

DURECT CORP
Form 10-Q
November 03, 2006
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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 September 30, 2006

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 000-31615

DURECT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

2 Results Way, Cupertino, California
(Address of principal executive offices)

94-3297098
(I.R.S. Employer
Identification No.)

95014
(Zip Code)

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(408) 777-1417

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

Large accelerated filer Accelerated filer 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

As of October 31, 2006, there were 68,893,682 shares of the registrant's Common Stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****DURECT CORPORATION****CONDENSED BALANCE SHEETS**

(in thousands, except per share amounts)

| | September 30, | December 31, |
|--|---------------------|-------------------|
| | 2006 (unaudited) | 2005 (Note 1) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,717 | \$ 65,542 |
| Short-term investments | 25,099 | 18,022 |
| Restricted investments | | 321 |
| Accounts receivable, net of allowances of \$36 and \$128, respectively | 3,471 | 4,488 |
| Inventories | 2,205 | 2,047 |
| Prepaid expenses and other current assets | 1,611 | 3,659 |
| Total current assets | 70,103 | 94,079 |
| Property and equipment, net | 7,447 | 7,304 |
| Goodwill | 6,399 | 6,399 |
| Intangible assets, net | 119 | 536 |
| Long-term investments | 9,955 | 5,459 |
| Restricted investments | 1,508 | 1,653 |
| Other long-term assets | 1,073 | 1,984 |
| Total assets | \$ 96,604 | \$ 117,414 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,121 | \$ 1,835 |
| Accrued liabilities | 4,042 | 3,874 |
| Contract research liabilities | 871 | 1,418 |
| Interest payable on convertible notes | 681 | 149 |
| Deferred revenue, current portion | 2,412 | 2,367 |
| Equipment financing obligations and term loan, current portion | 32 | 34 |
| Bonds payable, current portion | 200 | 200 |
| Total current liabilities | 9,359 | 9,877 |
| Equipment financing obligations and term loan, noncurrent portion | 150 | 27 |
| Bonds payable, noncurrent portion | 675 | 675 |
| Convertible subordinated notes | 37,337 | 57,337 |
| Deferred revenue, noncurrent portion | 4,375 | 6,016 |
| Other long-term liabilities | 279 | 130 |
| Commitments | | |
| Stockholders equity: | | |
| Common stock, \$0.0001 par value: 110,000 shares authorized at September 30, 2006 and December 31, 2005; 68,784 and 61,609 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively | 7 | 6 |

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| | | |
|--|-----------|------------|
| Additional paid-in capital | 263,555 | 239,057 |
| Deferred royalties and commercial rights | (13,480) | (13,480) |
| Accumulated other comprehensive loss | (58) | (212) |
| Accumulated deficit | (205,595) | (182,019) |
| Stockholders' equity | 44,429 | 43,352 |
| Total liabilities and stockholders' equity | \$ 96,604 | \$ 117,414 |

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

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DURECT CORPORATION
CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------------|------------------------------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Collaborative research and development and other revenue | \$ 3,158 | \$ 5,369 | \$ 10,264 | \$ 15,896 |
| Product revenue, net | 1,976 | 1,653 | 6,189 | 5,299 |
| Revenue from sale of intellectual property rights | | 1,600 | | 1,600 |
| Total revenues | 5,134 | 8,622 | 16,453 | 22,795 |
| Operating expenses: | | | | |
| Cost of revenues (1) | 666 | 573 | 2,265 | 1,933 |
| Research and development (1) | 9,930 | 7,024 | 25,643 | 21,301 |
| Selling, general and administrative (1) | 3,346 | 2,699 | 9,540 | 8,362 |
| Amortization of intangible assets | 22 | 303 | 416 | 909 |
| Total operating expenses | 13,964 | 10,599 | 37,864 | 32,505 |
| Loss from operations | (8,830) | (1,977) | (21,411) | (9,710) |
| Other income (expense): | | | | |
| Interest and other income | 957 | 467 | 2,841 | 1,359 |
| Interest expense | (710) | (1,095) | (2,719) | (3,329) |
| Debt conversion expense | | (403) | (2,287) | (403) |
| Net other income (expense) | 247 | (1,031) | (2,165) | (2,373) |
| Loss before income taxes | (8,583) | (3,008) | (23,576) | (12,083) |
| Income tax provision | | 4 | | 4 |
| Net loss | \$ (8,583) | \$ (3,012) | \$ (23,576) | \$ (12,087) |
| Net loss per share, basic and diluted | \$ (0.12) | \$ (0.06) | \$ (0.36) | \$ (0.23) |
| Shares used in computing basic and diluted net loss per share | 68,688 | 52,786 | 64,943 | 52,240 |

(1) Stock-based compensation related to the following:

| | | | | |
|-------------------------------------|----------|-------|----------|--------|
| Cost of revenues | \$ 20 | \$ | \$ 47 | \$ |
| Research and development | 774 | 60 | 2,084 | 106 |
| Selling, general and administrative | 368 | | 1,011 | 347 |
| | \$ 1,162 | \$ 60 | \$ 3,142 | \$ 453 |

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

Table of Contents**DURECT CORPORATION****CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

| | Nine months ended September 30, | |
|---|--|---------------|
| | 2006 | 2005 |
| Cash flows from operating activities | | |
| Net loss | \$ (23,576) | \$ (12,087) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on impairment and disposal of fixed assets | 34 | |
| Depreciation and amortization | 1,933 | 2,419 |
| Stock-based compensation | 3,142 | 453 |
| Non-cash expense related to the early conversion of convertible subordinate notes | | 403 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,017 | (3,289) |
| Inventories | (116) | (195) |
| Prepaid expenses and other assets | 2,440 | (15) |
| Accounts payable | (714) | (749) |
| Accrued liabilities and other long-term liabilities | 1,017 | 1,473 |
| Contract research liability | (547) | 357 |
| Interest payable on convertible notes | 532 | 915 |
| Deferred revenue | (1,596) | 8,722 |
| Total adjustments | 7,142 | 10,494 |
| Net cash and cash equivalents used in operating activities | (16,434) | (1,593) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (1,694) | (1,660) |
| Purchases of available for sale securities | (44,275) | (11,601) |
| Proceeds from sales and maturities of available for sale securities | 33,322 | 23,047 |
| Net cash and cash equivalents provided by (used in) investing activities | (12,647) | 9,786 |
| Cash flows from financing activities | | |
| Payments on term loan and equipment financing obligations | (78) | (220) |
| Net proceeds from issuances of common stock | 1,334 | 871 |
| Proceeds from notes receivable from shareholders | | 37 |
| Net cash and cash equivalents provided by financing activities | 1,256 | 688 |
| Net increase (decrease) in cash and cash equivalents | (27,825) | 8,881 |
| Cash and cash equivalents, beginning of the period | 65,542 | 20,032 |
| Cash a | | |