

PHARMANETICS INC
Form 10-Q
November 15, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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, 2004.

.. **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

0-25133

PHARMANETICS, INC.

(Exact Name of Registrant as Specified in its Charter)

North Carolina
(State or other jurisdiction of

Incorporation or organization)

56-2098302
(IRS Employer

Identification Number)

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9401 Globe Center Drive, Suite 140

Morrisville, North Carolina
(Address of Principal Executive Office)

27560
(Zip Code)

Registrant's Telephone Number, Including Area Code 919-582-2600

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 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 Act). YES NO

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

<u>Class</u>	<u>Outstanding as of November 8, 2004</u>
Common Stock, no par value	10,490,218

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Table of Contents**PHARMANETICS, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	September 30, 2004 <u>(Unaudited)</u>	December 31, 2003 <u></u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,889	\$ 8,463
Accounts receivable from related party	1	498
Other receivables, net of allowance for doubtful accounts of \$21 and \$2, respectively	1	54
Inventories		567
Other current assets	287	623
Total current assets	4,178	10,205
Property and equipment (available for sale)	4,047	4,656
Patent and intellectual property (available for sale)	384	403
Other noncurrent assets	4	3
Total assets	\$ 8,613	\$ 15,267
Liabilities, Convertible Redeemable Preferred Stock and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 64	\$ 800
Accrued expenses	253	538
Deferred revenue, current portion	1,042	1,226
Current portion of long term debt and capital lease obligations	22	514
Total current liabilities	1,381	3,078
Noncurrent liabilities:		
Deferred revenue, less current portion	1,216	2,065
Long-term debt and capital lease obligations, less current portion	10	617
Total noncurrent liabilities	1,226	2,682
Total liabilities	2,607	5,760
Series A convertible redeemable preferred stock, no par value; authorized 120,000 shares; 64,500 and 65,5000 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively (aggregate liquidation value at September 30, 2004 of \$6,450,000)	5,360	5,443
Series B convertible redeemable preferred stock, no par value; authorized 130,000 shares; 107,954 and 101,354 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively (aggregate liquidation value at September 30, 2004 of \$10,795,400)	7,527	7,408
Shareholders equity:		
Common stock, no par value; authorized 40,000,000 shares; 10,490,218 and 10,021,556 issued and outstanding at September 30, 2004 and December 31, 2003, respectively	75,879	75,511

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Accumulated deficit	(82,760)	(78,855)
Total shareholders' equity	(6,881)	(3,344)
Total liabilities, convertible redeemable preferred stock and shareholders' equity	\$ 8,613	\$ 15,267

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

Table of Contents**PHARMANETICS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(In thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30 2004	September 30 2003	September 30 2004	September 30 2003
Revenues				
Net product sales to related party	\$	\$ 1,342	\$ 1,688	\$ 4,114
Net product sales to third parties		38	180	62
Grant/royalty income			29	20
Development income	261	261	782	782
Total revenues	261	1,641	2,679	4,978
Operating expenses:				
Cost of goods sold		956	1,487	2,608
General and administrative	630	883	4,053	2,888
Sales and marketing		992	396	2,630
Research and development		828	374	3,322
Total operating expenses	630	3,659	6,310	11,448
Operating loss	(369)	(2,018)	(3,631)	(6,470)
Other income (expense):				
Interest income	12	25	40	62
Interest expense	(1)	(31)	(27)	(102)
Other income (expense)	(5)	37	100	52
Total other income (expense)	6	31	113	12
Net and comprehensive loss	(363)	(1,987)	(3,518)	(6,458)
Dividends on preferred stock	110	284	386	652
Amortization of beneficial conversion feature on Series B convertible redeemable preferred stock				3,459
Net loss applicable to common shareholders	\$ (473)	\$ (2,271)	\$ (3,904)	\$ (10,569)
Basic and diluted net loss per common share	\$ (0.05)	\$ (0.23)	\$ (0.39)	\$ (1.08)
Average weighted common shares outstanding	10,249,665	9,815,957	10,120,195	9,766,308

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

Table of Contents**PHARMANETICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(In thousands)

	Nine Months Ended	
	September 30, 2004	September 30, 2003
Cash flows from operating activities:		
Net loss	\$ (3,518)	\$ (6,458)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	615	1,338
Amortization of intangible and other assets	79	96
Loss (gain) on trading securities	92	(19)
Write-down of inventory to net realizable value	378	267
Change in operating assets and liabilities:		
Accounts receivable	550	(81)
Inventories	189	(882)
Other assets	188	35
Accounts payable and accrued expenses	(1,020)	(639)
Deferred revenue	(1,033)	(612)
Net cash used in operating activities	(3,479)	(6,955)
Cash flows from investing activities:		
Payments for purchase of property and equipment	(10)	(314)
Disposal of property and equipment	5	5
Costs incurred to obtain patents and intangibles	(6)	(85)
Proceeds from sale of investment	30	30
Net cash used in investing activities	(11)	(364)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(1,101)	(322)
Proceeds from issuance of Series B convertible redeemable preferred stock, Net of offering costs	8,655	8,655
Proceeds from common stock options exercised	17	37
Net cash (used in) provided by financing activities	(1,084)	8,370
Net (decrease) increase in cash and cash equivalents	(4,574)	1,051
Cash and cash equivalents at beginning of period	8,463	9,146