

NEKTAR THERAPEUTICS

Form 10-Q

November 07, 2005

Table of Contents

---

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

WASHINGTON, D.C. 20549

---

**FORM 10-Q**

---

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

For the quarterly period ended September 30, 2005

or,

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

For the transition period from            to

Commission File Number: 0-24006

---

**NEKTAR THERAPEUTICS**

(Exact name of registrant as specified in its charter)

Edgar Filing: NEKTAR THERAPEUTICS - Form 10-Q

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3134940**  
(IRS Employer  
Identification No.)

**150 Industrial Road**  
**San Carlos, California 94070**  
(Address of principal executive offices)

**650-631-3100**  
(Registrant's telephone number, including area code)

(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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined by Rule of the Exchange Act). Yes  No

Applicable Only to Corporate Issuers

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par value, was 87,623,905 on October 31, 2005.

---

**Table of Contents****NEKTAR THERAPEUTICS****INDEX****PART I: FINANCIAL INFORMATION**

Item 1.	<u>Condensed Consolidated Financial Statements:</u>	3
	<u>Condensed Consolidated Balance Sheets – September 30, 2005 and December 31, 2004</u>	3
	<u>Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2005 and 2004</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the nine-month period ended September 30, 2005 and 2004</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4.	<u>Controls and Procedures</u>	43

**PART II: OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	45
Item 2.	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	45
Item 3.	<u>Defaults Upon Senior Securities</u>	45
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	45
Item 5.	<u>Other Information</u>	46
Item 6.	<u>Exhibits and Reports on Form 8-K</u>	47
	<u>Signatures</u>	49

**Forward-Looking Statements**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). All statements other than statements of historical fact are forward-looking statements for purposes of this report, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, potentially, continue, or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this report are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial position and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the cautionary factors set forth in this report and for the reasons described elsewhere in this report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements except as required by law or applicable regulations.

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****NEKTAR THERAPEUTICS****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share information)

	September 30, 2005	December 31, 2004
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 357,217	\$ 32,064
Short-term investments	263,111	386,676
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$212 and \$43 at September 30, 2005 and December 31, 2004, respectively.	14,551	12,842
Inventory, net	13,152	10,691
Other current assets	10,178	12,266
	<u>658,209</u>	<u>454,539</u>
Total current assets	658,209	454,539
Property and equipment, net	144,716	151,247
Goodwill	129,986	130,120
Other intangible assets, net	3,075	6,456
Deposits and other assets	10,924	2,559
	<u>946,910</u>	<u>744,921</u>
Total assets	\$ 946,910	\$ 744,921
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,708	\$ 7,141
Accrued expenses	14,550	15,065
Other accrued liabilities	992	15
Interest payable	1,364	2,010
Capital lease obligations - current	444	1,532
Deferred revenue	21,767	29,890
	<u>47,825</u>	<u>55,653</u>
Total current liabilities	47,825	55,653
Convertible subordinated notes and debentures	417,653	173,949
Capital lease obligations - noncurrent	20,419	23,568
Other long-term liabilities	24,838	22,292
Accrued rent	2,071	2,117
Commitments and contingencies		
Stockholders' equity:		

## Edgar Filing: NEKTAR THERAPEUTICS - Form 10-Q

Preferred Stock, 10,000 shares authorized

Series A, \$0.0001 par value: 3,100 shares designated; no shares issued or outstanding at September 30, 2005 and December 31, 2004.

Convertible Series B, \$0.0001 par value: 40 shares designated; 20 shares issued and outstanding at September 30, 2005 and December 31, 2004; Liquidation preference of \$19,945 at September 30, 2005 and December 31, 2004.

Common stock, \$0.0001 par value; 300,000 authorized; 87,608 shares and 84,572 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively.

	9	8
Capital in excess of par value	1,232,718	1,187,575
Deferred compensation	(3,423)	(2,764)
Accumulated other comprehensive loss	(1,207)	(356)
Accumulated deficit	(793,993)	(717,121)
	434,104	467,342
Total stockholders' equity	434,104	467,342
	\$ 946,910	\$ 744,921
Total liabilities and stockholders' equity	\$ 946,910	\$ 744,921

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

**Table of Contents**

**NEKTAR THERAPEUTICS**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share information)

(unaudited)

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
<b>Revenue:</b>				
Contract research revenue	\$ 23,657	\$ 23,556	\$ 62,737	\$ 67,167
Product sales and royalty revenue	8,450	4,990	20,313	15,737
Exubera® commercialization readiness revenue	4,247		10,348	
<b>Total revenue</b>	<b>36,354</b>	<b>28,546</b>	<b>93,398</b>	<b>82,904</b>
<b>Operating costs and expenses:</b>				
Cost of goods sold	6,125	4,477	16,813	13,746
Exubera® commercialization readiness costs	3,075		8,035	
Research and development	38,591	34,534	109,321	99,476
General and administrative	10,948	7,382	30,193	22,281
Amortization of other intangible assets	982	981	2,945	2,944
<b>Total operating costs and expenses</b>	<b>59,721</b>	<b>47,374</b>	<b>167,307</b>	<b>138,447</b>
<b>Loss from operations</b>	<b>(23,367)</b>	<b>(18,828)</b>	<b>(73,909)</b>	<b>(55,543)</b>
Loss on extinguishment of debt	(303)		(303)	(9,258)
Other income (expense), net	(32)	(128)	(1,435)	303
Interest income	2,899	1,763	7,683	4,617
Interest expense	(2,992)	(3,259)	(8,908)	(22,603)
<b>Loss before provision for income taxes</b>	<b>(23,795)</b>	<b>(20,452)</b>	<b>(76,872)</b>	<b>(82,484)</b>
Provision for income taxes				(132)
<b>Net loss</b>	<b>\$ (23,795)</b>	<b>\$ (20,452)</b>	<b>\$ (76,872)</b>	<b>\$ (82,616)</b>
<b>Basic and diluted net loss per share</b>	<b>\$ (0.28)</b>	<b>\$ (0.24)</b>	<b>\$ (0.90)</b>	<b>\$ (1.08)</b>
<b>Shares used in computing basic and diluted net loss per share</b>	<b>86,228</b>	<b>83,853</b>	<b>85,331</b>	<b>76,550</b>

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



**Table of Contents****NEKTAR THERAPEUTICS****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

	<b>Nine-Months ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows used in operating activities:</b>		
Net loss	\$ (76,872)	\$ (82,616)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	13,368	8,651
Amortization of other intangible assets	3,381	3,381
Amortization of debt issuance costs	624	739
Amortization of deferred compensation	1,380	918
Amortization of gain related to sale of building	(715)	
Loss on termination of capital lease	1,137	
Non-cash compensation for employee retirement plans	1,096	772
Non-cash compensation for employee severance		60
Stock-based compensation for services rendered	179	424
Gain on sale of assets		(133)
Loss on early extinguishment of debt	303	9,258
Increase in provision for doubtful accounts and sales returns reserve	169	51
Increase in inventory reserve	1,314	1,542
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable	(1,893)	459
Increase in inventories	(3,774)	(3,457)
Decrease (increase) in prepaids and other assets	1,894	(37)
Increase (decrease) in accounts payable	1,587	(3,117)
Increase (decrease) in accrued expenses	179	(3,829)
Decrease in interest payable	(646)	(209)
Decrease in deferred revenue	(4,536)	(2,649)
Decrease in other liabilities	(48)	(945)
<b>Net cash used in operating activities</b>	<b>(61,873)</b>	<b>(70,737)</b>
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(150,327)	