TITAN PHARMACEUTICALS INC
Form 10-Q
November 08, 2007
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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, 2007.

or

¨ **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 001-13341

Titan Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3171940**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

400 Oyster Point Blvd., Suite 505, South San Francisco, California 94080

(Address of Principal Executive Offices including zip code)

(650) 244-4990

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition or accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

There were 44,981,460 shares of the Registrant s Common Stock issued and outstanding on November 2, 2007.

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Part I. Financial Information

Item 1. Condensed Financial Statements (unaudited)

TITAN PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2007 (unaudited)	December 31, 2006 (Note A)
Assets		
Current assets		
Cash and cash equivalents	$ 863	$ 9,613
Marketable securities	12,645	4,102
Prepaid expenses, other receivables and current assets	430	504
Total current assets	13,938	14,219
Property and equipment, net	417	457
Investment in other companies		150
Other assets	35	214
Total assets	$ 14,390	$ 15,040
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 443	$ 561
Accrued clinical trials expenses	1,011	1,521
Other accrued liabilities	1,429	1,312
Total current liabilities	2,883	3,394
Minority interest Series B preferred stock of Ingenex, Inc.	1,241	1,241
Stockholders equity		
Common stock, at amounts paid-in	234,555	224,221
Additional paid-in capital	11,078	10,118
Accumulated deficit	(235,375)	(223,944)
Accumulated other comprehensive income	8	10
Total stockholders equity	10,266	10,405
Total liabilities and stockholders equity	$ 14,390	$ 15,040

Note A: The balance sheet has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statement presentation.

See Notes to Condensed Consolidated Financial Statements

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TITAN PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amount)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
License revenue	$	$ 1	$ 12	$ 3
Operating expenses:				
Research and development	3,093	3,264	7,782	9,329
General and administrative	1,467	1,287	4,296	3,657
Total operating expenses	4,560	4,551	12,078	12,986
Loss from operations	(4,560)	(4,550)	(12,066)	(12,983)
Other income (expense):				
Interest income, net	186	208	492	554
Other income (expense)	50	2	143	(42)
Other income (expense), net	236	210	635	512
Net loss	$ (4,324)	$ (4,340)	$ (11,431)	$ (12,471)
Basic and diluted net loss per share	$ (0.10)	$ (0.11)	$ (0.27)	$ (0.33)
Weighted average shares used in computing basic and diluted net loss per share	44,478	38,891	41,901	37,902

See Notes to Condensed Consolidated Financial Statements

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TITAN PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (11,431)	$ (12,471)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	234	293
Loss (gain) on disposal of assets	(9)	5
Gain on sale of investments	(352)	
Stock-based compensation	960	673
Changes in operating assets and liabilities:		
Prepaid expenses, receivables and other assets	253	674
Accounts payable and other accrued liabilities	(511)	1,003
Net cash used in operating activities	(10,856)	(9,823)
Cash flows from investing activities:		
Purchases of furniture and equipment	(196)	(55)
Disposals of furniture and equipment	11	21
Purchases of marketable securities	(48,872)	(13,228)
Proceeds from maturities of marketable securities	24,279	13,290
Proceeds from sales of marketable securities	16,048	
Sale of investment in other companies	502	
Net cash provided by (used in) investing activities	(8,228)	28
Cash flows from financing activities:		
Issuance of common stock, net	10,334	9,752
Net cash provided by financing activities	10,334	9,752
Net decrease in cash and cash equivalents	(8,750)	(43)
Cash and cash equivalents at beginning of period	9,613	9,142
Cash and cash equivalents at end of period	863	9,099
Marketable securities at end of period	12,645	8,219
Cash, cash equivalents and marketable securities at end of period	$ 13,508	$ 17,318

See Notes to Condensed Consolidated Financial Statements

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TITAN PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Summary of Significant Accounting Policies

The Company

We are a biopharmaceutical company developing proprietary therapeutics for the treatment of central nervous system (CNS) disorders, cardiovascular disease, bone disease and other disorders. Our product development programs focus primarily on large pharmaceutical markets with significant unmet medical needs and commercial potential. We are both directly developing our product candidates and utilizing strategic partnerships to help fund product development that enable us to retain significant economic interest in our products. We operate in one business segment, the development of pharmaceutical products.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Titan Pharmaceuticals, Inc. and its subsidiaries after elimination of all significant intercompany accounts and transactions. Certain prior period balances have been reclassified to conform to the current period presentation. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for a complete financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007, or any future interim periods.

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Titan Pharmaceuticals, Inc. Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (SEC).

We expect to continue to incur substantial additional operating losses from costs related to continuation and expansion of product and technology development, clinical trials, and administrative activities. We believe that our working capital at September 30, 2007, together with the proceeds from the sale of our common stock (see Note 8), and funds available under the Common Stock Purchase Agreement (see Note 7) are sufficient to sustain our planned operations through the first half of 2008.

We will need to seek additional financing sources to fund our product development activities, and will be required to obtain substantial funding to commercialize any products other than iloperidone or Spheramine that we may successfully develop. If we are unable to complete a debt or equity offering, or otherwise obtain sufficient financing when and if needed, we may be required to reduce, defer or discontinue one or more of our product development programs.

Revenue Recognition

We generate revenue principally from collaborative research and development arrangements, technology licenses, and government grants. Revenue arrangements with multiple components are divided into separate units of accounting if certain criteria are met, including whether the delivered component has stand-alone value to the customer, and whether there is objective and reliable evidence of the fair value of the undelivered items. Consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are then applied to each of the units.

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Revenue is recognized when the four basic criteria of revenue recognition are met: (1) a contractual agreement exists; (2) transfer of technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. For each source of revenue, we comply with the above revenue recognition criteria in the following manner:

Collaborative arrangements typically consist of non-refundable and/or exclusive technology access fees, cost reimbursements for specific research and development spending, and various milestone and future product royalty payments. If the delivered technology does not have stand-alone value or if we do not have objective or reliable evidence of the fair value of the undelivered component, the amount of revenue allocable to the delivered technology is deferred. Non-refundable upfront fees with stand-alone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if we have continuing performance obligations and have no evidence of fair value of those obligations. Cost reimbursements for research and development spending are recognized when the related costs are incurred and when collections are reasonably expected. Payments received related to substantive, performance-based at-risk milestones are recognized as revenue upon achievement of the clinical success or regulatory event specified in the underlying contracts, which represent the culmination of the earnings process. Amounts received in advance are recorded as deferred revenue until the technology is transferred, costs are incurred, or milestone is reached.

Technology license agreements typically consist of non-refundable upfront license fees, annual minimum access fees or royalty payments. Non-refundable upfront license fees and annual minimum payments received with separable stand-alone values are recognized when the technology is transferred or accessed, provided that the technology transferred or accessed is not dependent on the outcome of our continuing research and development efforts.

Government grants, which support our research efforts in specific projects, generally provide for reimbursement of approved costs as defined in the notices of grants. Grant revenue is recognized when associated project costs are incurred.

Majority-Owned Subsidiary

At September 30, 2007, we owned 81% of Ingenex (assuming the conversion of all preferred stock to common stock).

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which provides clarification related to the process associated with accounting for uncertain tax positions recognized in consolidated financial statements. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. We adopted FIN 48 on January 1, 2007 and the impact on our consolidated financial statements was not material.

In September 2006, the FASB issued FASB Statement (SFAS) No. 157, *Fair Value Measurement,* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The guidance clarifies the principle for assessing fair value based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data such as companies own data. Under this guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating SFAS 157 and expects to adopt this guidance beginning on January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not decided if we will choose to measure any eligible financial assets and liabilities at fair value.

In June 2007, the EITF reached a consensus on EITF Issue No. 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (EITF 07-3). Under EITF 07-03, nonrefundable advance payments for goods or services to be received in the future for use in research and development activities should be deferred and capitalized. Such amounts should be

expensed as the related goods are delivered or services

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are performed. If our expectations change such that we do not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. EITF 07-03 is effective for new contracts entered into beginning January 1, 2008. We have not yet determined the impact that EITF 07-03 will have on our financial statements.

2. Stock Option Plans

In December 2004, the Financial Accounting Standards Board (FASB) issued their final standard on accounting for share-based payments in FASB Standard No. 123R (revised 2004), *Share-Based Payment* (SFAS 123R). This statement replaces FASB Statement 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The statement is effective for all interim and annual periods beginning after December 15, 2005 and requires companies to measure and recognize compensation expense for all share-based payments at fair value in the consolidated statement of income. Share-based payments include stock option grants under Company stock plans, more fully described in note 12 of the Company s 2006 Annual Report on Form 10-K.

Effective January 1, 2006, we adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

We use the Black-Scholes-Merton option-pricing model with the following assumptions to estimate the share-based compensation expense for the three and nine month periods ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Weighted-average risk-free interest rate	4.3%	4.5%	4.5%	4.8%
Expected dividend payments				
Expected holding period (years)[1]	5.9	6.0	5.9	5.8
Weighted-average volatility factor	0.76	0.71	0.84	0.64
Estimated forfeiture rates for options granted to management[2]	2%	2%	2%	2%
Estimated forfeiture rates for options granted to non-management[2]	29%	31%	29%	31%

[1] Based on the simplified method provided in Staff Accounting Bulletin No. 107 for plain vanilla options.

[2] Estimated forfeiture rates are based on historical data.

The following table summarizes the SFAS 123R share-based compensation expense recorded for awards under the stock option plans and the resulting impact on our basic and diluted loss per share for the three and nine month periods ended September 30, 2007 and 2006, due to the adoption of SFAS 123R:

(in thousands, except per share amounts)	Three Months Ended September 30, 2007	2006	Nine months Ended September 30, 2007	2006
Research and development	$ 153	$ 58	$ 305	$ 295
General and administrative	210	120	655	378
Total share-based compensation expenses	$ 363	$ 178	$ 960	