

METABASIS THERAPEUTICS INC
Form 10-Q
May 16, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

ý **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

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 000-50785

METABASIS THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**9390 Towne Centre Drive,
Building 300, San Diego, CA**
(Address of principal executive offices)

33-0753322

(I.R.S. Employer
Identification No.)

92121
(Zip code)

(858) 587-2770

(Registrant's telephone number, including area code)

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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 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 Securities Exchange Act of 1934). Yes No

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of May 10, 2005 was 18,183,283.

METABASIS THERAPEUTICS, INC.

**FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005**

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Metabasis Therapeutics, Inc.
Condensed Balance Sheets
(In thousands, except par value data)

	March 31, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,242	\$ 10,921
Securities available-for-sale	29,936	32,934
Accounts receivable	320	525
Other current assets	1,114	1,126
Total current assets	39,612	45,506
Property and equipment, net	2,257	2,354
Other assets	153	
Total assets	\$ 42,022	\$ 47,860
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 644	\$ 864
Accrued liabilities	2,887	2,835
Deferred rent	42	67
Deferred revenue, current portion	377	
Current portion of capital lease obligations, net of discount	784	834
Total current liabilities	4,734	4,600
Other long-term liabilities	4	4
Capital lease obligations, net of current portion and discount	1,203	1,392
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000 shares authorized at March 31, 2005 (unaudited) and December 31, 2004, no shares issued or outstanding		
Common stock, \$0.001 par value; 100,000 shares authorized at March 31, 2005 (unaudited) and December 31, 2004; 18,183 and 18,169 shares issued and outstanding at March 31, 2005 (unaudited) and December 31, 2004, respectively	18	18
Additional paid-in capital	98,518	98,602
Deferred compensation	(4,764)	(5,337)
Accumulated deficit	(57,600)	(51,365)
Accumulated other comprehensive loss	(91)	(54)
Total stockholders' equity	36,081	41,864
Total liabilities and stockholders' equity	\$ 42,022	\$ 47,860

See accompanying notes.

Metabasis Therapeutics, Inc.

Condensed Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three months ended March 31,	
	2005	2004
Revenues:		
Sponsored research	\$ 344	\$ 344
Milestones		3,500
License fees		125
Other revenue	53	201
Total revenues	397	4,170
Operating expenses:		
Research and development	5,097	3,653
General and administrative	1,311	695
Amortization of employee stock-based compensation	429	343
Total operating expenses	6,837	4,691
Loss from operations	(6,440)	(521)
Other income (expense):		
Interest income	259	63
Interest expense	(54)	(54)
Total interest and other income (expense)	205	9
Net loss	\$ (6,235)	\$ (512)
Basic and diluted net loss per share	\$ (0.35)	\$ (0.37)
Shares used to compute basic and diluted net loss per share	17,843	1,371
The composition of employee stock-based compensation is as follows:		
Research and development	\$ 297	\$ 240
General and administrative	132	103
	\$ 429	\$ 343

See accompanying notes.

Metabasis Therapeutics, Inc.

Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2005	2004
Operating activities		
Net loss	\$ (6,235)	\$ (512)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred employee stock-based compensation	429	343
Amortization of deferred compensation on tendered shares	44	44
Deferred rent	(25)	(14)
Depreciation and amortization	208	154
Amortization of discount on equipment loan	3	4
Change in operating assets and liabilities:		
Accounts receivable	205	(2,827)
Other current assets	12	(25)
Other assets	(153)	
Deferred revenue	377	253
Accounts payable	(220)	(192)
Accrued liabilities and other long-term liabilities	52	(301)
Net cash flows used in operating activities	(5,303)	(3,073)
Investing activities		
Purchases of securities available-for-sale	(3,751)	(3,157)
Sales/maturities of securities available-for-sale	6,712	3,600
Purchases of property and equipment	(111)	(363)
Net cash flows provided by investing activities	2,850	80
Financing activities		
Issuance of common stock	16	44
Payments under capital lease obligations	(242)	(188)
Proceeds from capital lease obligations		410
Prepaid offering costs		(182)
Net cash flows (used in) provided by financing activities	(226)	84
Decrease in cash and cash equivalents	(2,679)	(2,909)
Cash and cash equivalents at beginning of year	10,921	11,017
Cash and cash equivalents at end of period	\$ 8,242	\$ 8,108
Supplemental disclosure of cash flow information:		
Interest paid	\$ 51	\$ 57

See accompanying notes.

Metabasis Therapeutics, Inc.

Notes to Condensed Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles and with the rules and regulations of the Securities and Exchange Commission (SEC) related to a quarterly report on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature.

Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, see the financial statements and notes thereto for the year ended December 31, 2004 included in our Annual Report on Form 10-K filed with the SEC.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The terms Company and we and our are used in this report to refer to Metabasis Therapeutics, Inc.

2. Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its employee and director stock options. Under APB No. 25, if the exercise price of the Company's employee and director stock options equals or exceeds the estimated fair value of the underlying stock on the date of grant, no compensation expense is recognized. In conjunction with the Company's initial public offering completed in June 2004, the Company reviewed its historical exercise prices through June 15, 2004 and, as a result, revised the estimate of fair value for the stock underlying all stock options granted subsequent to June 30, 2002. The weighted average exercise price for the options to purchase 930,000 shares of common stock granted to the Company's employees and directors during July 2002 through June 15, 2004 was \$1.46. With respect to employee and director options granted, the Company has deferred stock compensation balances of \$4.4 million and \$4.9 million at March 31, 2005 and December 31, 2004, respectively, for the difference between the original exercise price per share determined by the Board of Directors and the revised estimate of fair value per share at the respective grant dates. Deferred stock compensation is recognized and amortized on a straight-line basis over the vesting period of the related options, generally four years. Compensation expense related to stock options granted to the Company's employees and directors was \$429,000 and \$343,000 for the three months ended March 31, 2005 and 2004, respectively.

Options or stock awards issued to non-employees other than directors have been valued in accordance

with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services*, and expensed over the period the services are provided. Deferred charges for options granted to such non-employees are periodically remeasured as the options vest.

As required under SFAS No. 123, the pro forma effects of stock-based compensation on net loss were estimated at the date of grant using the minimum-value method for all grants made through June 15, 2004, the effective date of the Company's registration statement for its initial public offering, and the Black-Scholes method thereafter. The Company became a public company on June 16, 2004, and accordingly began using the Black-Scholes valuation model in accordance with SFAS No. 123. The minimum-value method and the Black-Scholes valuation model were developed for use in estimating the fair value of publicly traded options that have no vesting restrictions and are fully transferable. Because the Company's employee and director stock options have characteristics significantly different from those of publicly traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, these existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee and director stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of such stock options. The Company's pro forma information is as follows:

	Three months ended March 31,	
	2005	2004
Net loss applicable to common stockholders as reported	\$ (6,235)	\$ (512)
Add: Stock-based employee compensation expense included in reported net loss	429	343
Deduct: Stock-based employee compensation expense determined under fair value method	(517)	(353)
Pro forma net loss applicable to common stockholders	\$ (6,323)	\$ (522)
Basic and diluted net loss per share as reported	\$ (0.35)	\$ (0.37)
Pro forma basic and diluted net loss per share	\$ (0.35)	\$ (0.04)

3. Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, requires that all components of comprehensive loss, including net loss, be reported in the financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive loss is as follows:

	Three months ended March 31,	
	2005	2004
Net loss	\$ (6,235)	\$ (512)
Unrealized (loss) gain on available for-sale investments	(37)	5
Comprehensive loss	\$ (6,272)	\$ (507)

4. Net Loss Per Share

The Company calculated net loss per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share (EPS) is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net loss by the weighted average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company, options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted EPS when their effect is dilutive.

The actual net loss per share amounts for the three months ended March 31, 2005 and 2004 were computed based on the shares of common stock outstanding during the respective periods, including the 5.0 million shares of common stock issued in the Company's initial public offering on June 21, 2004, an additional 75,000 shares of common stock pursuant to the exercise by the underwriters of an over-allotment option on July 20, 2004 and the 11.0 million shares of the Company's common stock issued upon conversion of the Company's preferred stock in conjunction with the initial public offering. As a result of the issuance of these common shares, there is a lack of comparability in the basic and diluted net loss per share amounts for the periods presented below. In order to provide a more relevant measure of operating results, the following unaudited pro forma net loss per share calculation has been included. The shares used to compute unaudited pro forma basic and diluted net loss per share represent the weighted average common shares outstanding for the period, reduced by the weighted average unvested common shares subject to repurchase, and including the assumed conversion of all outstanding shares of preferred stock into shares of common stock using the as-if converted method as of the beginning of each period presented.

Three months ended	
March 31,	
2005	2004