ADVENTRX PHARMACEUTICALS INC
Form 10-Q
November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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 001-32157

ADVENTRX Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**84-1318182**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
6725 Mesa Ridge Road, Suite 100, San Diego, CA	**92121**
(Address of principal executive offices)	*(Zip Code)*

(858) 552-0866
(Registrant s telephone number, including area code)

N/A
(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 þ No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of the registrant s common stock, $0.001 par value, as of November 7, 2008 was 90,252,572.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Condensed Consolidated Balance Sheets

	September 30, 2008 (Unaudited)	December 31, 2007 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 15,306,476	$ 14,780,739
Short-term investments		18,682,417
Other receivables	53,904	72,029
Prepaid expenses	1,576,574	615,691
Total current assets	16,936,954	34,150,876
Property and equipment, net	266,701	332,444
Other assets	61,496	58,305
Total assets	$ 17,265,151	$ 34,541,625
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 207,873	$ 552,143
Accrued liabilities	2,960,773	2,317,910
Accrued compensation and payroll taxes	838,226	622,762
Total current liabilities	4,006,872	3,492,815
Long-term liabilities		14,270
Total liabilities	4,006,872	3,507,085
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 90,252,572 shares issued and outstanding at September 30, 2008 and December 31, 2007	90,254	90,254
Additional paid-in capital	131,502,455	130,140,549
Deficit accumulated during the development stage	(118,334,430)	(99,198,965)
Accumulated other comprehensive income		2,702
Total stockholders equity	13,258,279	31,034,540
Total liabilities and stockholders equity	$ 17,265,151	$ 34,541,625

Note: The balance sheet at December 31, 2007 has been derived from audited financial statements at that date. It does not include, however, all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Inception (June 12, 1996) through September 30, 2008
Revenues:					
Net sales	$	$	$	$	$ 174,830
Cost of goods sold					51,094
Gross margin					123,736
Grant revenue					129,733
Licensing revenue			500,000	500,000	1,000,000
Total revenues			500,000	500,000	1,253,469
Operating expenses:					
Research and development	4,741,118	4,422,259	13,072,820	12,046,997	57,165,193
Selling, general and administrative	2,075,092	1,979,257	7,075,974	6,794,634	40,325,563
Depreciation and amortization	39,803	44,899	130,698	149,824	10,760,730
In-process research and development					10,422,130
Impairment loss write off of goodwill					5,702,130
Equity in loss of investee					178,936
Total operating expenses	6,856,013	6,446,415	20,279,492	18,991,455	124,554,682
Loss from operations	(6,856,013)	(6,446,415)	(19,779,492)	(18,491,455)	(123,301,213)
Interest and other income	79,150	532,291	644,027	1,730,689	4,676,091
Interest expense					(179,090)
Loss before cumulative effect of change in accounting	(6,776,863)	(5,914,124)	(19,135,465)	(16,760,766)	(118,804,212)

principle										
Cumulative effect of change in accounting principle										(25,821)
Net loss		(6,776,863)		(5,914,124)		(19,135,465)		(16,760,766)		(118,830,033)
Preferred stock dividends										(621,240)
Net loss applicable to common stock	$	(6,776,863)	$	(5,914,124)	$	(19,135,465)	$	(16,760,766)	$	(119,451,273)
Net loss per common share basic and diluted	$	(0.08)	$	(0.07)	$	(0.21)	$	(0.19)		
Weighted average shares basic and diluted		90,252,572		90,007,509		90,252,572		89,798,207		

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Inception (June 12, 1996) through September 30, 2008
Cash flows from operating activities:			
Net loss	$ (19,135,465)	$ (16,760,766)	$ (118,830,033)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	130,698	149,824	10,310,730
In-process research and development			10,422,130
Share-based compensation for employee awards	1,356,393	1,853,839	7,799,721
Expense related to stock options issued to non-employees	5,513	43,513	205,196
Expenses paid by issuance of common stock		58,750	1,144,697
Expenses paid by issuance of warrants			573,357
Expenses paid by issuance of preferred stock			142,501
Expenses related to stock warrants issued			612,000
Accretion of discount on investments in securities	(208,103)	(838,563)	(1,604,494)
Amortization of debt discount			450,000
Forgiveness of employee receivable			30,036
Impairment loss write-off of goodwill			5,702,130
Equity in loss of investee			178,936
Write-off of license agreement			152,866
Write-off of assets available-for-sale			108,000
Cumulative effect of change in accounting principle			25,821
Changes in assets and liabilities, net of effect of acquisitions:			
Increase in prepaid expenses and other assets	(945,949)	(298,893)	(1,939,343)
Increase in accounts payable and accrued liabilities	517,882	1,488,893	4,187,404
Decrease in other long-term liabilities	(14,270)	(16,053)	
Net cash used in operating activities	(18,293,301)	(14,319,456)	(80,328,345)
Cash flows from investing activities:			
Purchases of short-term investments	(14,355,784)	(35,556,914)	(111,183,884)
Proceeds from sales and maturities of short-term investments	33,243,602	42,840,000	112,788,378
Purchases of property and equipment	(68,780)	(99,374)	(1,034,178)
Purchase of certificate of deposit			(1,016,330)
Maturity of certificate of deposit			1,016,330
Payment on obligation under license agreement			(106,250)

Cash acquired from acquisitions, net of cash paid			32,395
Issuance of note receivable related party			(35,000)
Payments on note receivable			405,993
Advance to investee			(90,475)
Cash transferred in rescission of acquisition			(19,475)
Cash received in rescission of acquisition			230,000
Net cash provided by investing activities	18,819,038	7,183,712	987,504
Cash flows from financing activities:			
Proceeds from sale of preferred stock			4,200,993
Proceeds from sale of common stock			84,151,342
Proceeds from exercise of stock options		441,616	712,367
Proceeds from sale or exercise of warrants			11,382,894
Repurchase of warrants			(55,279)
Payment of financing and offering costs			(6,483,809)
Payments of notes payable and long-term debt			(605,909)
Proceeds from issuance of notes payable and detachable warrants			1,344,718
Net cash provided by financing activities		441,616	94,647,317
Net increase (decrease) in cash and cash equivalents	525,737	(6,694,128)	15,306,476
Cash and cash equivalents at beginning of period	14,780,739	25,974,041	
Cash and cash equivalents at end of period	$ 15,306,476	$ 19,279,913	$ 15,306,476

See accompanying notes to unaudited condensed consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

ADVENTRX Pharmaceuticals, Inc., a Delaware corporation (ADVENTRX, we or the Company), prepared the unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual audited financial statements and should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2007 included in our Annual Report on Form 10-K filed with the SEC on March 17, 2008 (2007 Annual Report). The condensed consolidated balance sheet as of December 31, 2007 has been derived from the audited consolidated financial statements included in the 2007 Annual Report. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of results expected for the full year.

Since our inception, we have reported accumulated net losses of approximately $118.8 million and recurring negative cash flows from operations. In order to maintain sufficient cash and investments to fund future operations, and to develop our existing product candidates at the levels we believe optimize their value, we will need to raise additional capital in the short-term and beyond through collaborations, licensing arrangements or other strategic transactions, public or private sales of our equity securities, and/or debt financings. The balance of securities available-for-sale under our existing shelf registration was approximately $60.0 million as of September 30, 2008, but we may be subject to limitations with respect to the number of securities we can sell under this shelf registration. In October 2008, we implemented a restructuring plan designed to reduce operating costs, which included an approximately 27% reduction of our workforce and our discontinuation of work on all product candidates other than ANX-530 and ANX-514. With respect to ANX-530 and ANX-514, until we have secured additional funding, we anticipate focusing primarily on those activities relating to submitting new drug applications (NDAs) for ANX-530 and ANX-514 and will delay or significantly reduce spending on other work, which may include delays or reductions with respect to scale-up manufacturing and product launch activities. If we are unable to raise capital as needed to fund future operations, then we may further defer or abandon our current development and commercialization plans for ANX-530 or ANX-514 and may also need to take additional cost-cutting measures which could have a material and adverse effect on our ability to achieve our business objectives. Our ability to raise capital has been materially and adversely affected by current credit conditions and the downturn in the financial markets and overall economy. Failure to obtain adequate financing would adversely affect our ability to operate as a going concern.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SD Pharmaceuticals, Inc. and ADVENTRX (Europe) Ltd. All intercompany accounts and transactions have been eliminated in consolidation.

2. Use of Estimates

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

3. Fair Value

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards (FAS) No. 157, Fair Value Measurements (FAS 157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. As a result, we only partially adopted FAS 157 as it relates to our financial assets and liabilities until we are required to apply this pronouncement to our non-financial assets and liabilities beginning with fiscal year 2009. The adoption of FAS 157 did not have a material impact on our consolidated results of operations or financial condition.

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In October 2008, the FASB issued FSP No. FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of FAS No. 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP FAS 157-3 had no impact on our consolidated results of operations, financial position or cash flows.

FAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under FAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. FAS 157 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents our fair value hierarchy for our financial assets (which consisted solely of cash equivalents) measured at fair value on a recurring basis as of September 30, 2008:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 15,306,476	$	$	$ 15,306,476
Total	$ 15,306,476	$	$	$ 15,306,476

Effective January 1, 2008, we adopted FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 allows an entity the irrevocable option to elect to measure specified financial assets and liabilities in their entirety at fair value on a contract-by-contract basis. If an entity elects the fair value option for an eligible item, changes in the item s fair value must be reported as unrealized gains and losses in earnings at each subsequent reporting date. In adopting FAS 159, we did not elect the fair value option for any of our financial assets or financial liabilities.

4. Share-Based Payments

Estimated share-based compensation expense related to equity awards granted to employees for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007

Selling, general and administrative expense	$ 163,853	$ 374,434	$ 712,627	$ 1,060,096
Research and development expense	198,282	290,343	643,766	793,743
Share-based compensation expense before taxes	362,135	664,777	1,356,393	1,853,839
Related income tax benefits				
Share-based compensation expense	$ 362,135	$ 664,777	$ 1,356,393	$ 1,853,839
Net share-based compensation expense per common share basic and diluted	$ 0.00	$ 0.01	$ 0.02	$ 0.02

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Since we have a net operating loss carryforward as of September 30, 2008, no excess tax benefits for the tax deductions related to share-based awards were recognized in the condensed consolidated statement of operations. There were no employee stock options exercised in the nine months ended September 30, 2008. For the nine month period ended September 30, 2007, employees exercised stock options to purchase 575,833 shares of common stock for aggregate proceeds of $442,000.

At September 30, 2008, total unrecognized estimated compensation cost related to non-vested employee and non-employee director share-based awards granted prior to that date was $2.7 million, which is expected to be recognized over a weighted-average period of 2.9 years. During the three and nine months ended September 30, 2008, we granted 228,000 and 2,880,500 stock options, respectively, to our employees and non-employee directors with an estimated weighted-average grant-date fair value of $0.18 and $0.46 per share, respectively. During the three and nine months ended September 30, 2007, we granted 44,400 and 1,155,733 stock options, respectively, to our employees and non-employee directors with the estimated weighted-average grant-date fair value of $2.10 and $2.40 per share, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Weighted expected volatility	149.0%	137.0%	146.2%	138.0%
Average expected term (in years)	6.4	6.1	6.2	6.1
Average risk-free interest rate	3.3%	4.6%	3.1%	4.7%
Dividend yield	0	0	0	0

Estimated share-based compensation expense related to equity awards granted to non-employee consultants was $0 and $24,000 for the three months ended September 30, 2008 and 2007, respectively, and $6,000 and $102,000 for the nine months ended September 30, 2008 and 2007, respectively.

5. Net Loss Per Common Share

We calculate basic and diluted net loss per common share in accordance with the FAS No. 128, Earnings Per Share . Basic net loss per common share was calculated by dividing the net loss for the period by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per common share when their effect is dilutive. Because of the net loss, all of the options and warrants were excluded from the calculation.

We have excluded the following options and warrants from the calculation of diluted net loss per common share for the three and nine months ended September 30, 2008 and 2007 because they are anti-dilutive, due to the net loss: