ADVENTRX PHARMACEUTICALS INC
Form 10-Q
November 08, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

o **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 001-32157

ADVENTRX Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**84-1318182**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
6725 Mesa Ridge Road, Suite 100, San Diego, CA	**92121**
(Address of principal executive offices)	**(Zip Code)**

(858) 552-0866
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

The number of shares outstanding of the registrant s common stock, $0.001 par value per share, as of November 1, 2010 was 14,701,216.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ADVENTRX Pharmaceuticals, Inc. and Subsidiaries

(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash	$ 29,331,773	$ 8,667,404
Restricted cash	623,513	
Interest and other receivables	12,634	14,841
Prepaid expenses	487,677	290,249
Total current assets	30,455,597	8,972,494
Property and equipment, net	30,744	44,210
Other assets	2,221	10,513
Total assets	$ 30,488,562	$ 9,027,217
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 260,067	$ 385,358
Accrued liabilities	685,620	1,379,010
Preferred stock dividends obligation	623,513	
Accrued compensation and payroll taxes	130,685	589,319
Total current liabilities	1,699,885	2,353,687
Stockholders equity:		
Convertible Preferred Stock, Series A through F, $0.001 par value, 53,776.13 shares authorized; 2,884.57 (all Series F) and 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively (liquidation preference of $3,508,083)	2,472,161	
Common stock, $0.001 par value; 500,000,000 shares authorized; 14,701,216 and 8,211,410 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	14,701	8,211
Additional paid-in capital	180,146,429	148,703,722
Deficit accumulated during the development stage	(153,844,614)	(142,038,403)

Total stockholders equity	28,788,677	6,673,530
Total liabilities and stockholders equity	$ 30,488,562	$ 9,027,217

Note: The balance sheet at December 31, 2009 has been derived from audited financial statements at that date. It does not include, however, all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,		Inception (June 12, 1996) through September 30,
	2010	2009	2010	2009	2010
Licensing revenue	$	$	$	$ 300,000	$ 1,300,000
Net sales					174,830
Grant revenue					129,733
Total net revenue				300,000	1,604,563
Cost of sales					51,094
Gross margin				300,000	1,553,469
Operating expenses:					
Research and development	918,309	1,444,038	2,791,404	4,546,235	71,313,609
Selling, general and administrative	944,950	893,477	3,422,843	3,744,470	51,390,353
Depreciation and amortization	4,879	12,350	16,526	70,431	10,894,324
In-process research and development					10,422,130
Impairment loss write off of goodwill					5,702,130
Equity in loss of investee					178,936
Total operating expenses	1,868,138	2,349,865	6,230,773	8,361,136	149,901,482
Loss from operations	(1,868,138)	(2,349,865)	(6,230,773)	(8,061,136)	(148,348,013)
Loss on fair value of warrants					(12,239,688)
Interest income	26,258	40	68,006	2,432	4,657,194
Interest expense			(1,629)		(180,719)
Other income (expense)	(2,019)	(2,761)	(2,019)	(46,434)	63,826
Loss before cumulative effect of change in accounting principle	(1,843,899)	(2,352,586)	(6,166,415)	(8,105,138)	(156,047,400)

Cumulative effect of change in accounting principle					(25,821)
Net loss	(1,843,899)	(2,352,586)	(6,166,415)	(8,105,138)	(156,073,221)
Preferred stock dividends					(621,240)
Deemed dividends on preferred stock		(376,089)	(5,639,796)	(1,608,504)	(10,506,683)
Net loss applicable to common stock	$ (1,843,899)	$ (2,728,675)	$ (11,806,211)	$ (9,713,642)	$ (167,201,144)
Net loss per common share basic and diluted	$ (0.13)	$ (0.57)	$ (0.94)	$ (2.40)	
Weighted average shares basic and diluted	14,701,216	4,779,228	12,593,971	4,046,376	

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,		Inception (June 12, 1996) through September 30,
	2010	**2009**	**2010**
Cash flows from operating activities:			
Net loss	$ (6,166,415)	$ (8,105,138)	$ (156,073,221)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	16,526	70,431	10,444,325
Loss on disposals of fixed assets	2,019	59,012	57,535
Loss on fair value of warrants			12,239,688
Expenses related to employee stock options and restricted stock issued	604,772	454,827	9,042,771
Expense related to stock options issued to non-employees			204,664
Expenses paid by issuance of common stock			1,341,372
Expenses paid by issuance of warrants			573,357
Expenses paid by issuance of preferred stock			142,501
Expenses related to stock warrants issued			612,000
Accretion of discount on investments in securities			(1,604,494)
Amortization of debt discount			450,000
Forgiveness of employee receivable			30,036
Impairment loss write-off of goodwill			5,702,130
Equity in loss of investee			178,936
In-process research and development			10,422,130
Write-off of license agreement			152,866
Write-off of assets available-for-sale			108,000
Cumulative effect of change in accounting principle			25,821
Changes in assets and liabilities, net of effect of acquisitions:			
(Increase) decrease in prepaid expenses and other assets	(186,929)	43,215	(749,901)
Increase (decrease) in accounts payable and accrued liabilities	(1,277,316)	(2,508,501)	1,253,078
Net cash used in operating activities	(7,007,343)	(9,986,154)	(105,446,406)
Cash flows from investing activities:			
Purchases of short-term investments			(111,183,884)

Proceeds from sales and maturities of short-term investments			112,788,378
Purchases of property and equipment	(6,780)		(1,037,134)
Proceeds from sale of property and equipment	1,700	16,000	51,606
Purchase of certificate of deposit			(1,016,330)
Maturity of certificate of deposit			1,016,330
Payment on obligation under license agreement			(106,250)
Cash acquired from acquisitions, net of cash paid			32,395
Issuance of note receivable related party			(35,000)
Payments on note receivable			405,993
Advance to investee			(90,475)
Cash transferred in rescission of acquisition			(19,475)
Cash received in rescission of acquisition			230,000
Net cash provided by (used in) investing activities	(5,080)	16,000	1,036,154
Cash flows from financing activities:			
Proceeds from sale of preferred stock	30,453,227	4,276,000	44,474,720
Proceeds of restricted cash for preferred stock dividends	633,008		633,008
Proceeds from sale of common stock			84,151,342
Proceeds from exercise of stock options			712,367
Proceeds from sale or exercise of warrants	317,444		14,714,258
Payment to escrow for preferred stock dividends obligation	(633,008)		(633,008)
Repurchase of warrants			(55,279)
Payments for financing and offering costs	(3,093,733)	(996,140)	(10,994,046)
Payments on notes payable and long-term debt			(605,909)
Proceeds from issuance of notes payable and detachable warrants			1,344,718
Cash paid in lieu of fractional shares for reverse stock split	(146)		(146)
Net cash provided by financing activities	27,676,792	3,279,860	133,742,025
Net increase (decrease) in cash	20,664,369	(6,690,294)	29,331,773
Cash at beginning of period	8,667,404	9,849,904	
Cash at end of period	$ 29,331,773	$ 3,159,610	$ 29,331,773

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

ADVENTRX Pharmaceuticals, Inc., a Delaware corporation (ADVENTRX, we, our or the Company), prepared unaudited interim condensed consolidated financial statements included in this report in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual audited financial statements and should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2009 included in our Annual Report on Form 10-K filed with the SEC on March 18, 2010 (2009 Annual Report). The condensed consolidated balance sheet as of December 31, 2009 included in this report has been derived from the audited consolidated financial statements included in the 2009 Annual Report. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SD Pharmaceuticals, Inc. and ADVENTRX (Europe) Ltd. up until its dissolution. We dissolved ADVENTRX (Europe) Ltd. in December 2009. All intercompany accounts and transactions have been eliminated in consolidation.

On April 23, 2010, the Company effected a 1-for-25 reverse split of its common stock, which was authorized by its stockholders at a special meeting held in August 2009. All common stock share and per share information in the condensed consolidated financial statements and notes thereto included in this report have been restated to reflect retrospective application of the reverse stock split for all periods presented ending or as of a date prior to April 23, 2010, except for par value per share and the number of authorized shares, which were not affected by the reverse stock split.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3. Share-Based Compensation Expense

Estimated share-based compensation expense related to equity awards granted to our employees and non-employee directors for the three and nine months ended September 30, 2010 and 2009 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Selling, general and administrative expense	$ 154,041	$ 135,343	$ 610,329	$ 424,095
Research and development expense	(1,243)	14,305	(5,557)	30,731
Share-based compensation expense before taxes	152,798	149,648	604,772	454,826
Related income tax benefits				
Share-based compensation expense	$ 152,798	$ 149,648	$ 604,772	$ 454,826

Net share-based compensation expense per common share basic and diluted	$ 0.01	$ 0.03	$ 0.05	$ 0.11

In January 2009, we granted restricted stock units under our 2008 Omnibus Incentive Plan to seven employees that represented the right to receive in the aggregate 148,000 shares of our common stock. These units were to vest immediately prior to a strategic transaction (as defined in the documentation evidencing the grant of the units). We would record share-based compensation expense in connection with these restricted stock units, if at all, only if a strategic transaction was consummated. All of the restricted stock units granted in January 2009 were subsequently canceled in the first, second and third quarters of 2009 as a result of employee terminations and resignations and in connection with certain compensation arrangements with our remaining employees. As of September 30, 2010 and 2009, no restricted stock units were outstanding.

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There were no employee or non-employee director stock options exercised during the three and nine months ended September 30, 2010 and 2009. During the three and nine months ended September 30, 2010, we granted stock options to acquire an aggregate of 0 and 203,381 shares, respectively, of our common stock to our employees and non-employee directors with an estimated weighted-average grant date fair value of $0 and $6.91 per share, respectively. At September 30, 2010, total unrecognized estimated compensation cost related to non-vested employee and non-employee director share-based awards granted prior to that date was $1.0 million, which is expected to be recognized over a weighted-average period of 2.7 years. During the three months ended September 30, 2009, we granted stock options to acquire an aggregate of 135,998 shares of our common stock to our employees with an estimated weighted-average grant date fair value of $3.18 per share. No stock options were granted to our employees during the first six months of 2009. No stock options, or any other equity-based awards, were granted to our non-employee directors during the nine months ended September 30, 2009.

4. Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Our components of comprehensive loss consist only of net loss. For the nine months ended September 30, 2010 and 2009, comprehensive loss was $6.2 million and $8.1 million, respectively.

5. Net Loss Per Common Share

Basic and diluted net loss per common share was calculated by dividing the net loss applicable to common stock for the period by the weighted-average number of common shares outstanding during the period, without consideration for our outstanding common stock equivalents because their effect would have been anti-dilutive. Common stock equivalents are included in the calculation of diluted earnings per common share only if their effect is dilutive. As of September 30, 2010 and 2009, our outstanding common stock equivalents consisted of options, warrants and convertible preferred stock as follows:

	September 30,	
	2010	**2009**
Options	421,737	234,356
Warrants	4,055,030	826,344
Convertible preferred stock	779,092	
	5,255,859	1,060,700

6. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2009-13, Revenue Recognition (ASC 605) Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. The guidance modifies the fair value requirements of Accounting Standards Codification (ASC) subtopic 605-25 Revenue Recognition Multiple Element Arrangements by providing principles for allocation of consideration among its multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. An estimated selling price method is introduced for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Currently, we have no multiple-deliverable revenue arrangements that would be affected by this guidance.

7. Licensing Revenue

In June 2010, we announced that we had entered into a license agreement with respect to our know-how to develop, make, use and sell ANX-510, or CoFactor® (5,10-methylenetetrahydrofolate), with Theragence, Inc., a California corporation (Theragence). Pursuant to the agreement, we granted to Theragence an exclusive worldwide license, including the right to grant sublicenses under certain circumstances, to conduct research on and to develop, make,

have made, use, offer for sale, sell, have sold and import licensed products in any field or use. We are entitled to receive royalties on net sales of licensed products and commercial milestone payments of up to approximately $30 million based on aggregate gross sales of licensed products in the United States, European Union and Japan. Theragence agreed to use commercially reasonable efforts to research, develop and commercialize at least one licensed product. We discontinued active work on our CoFactor program in October 2008.

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In March 2009, we announced that we and our wholly-owned subsidiary, SD Pharmaceuticals, Inc., had entered into a license agreement with respect to our product candidate ANX-514 (docetaxel lyophilized emulsion for injection) with Shin Poong Pharmaceutical Co., Ltd., a company organized under the laws of the Republic of Korea (Shin Poong), pursuant to which we granted to Shin Poong an exclusive license, including the right to sublicense, to research, develop, make, have made, use, offer for sale, sell and import licensed products, in each case solely for the treatment of cancer by intravenous administration of formulations of docetaxel as emulsified products and solely in South Korea. Under the terms of the agreement, we received an upfront licensing fee of $0.3 million, and are entitled to receive a regulatory milestone payment of either $0.2 million or $0.4 million upon receipt of regulatory approval for marketing a licensed product in South Korea (the amount depends on whether the Korea Food and Drug Administration requires Shin Poong to conduct a bioequivalence or clinical study in human subjects prior to receipt of regulatory approval), one-time commercial milestone payments tied to annual net sales of licensed products in an aggregate amount of up to $1.5 million and royalty payments on net sales of licensed products. Shin Poong is responsible for all development and commercial activities related to ANX-514 in South Korea. We agreed to pay Shin Poong $0.1 million if the Korea Food and Drug Administration required Shin Poong to conduct a bioequivalence or clinical trial in human subjects prior to receipt of regulatory approval and we elect not to supply product to conduct such trial, which supply obligation is subject to limitations.

We received the $0.3 million upfront licensing fee in April 2009. We recognized $0.3 million in licensing revenue in the three-month period ended March 31, 2009 because the criteria under our revenue recognition policy were met in that period.

In September 2010, pursuant to the terms of the license agreement, we elected to make the $0.1 million cash payment to Shin Poong in lieu of supplying product for