ) (2,436   | ) (11,122     | ) (8,259    |
| Other income, net                  | 13            | 9          | 33            | 13          |
| Net loss                           | \$(10,474     | ) \$(5,052 | ) \$(30,079   | ) \$(14,464 |

16

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## Contract Revenue - Related Party

During the three months ended September 2015, we entered into a services agreement with a private company that is a related party. Pursuant to the services agreement, we provide certain services to this related party, including, but not limited to, research and development and clinical trial design and management. In exchange for providing such services pursuant to the services agreement, we receive payments at a negotiated, arms-length rate. As a result, the consideration received by us for our services under the services agreement is considered to be no less favorable to us than comparable terms that we could obtain from an unaffiliated third party in an arms-length transaction. The services agreement may be canceled by either party upon 60-days' written notice to the other party. Additionally, we anticipate receiving a non-voting profits interest in the related party, providing us with the potential to receive a portion of the future distributions of profits, if any.

## Research and Development Expense

The following summarizes our research and development expense for the three and nine months ended September 30, 2015 and 2014 (in thousands):

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2015                                | 2014    | 2015                               | 2014    |
| Clinical development costs             | \$3,097                             | \$1,836 | \$9,137                            | \$3,969 |
| Personnel and related costs            | 1,857                               | 419     | 4,131                              | 854     |
| Share-based compensation expense       | 891                                 | 245     | 3,101                              | 794     |
| Technology in-licensing costs          | 404                                 | 40      | 439                                | 218     |
| Other research and development costs   | 1,532                               | 85      | 2,829                              | 383     |
| Total research and development expense | \$7,781                             | \$2,625 | \$19,637                           | \$6,218 |

For the three and nine months ended September 30, 2015, research and development expense increased to \$7.8 million and \$19.6 million, respectively, from \$2.6 million and \$6.2 million for the same periods in 2014, respectively. The increase was primarily due to increased clinical development costs associated with the initiation of the Phase 3 clinical trial of LJPC-501 in CRH and preclinical costs associated with LJPC-401 and LJPC-30Sa and 30Sb. Increases in personnel and related costs and share-based compensation expense, which were mainly due to the hiring of additional personnel to support the increased development activities noted above, also contributed to the increase in research and development expense. Additionally, the increase in other research and development costs was partially due to increased spending for exploratory early-stage research of approximately \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2015, respectively. We anticipate research and development expense to continue to increase throughout 2015, due to planned increases in personnel to support our ongoing clinical trials, the initiation of additional clinical trials and ongoing development programs.

## General and Administrative Expense

The following summarizes our general and administrative expense for the three and nine months ended September 30, 2015 and 2014 (in thousands):

|                                  | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|----------------------------------|-------------------------------------|-------|------------------------------------|-------|
|                                  | 2015                                | 2014  | 2015                               | 2014  |
| Personnel and related costs      | \$598                               | \$241 | \$1,831                            | \$752 |
| Share-based compensation expense | 2,170                               | 1,498 | 7,242                              | 5,801 |

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|  |         |         |          |         |
|--|---------|---------|----------|---------|
| Other general and administrative expense | 585     | 697     | 2,049    | 1,706   |
| Total general and administrative expense | \$3,353 | \$2,436 | \$11,122 | \$8,259 |

17

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For the three and nine months ended September 30, 2015, general and administrative expense increased to \$3.4 million and \$11.1 million, respectively, from \$2.4 million and \$8.3 million for the same periods in 2014, respectively. The increase was primarily due to increases in share-based compensation expense, personnel and related costs and facilities costs, which were mainly due to the hiring of additional personnel to support the development activities discussed above. In addition, there were increased expenses for professional and outside services. We anticipate general and administrative expense to continue to increase throughout 2015, due to planned increases in personnel and additional facility costs to accommodate our operations in light of the additional programs that we have acquired or are developing.

#### Liquidity and Capital Resources

Since January 2012, when La Jolla was effectively restarted with new assets and a new management team, through September 30, 2015, our cash used in operating activities was \$36.5 million. From inception through September 30, 2015, we have incurred a cumulative net loss of approximately \$516.7 million and have financed our operations through public and private offerings of securities, revenues from collaborative agreements, equipment financings and interest income on invested cash balances. From inception through September 30, 2015, we have raised approximately \$586.0 million in net proceeds from the sales of equity securities.

As of September 30, 2015, we had \$135.1 million in cash and cash equivalents, compared to \$48.6 million of cash and cash equivalents at December 31, 2014. Cash used in operating activities for the nine months ended September 30, 2015 was \$16.7 million, compared to \$7.5 million for the same period in 2014, and such increase was primarily due to increased research and development expenditures for clinical trials and exploratory early-stage research. For the nine months ended September 30, 2015, we used approximately \$1.7 million of cash for investing activities related to purchases of property and equipment. In addition, cash provided by financing activities was \$104.9 million for the nine months ended September 30, 2015, primarily from the common stock offering completed in September 2015. At September 30, 2015, we had positive working capital of approximately \$131.8 million, compared to positive working capital of approximately \$48.2 million at December 31, 2014. The increase in our cash and cash equivalents and working capital was primarily due to cash provided by financing activities partially offset by cash used for operating activities for the nine months ended September 30, 2015.

Based on our cash and working capital as of September 30, 2015 and our current operating plans and projections, we believe that the available cash and cash equivalents will be sufficient to fund operations into 2018. To fund future operations to the point where we are able to generate positive cash flow from the sales or out-licensing of our drug candidates, we will need to raise additional capital. The amount and timing of future funding requirements will depend on many factors, including the timing and results of our ongoing development efforts, the potential expansion of our current development programs, potential new development programs and related general and administrative support, as well as the overall condition of capital markets, including capital markets for development-stage biopharmaceutical companies. We anticipate that we will seek to fund our operations through public and private equity and debt financings or other sources, such as potential collaboration agreements. We cannot assure you that anticipated additional financing will be available to us on favorable terms, or at all. Although we have previously been successful in obtaining financing through equity securities offerings, there can be no assurance that we will be able to do so in the future.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in our financial condition, expenses, results of operations, liquidity, capital expenditures or capital resources.





### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any marketable securities at September 30, 2015.

### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports, filed under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As required by the SEC Rule 13a-15(b), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may face various claims brought by third parties. Any of these claims could subject us to costly litigation. However, as of the date of this report, management believes the outcome of currently identified potential claims and lawsuits will not have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

No material changes to risk factors have occurred as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as supplemented by those risk factors set forth under the caption "Risk Factors" in our Prospectus Supplement, dated September 9, 2015, filed with the SEC on September 11, 2015 pursuant to Rule 424(b), which are incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

The disclosure set forth above in Note 3 to the Notes to the Condensed Consolidated Financial Statements is incorporated by reference herein.

ITEM 6. EXHIBITS

| Exhibit Number | Description   | Incorporated by Reference Herein |      |
|----------------|---|----------------------------------|------|
|                |   | Form                             | Date |
| 31.1           | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith                   |      |
| 31.2           | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith                   |      |
| 32.1           | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed herewith                   |      |
| 101.INS        | XBRL Instance Document  | Filed herewith                   |      |
| 101.SCH        | XBRL Taxonomy Extension Schema Document                                 | Filed herewith                   |      |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document                   | Filed herewith                   |      |

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|         |  |                |
|---------|--|----------------|
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   | Filed herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        | Filed herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Filed herewith |

20

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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 hereunto duly authorized.

La Jolla Pharmaceutical Company

Date: November 6, 2015

/s/ George F. Tidmarsh  
George F. Tidmarsh, M.D., Ph.D.  
President, Chief Executive Officer and Secretary

/s/ Dennis M. Mulroy  
Dennis M. Mulroy  
Chief Financial Officer  
(As Principal Financial and Accounting Officer)