

INDEVUS PHARMACEUTICALS INC

Form 10-Q

May 10, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2005,

or

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

Commission File No. 0-18728

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**INDEVUS PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of

04-3047911  
(I.R.S. Employer

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incorporation or organization)

Identification Number)

**One Ledgemont Center**

**99 Hayden Avenue**

**Lexington, Massachusetts**  
(Address of principal executive offices)

**02421-7966**  
(Zip Code)

**Registrant's telephone number, including area code: (781) 861-8444**

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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 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 is an accelerated filer (as defined in Rule 12(b)-2 of the Exchange Act.) Yes  No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

<u>Class:</u>	<u>Outstanding at May 9, 2005</u>
<b>Common Stock \$.001 par value</b>	<b>46,997,109 shares</b>

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****INDEVUS PHARMACEUTICALS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Amounts in thousands except share data)**

	<b>March 31,</b>	<b>September 30,</b>
	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 93,071	\$ 127,099
Marketable securities	24,394	26,423
Accounts receivable	4,799	7,042
Inventories	651	1,160
Prepays and other current assets	3,014	3,082
	<u>          </u>	<u>          </u>
Total current assets	125,929	164,806
Marketable securities		3,486
Property and equipment, net	915	546
Insurance claim receivable	1,258	1,258
Prepaid debt issuance costs	2,173	2,503
Other assets	1,160	1,239
	<u>          </u>	<u>          </u>
Total assets	\$ 131,435	\$ 173,838
	<u>          </u>	<u>          </u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 3,314	\$ 6,361
Accrued expenses	10,805	13,707
Accrued interest	950	950
Deferred revenue	12,500	12,500
	<u>          </u>	<u>          </u>
Total current liabilities	27,569	33,518
Convertible notes	72,000	72,000
License fees payable	50	100
Deferred revenue	125,000	131,250
Minority interest	8	8
<b>STOCKHOLDERS DEFICIT</b>		
Preferred stock, \$.001 par value, 5,000,000 shares authorized;		
Series B, 239,425 shares issued and outstanding (liquidation preference at March 31, 2005 \$3,034)	3,000	3,000
Series C, 5,000 shares issued and outstanding (liquidation preference at March 31, 2005 \$503)	500	500
	48	48

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Common Stock, \$.001 par value, 80,000,000 shares authorized; 47,825,896 shares issued at March 31, 2005 and September 30, 2004

Additional paid-in capital	308,183	309,050
Accumulated deficit	(399,773)	(368,903)
Accumulated other comprehensive loss	(46)	(131)
Treasury stock, at cost, 828,787 and 1,057,125 shares at March 31, 2005 and September 30, 2004 respectively	(5,104)	(6,602)
<b>Total stockholders' deficit</b>	<b>(93,192)</b>	<b>(63,038)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 131,435</b>	<b>\$ 173,838</b>

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

**Table of Contents****INDEVUS PHARMACEUTICALS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****For the three and six months ended March 31, 2005 and 2004****(Unaudited)****(Amounts in thousands except per share data)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>				
Product revenue	\$ 4,238	\$ 854	\$ 7,705	\$ 1,639
Contract and license fees	5,039	22	7,335	164
<b>Total revenues</b>	<b>9,277</b>	<b>876</b>	<b>15,040</b>	<b>1,803</b>
<b>Costs and expenses:</b>				
Cost of product revenue	3,375	209	5,855	524
Research and development	6,011	5,142	11,889	12,696
Marketing, general and administrative	8,187	5,782	25,668	9,798
<b>Total costs and expenses</b>	<b>17,573</b>	<b>11,133</b>	<b>43,412</b>	<b>23,018</b>
Loss from operations	(8,296)	(10,257)	(28,372)	(21,215)
Investment income	738	180	1,412	402
Interest expense	(1,293)	(1,293)	(2,585)	(2,585)
Impairment of equity securities	(175)		(175)	
Minority interest	1		1	4
<b>Loss before income taxes</b>	<b>(9,025)</b>	<b>(11,370)</b>	<b>(29,719)</b>	<b>(23,394)</b>
Provision for income taxes	(695)		(1,150)	
<b>Net loss</b>	<b>\$ (9,720)</b>	<b>\$ (11,370)</b>	<b>\$ (30,869)</b>	<b>\$ (23,394)</b>
<b>Net loss per common share, basic and diluted</b>	<b>\$ (0.21)</b>	<b>\$ (0.24)</b>	<b>\$ (0.66)</b>	<b>\$ (0.49)</b>
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	46,967	47,397	46,946	47,304

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

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## INDEVUS PHARMACEUTICALS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended March 31, 2005 and 2004

(Unaudited)

(Amounts in thousands)

	For the six months ended	
	March 31,	
	2005	2004
Cash flows from operating activities:		
Net loss	\$ (30,869)	\$ (23,394)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	173	12
Amortization of convertible note issuance costs	330	330
Impairment of equity securities	175	
Noncash compensation	75	
Changes in assets and liabilities:		
Accounts receivable	2,243	70
Inventories	509	
Prepaid and other assets	110	(3,178)
Accounts payable	(3,047)	(993)
Deferred revenue	(6,250)	
Accrued expenses and other liabilities	(2,974)	(879)
Net cash used in operating activities	(39,525)	(28,032)
Cash flows from investing activities:		
Purchases of property and equipment	(539)	(5)
Purchase of marketable securities		(3,210)
Proceeds from maturities and sales of marketable securities	5,462	19,302
Net cash provided by investing activities	4,923	16,087
Cash flows from financing activities:		
Net proceeds from issuance of common stock and treasury stock	574	1,591
Net cash provided by financing activities	574	1,591
Net change in cash and cash equivalents	(34,028)	(10,354)
Cash and cash equivalents at beginning of period	127,099	57,717
Cash and cash equivalents at end of period	\$ 93,071	\$ 47,363

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



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**INDEVUS PHARMACEUTICALS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

*A. Basis of Presentation*

The consolidated interim financial statements included herein have been prepared by Indevus Pharmaceuticals, Inc. ( Indevus or the Company ) without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company. The unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2004.

Certain prior year amounts have been reclassified to conform to fiscal 2005 classifications.

Indevus is a biopharmaceutical company engaged in the development and commercialization of a diversified portfolio of product candidates, including SANCTURA® (trospium chloride), approved by the U.S. Food and Drug Administration for the treatment of overactive bladder ( OAB ), and multiple compounds in clinical development.

*B. Revenue Recognition:*

Product revenue consists of revenues from sales of products, commissions, royalties and reimbursements from PLIVA d.d. ( PLIVA ), in accordance with our co-promotion and licensing agreement with Odyssey Pharmaceuticals, Inc., a specialty branded subsidiary of PLIVA (the PLIVA Agreement ), for royalties owed by the Company to Madaus A.G. ( Madaus ). Contract and license fee revenue consists of revenue stemming from contractual initial and milestone payments received from customers, including amortization of deferred revenue from contractual payments, reimbursements from PLIVA for their share of SANCTURA promotion and advertising costs incurred by the Company less an amount owed by the Company to PLIVA for the Company's share of SANCTURA promotion and advertising costs incurred by PLIVA, sales force subsidies from PLIVA, and grants from agencies supporting research and development activities.

The Company records sales of product as product revenue upon the later of shipment or as title passes to its customer.

Royalty revenue consists of payments received from licensees for a portion of sales proceeds from products that utilize the Company's licensed technologies and are generally reported to the Company in a royalty report on a specified periodic basis. Royalty revenue is recognized in the period in which the sales of the product or technology occurred on which the royalties are based unless the royalty report for such period is received subsequent to the time the Company is required to report its results on Form 10-Q or Form 10-K and the amount of the royalties earned is not estimable, in which case the Company recognizes such royalty revenue in the subsequent accounting period when it receives the royalty report and when the amount of and basis for such royalty payments are reported to the Company in accurate and appropriate form and in accordance with the related license agreement.

The Company's business strategy includes entering into collaborative license and development or co-promotion agreements with strategic partners for the development and commercialization of the Company's products or product candidates. The terms of the agreements typically include non-refundable license fees, funding of research and development, payments based upon achievement of certain milestones and royalties on net product sales. Non-refundable license fees are recognized as revenue when the Company has a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured and the Company has no further performance obligations under the license agreement. In multiple element arrangements where the Company has continuing performance obligations, license fees are recognized together with any up-front payment over the term of the arrangement as the Company completes its performance obligations, unless the delivered technology has stand alone value to the customer and there is objective and reliable evidence of fair value of the undelivered elements in the arrangement. The Company records such revenue as contract and license fee revenue.

Revenues from milestone payments related to arrangements under which the Company has continuing performance obligations are recognized as revenue upon achievement of the milestone only if all of the following conditions are met: the milestone payments are non-refundable; achievement of the milestone was not reasonably assured at the inception of the arrangement; substantive effort is involved in achieving the milestone; and the amount of the milestone is reasonable in

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**INDEVUS PHARMACEUTICALS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*B. Revenue Recognition (continued):*

relation to the effort expended or the risk associated with achievement of the milestone. Determination as to whether a mileston