

ATRIX LABORATORIES INC

Form 10-Q

July 30, 2002

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 June 30, 2002

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

For the Transition Period from _____ to _____

Commission File Number 0-18231

ATRIX LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1043826
(I.R.S. Employer
Identification No.)

2579 Midpoint Drive
Fort Collins, Colorado
(Address of principal executive office)

80525
(Zip Code)

Registrant's telephone number, including area code: **(970) 482-5868**

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

The number of shares outstanding of the registrant's common stock as of July 25, 2002, was 20,458,816.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES CONCERNING MARKET RISKS.

PART II OTHER INFORMATION

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

SIGNATURES

EX-10.1 Executive Deferred Compensation Plan

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.**

ATRIX LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)
(Unaudited)

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,739	\$ 50,058
Marketable securities available-for-sale, at fair value	99,241	87,910
Accounts receivable, net of allowance for doubtful accounts of \$2 and \$5	3,613	3,522
Interest receivable	887	995
Inventories	4,844	3,314
Prepaid expenses and deposits	1,967	606
	<hr/>	<hr/>
Total current assets	146,291	146,405
	<hr/>	<hr/>
PROPERTY, PLANT AND EQUIPMENT, NET	8,562	7,557
	<hr/>	<hr/>
OTHER ASSETS:		
Intangible assets, net of accumulated amortization of \$3,838 and \$3,421	3,447	3,446
Deferred finance costs, net of accumulated amortization of \$0 and \$121		85
	<hr/>	<hr/>
Other assets	3,447	3,531
	<hr/>	<hr/>
TOTAL ASSETS	\$ 158,300	\$ 157,493
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	\$ 2,886	\$ 3,108
Accrued expenses and other	1,499	611
Deferred revenue	7,356	7,467
	<hr/>	<hr/>
Total current liabilities	11,741	11,186
	<hr/>	<hr/>
DEFERRED REVENUE	34,304	28,373
CONVERTIBLE SUBORDINATED NOTES PAYABLE		5,206
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized		
Series A preferred stock, \$.001 par value, 200,000 shares authorized and no shares issued or outstanding		
Series A convertible exchangeable preferred stock, \$.001 par value, 20,000 shares authorized; 12,871 and 12,871 shares issued and outstanding.		
Liquidation preference \$13,741 and \$13,281		
Common stock, \$.001 par value; 45,000,000 shares authorized; 20,447,674 and 19,859,807 shares issued and 20,336,674 and 19,782,307 shares outstanding	20	20
Additional paid-in capital	256,050	246,471

Edgar Filing: ATRIX LABORATORIES INC - Form 10-Q

Treasury stock, 111,000 and 77,500 shares, at cost	(2,229)	(1,558)
Accumulated other comprehensive loss	(20)	(4)
Accumulated deficit	(141,566)	(132,201)
	<u> </u>	<u> </u>
Total shareholders' equity	112,255	112,728
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 158,300	\$ 157,493
	<u> </u>	<u> </u>

See notes to the consolidated financial statements.

Table of Contents

ATRIX LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(Unaudited)

	For the Three Months Ended June 30,	
	2002	2001
REVENUES:		
Net sales and royalties	\$ 1,474	\$ 1,345
Contract research and development revenue	3,513	2,128
Licensing, marketing rights and milestone revenue	1,497	792
	<u>6,484</u>	<u>4,265</u>
OPERATING EXPENSES:		
Cost of sales	792	609
Research and development	7,512	6,341
Administrative and marketing	2,407	1,431
	<u>10,711</u>	<u>8,381</u>
LOSS FROM OPERATIONS	<u>(4,227)</u>	<u>(4,116)</u>
OTHER INCOME (EXPENSE):		
Equity in loss of joint venture	(335)	(1,016)
Investment income and expense, net	1,154	531
Loss on sale and write-down of marketable securities	(1,005)	
Debt conversion expense		(9)
Other	(6)	(22)
	<u>(192)</u>	<u>(516)</u>
LOSS BEFORE EXTRAORDINARY ITEM	<u>(4,419)</u>	<u>(4,632)</u>
Extraordinary gain (loss) on extinguished debt	44	(7)
	<u>(4,375)</u>	<u>(4,639)</u>
NET LOSS	<u>(4,375)</u>	<u>(4,639)</u>
Accretion of dividends on preferred stock	(233)	(217)
	<u>(4,608)</u>	<u>(4,856)</u>
NET LOSS APPLICABLE TO COMMON STOCK	<u>\$ (4,608)</u>	<u>\$ (4,856)</u>
Basic and diluted loss per common share:		
Loss before extraordinary item	\$ (.22)	\$ (.31)
Extraordinary gain (loss) on extinguished debt		
	<u>(.22)</u>	<u>(.31)</u>
Net loss	(.22)	(.31)
Accretion of dividends on preferred stock	(.01)	(.01)
	<u>(.23)</u>	<u>(.32)</u>
Net loss applicable to common stock	<u>\$ (.23)</u>	<u>\$ (.32)</u>

Edgar Filing: ATRIX LABORATORIES INC - Form 10-Q

Basic and diluted weighted average common shares outstanding	<u>20,229,830</u>	<u>15,127,406</u>
--	-------------------	-------------------

See notes to the consolidated financial statements.

Table of Contents

ATRIX LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(Unaudited)

	For the Six Months Ended June 30,	
	2002	2001
REVENUES:		
Net sales and royalties	\$ 2,632	\$ 2,576
Contract research and development revenue	6,008	3,433
Licensing, marketing rights and milestone revenue	2,859	1,509
Total revenues	11,499	7,518
OPERATING EXPENSES:		
Cost of sales	1,303	1,043
Research and development	14,074	12,564
Research and development licensing fees		540
Administrative and marketing	4,230	2,702
Administrative stock option compensation	1,256	
Total operating expenses	20,863	16,849
LOSS FROM OPERATIONS	(9,364)	(9,331)
OTHER INCOME (EXPENSE):		
Equity in loss of joint venture	(745)	(1,517)
Investment income and expense, net	2,380	965
Loss on sale and write-down of marketable securities	(1,076)	
Debt conversion expense	(125)	(2,048)
Other	(5)	(23)
Net other income (expense)	429	(2,623)
LOSS BEFORE EXTRAORDINARY ITEM	(8,935)	(11,954)
Extraordinary gain (loss) on extinguished debt	30	(288)
NET LOSS	(8,905)	(12,242)
Accretion of dividends on preferred stock	(461)	(430)
NET LOSS APPLICABLE TO COMMON STOCK	\$ (9,366)	\$ (12,672)
Basic and diluted loss per common share:		
Loss before extraordinary item	\$ (.45)	\$ (.82)
Extraordinary loss on extinguished debt		(.02)
Net loss	(.45)	(.84)
Accretion of dividends on preferred stock	(.02)	(.03)

Edgar Filing: ATRIX LABORATORIES INC - Form 10-Q

Net loss applicable to common stock	\$ (47)	\$ (.87)
Basic and diluted weighted average common shares outstanding	20,079,496	14,655,378

See notes to the consolidated financial statements.

Table of Contents

ATRIX LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(Unaudited)

	For the Six Months Ended June 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (8,905)	\$ (12,242)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,557	1,189
Amortization of deferred revenue	(4,274)	(1,974)
Equity in loss of joint venture	745	1,517
Loss on sale and write-down of marketable securities	1,076	
Stock plan compensation	1,256	117
Debt conversion expense	125	2,048
Interest expense converted to equity	110	
Extraordinary (gain) loss on extinguished debt	(30)	288
Other non-cash items	8	(16)
Net changes in operating assets and liabilities:		
Accounts receivable	6	(359)
Note receivable licensing fee		8,000
Interest receivable	108	55
Inventories	(1,460)	(871)
Prepaid expenses and deposits	(1,361)	(332)
Accounts payable	(249)	194
Accrued expenses and other	882	106
Deferred revenue	10,095	7,334
Net cash provided by (used in) operating activities	<u>(311)</u>	<u>5,054</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(1,812)	(1,323)
Investment in intangible assets	(419)	(206)
Proceeds from maturity and sale of marketable securities	15,067	18,741
Investment in marketable securities	(27,873)	(27,067)
Investment in joint venture	(1,178)	(726)
Net cash used in investing activities	<u>(16,215)</u>	<u>(10,581)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of equity securities, net of issuance costs	2,532	5,336
Payments to acquire treasury stock	(671)	
Note receivable stock subscription		15,000
Net cash provided by financing activities	<u>1,861</u>	<u>20,336</u>
NET EFFECT OF EXCHANGE RATE ON CASH	346	(220)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(14,319)</u>	<u>14,589</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,058	