

ADVENTRX PHARMACEUTICALS INC
Form 10QSB
November 15, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

.. Transition report under 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 small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1318182
(IRS Employer
Identification No.)

6725 Mesa Ridge Road, Suite 100
San Diego, California 92121
(Address of principal executive offices)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

As of October 31, 2004, 53,811,072 shares of the issuer's common stock, par value \$0.001 per share, were outstanding.

Transitional Small Business Disclosure Format (Check One): YES .. NO x

ADVENTRX PHARMACEUTICALS, INC.
FORM 10-QSB
September 30, 2004
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

September 30,

December 31,

2004

2003

(unaudited)

Assets

Current assets:

Cash and cash equivalents

\$		14,756,357
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\$		4,226,397
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Prepaid expenses		237,538
------------------	--	---------

28,376

Total current assets		14,993,895
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4,254,773

Property and equipment, net		291,525
-----------------------------	--	---------

20,840

Other assets		55,755
		7,743
Total assets		
\$		15,341,175
\$		4,283,356

Liabilities and Shareholders Equity

Current liabilities:

Accounts payable and accrued liabilities

\$ 693,678

\$ 90,243

Accrued dividends payable

72,800

Total liabilities

693,678

163,043

Commitments and contingencies

Shareholders equity:

Series A cumulative convertible preferred stock, \$0.01 par value.

Authorized 8,000 shares; issued and outstanding, 473

shares in 2003 (aggregate involuntary liquidation preference

\$473,000 at December 31, 2003)

4

Series B convertible preferred stock, \$0.01 par value.

Authorized 200,000 shares; issued and outstanding, 200,000

shares in 2003 (no liquidation preference)

2,000

Common stock, \$0.001 par value. Authorized 100,000,000 shares;

issued 53,834,237 shares in 2004 and

issued and outstanding 42,491,708 shares in 2003

53,835

42,492

Additional paid-in capital

47,453,079

32,556,963

Deficit accumulated during the development stage

(32,824,670

)

(28,481,146

)

Treasury stock, at cost; 23,165 shares

(34,747

)

Total shareholders equity

14,647,497

5

	4,120,313
Total liabilities and shareholders' equity	
\$	15,341,175
\$	4,283,356

See accompanying notes to condensed consolidated financial statements.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Condensed Consolidated Statements of Operations

(unaudited)

	Three months ended September 30,		Nine months ended September 30,		Inception (June 12, 1996) through September 30, 2004
	2004	2003	2004	2003	2004
Net sales	\$	\$	\$	\$	\$ 174,830
Cost of goods sold					51,094
Gross margin					123,736
Grant revenue				3,603	129,733
Interest income	28,055	2,740	44,742	4,464	143,978
	28,055	2,740	44,742	8,067	397,447
Operating expenses:					
Research and development	983,665	208,778	2,053,131	415,301	6,783,057
General and administrative	1,155,716	277,248	2,315,936	1,103,176	10,730,780
Depreciation and amortization	12,481	1,969	19,199	5,146	10,117,906
Impairment loss write off of goodwill					5,702,130
Interest expense		212		1,386	179,090
Equity in loss of investee					178,936
Total operating expenses	2,151,862	488,207	4,388,266	1,525,009	33,691,899
Loss before cumulative effect of change in accounting principle	(2,123,807)	(485,467)	(4,343,524)	(1,516,942)	(33,294,452)
Cumulative effect of change in accounting principle					(25,821)
Net loss	(2,123,807)	(485,467)	(4,343,524)	(1,516,942)	(33,320,273)
Preferred stock dividends		(9,460)		(28,380)	(602,320)
Net loss applicable to common stock	\$ (2,123,807)	\$ (494,927)	\$ (4,343,524)	\$ (1,545,322)	\$ (33,922,593)
Loss per common share basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.09)	\$ (0.05)	

See accompanying notes to condensed consolidated financial statements.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Condensed Consolidated Statements of Shareholders' Equity (Deficit)

Inception (June 12, 1996) through September 30, 2004

(unaudited)

	Cumulative convertible preferred stock, series A		Cumulative convertible preferred stock, series B		Cumulative convertible preferred stock, series C		Common stock		Additional paid-in capital	Deficit accumulated during the development stage	Treasury Stock at cost
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances at June 12, 1996 (date of incorporation)		\$		\$		\$		\$	\$	\$	\$
Sale of common stock without par value							503	5	5		
Change in par value of common stock								(4)	4		
Issuance of common stock and net liabilities assumed in acquisition							1,716,132	1,716	3,224	(18,094)	
Issuance of common stock							2,010,111	2,010	456	(2,466)	
Net loss										(259,476)	
Balances at December 31, 1996							3,726,746	3,727	3,689	(280,036)	
Sale of common stock, net of offering costs of \$9,976							1,004,554	1,004	1,789,975		
Issuance of common stock in acquisition							375,891	376	887,874		
Minority interest deficiency at acquisition										(45,003)	

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charged to the Company					
Net loss				(1,979,400)	
Balances at December 31, 1997		5,107,191	5,107	2,681,538	(2,304,439)
Rescission of acquisition		(375,891)	(376)	(887,874)	561,166
Issuance of common stock at conversion of notes payable		450,264	451	363,549	
Expense related to stock warrants issued				260,000	
Net loss					(1,204,380)
Balances at December 31, 1998		5,181,564	5,182	2,417,213	(2,947,653)
Sale of common stock		678,412	678	134,322	
Expense related to stock warrants issued				212,000	
Net loss					(1,055,485)
Balances at December 31, 1999		5,859,976	5,860	2,763,535	(4,003,138)
Sale of preferred stock, net of offering costs of \$76,500	3,200	32		3,123,468	
Issuance of common stock at conversion of notes and interest payable		412,487	412	492,085	
Issuance of common stock at conversion of notes payable		70,354	70	83,930	
Issuance of common stock to settle obligations		495,111	496	1,201,664	

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Issuance of common stock for acquisition			6,999,990	7,000	9,325,769	
Issuance of warrants for acquisition					4,767,664	
Stock issued for acquisition costs			150,000	150	487,350	
Expense related to stock warrants issued					140,000	
Dividends payable on preferred stock					(85,000)	
Cashless exercise of warrants			599,066	599	(599)	
Net loss						(3,701,084)
Balances at December 31, 2000	3,200	32	14,586,984	14,587	22,299,866	(7,704,222)
Dividends payable on preferred stock					(256,000)	
Repurchase of warrants					(55,279)	
Sale of warrants					47,741	
Cashless exercise of warrants			218,493	219	(219)	
Issuance of common stock to pay preferred dividends			93,421	93	212,907	
Detachable warrants issued with notes payable					450,000	
Issuance of warrants to pay operating expenses					167,138	
Issuance of common stock to pay operating expenses			106,293	106	387,165	

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Issuance of preferred stock to pay operating expenses	137	1								136,499	
Net loss											(16,339,120)
Balances at December 31, 2001	3,337	33					15,005,191	15,005	23,389,818		(24,043,342)
Dividends payable on preferred stock										(242,400)	
Repurchase of warrants											
Sale of warrants							240,000	240		117,613	
Cashless exercise of warrants							100,201	100		(100)	
Excercise of warrants							344,573	345		168,477	
Sale of preferred stock			200,000	2,000	70,109	701				998,392	
Conversion of preferred stock into common stock	(3,000)	(30)					1,800,000	1,800		(1,770)	
Preferred stock dividends forgiven										335,440	
Issuance of warrants to pay operating expenses										163,109	
Issuance of common stock to pay operating expenses							6,292	6		12,263	
Issuance of preferred stock to pay operating expenses	136	1								6,000	
Issuance of stock options to employees										329,296	
Net loss											(2,105,727)
	473	4	200,000	2,000	70,109	701	17,496,257	17,496	25,276,138		(26,149,069)

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Balances at December 31, 2002									
Dividends payable on preferred stock									(37,840)
Conversion of Series C preferred stock into common stock	(70,109)	(701)	14,021,860	14,022					(13,321)
Issuance of common stock to pay interest on Bridge Notes				165,830	165				53,326
Sale of common stock at \$0.40 per share, net of issuance costs				6,640,737	6,676				2,590,656
Sale of common stock at \$1.00 per share, net of issuance costs				3,701,733	3,668				3,989,181
Exchange of warrants				235,291	235				49,486
Issuance of common stock to pay operating expenses				230,000	230				206,569
Issuance of warrants to pay operating expenses									156,735
Issuance of stock options to employees									286,033
Net loss									(2,332,077)
Balances at December 31, 2003	473	4	200,000	2,000		42,491,708	42,492	32,556,963	(28,481,146)
Extinguishment of dividends payable on preferred stock									72,800
Conversion of Series A	(473)	(4)				236,500	236		(232)

cummulative preferred stock						
Conversion of Series B preferred stock	(200,000)	(2,000)	200,000	200	1,800	
Issuance of warrants in settlement of a claim					86,375	
Exercise of warrants			488,405	488	26,865	
Issuance of common stock at \$1.50 per share			10,417,624	10,419	15,616,031	
Payment of financing and offering costs					(1,354,541)	
Issuance of stock options to employees					412,271	
Acquisition of treasury stock					34,747	(34,747)
Net loss						(4,343,524)

Balances at September 30, 2004

\$	\$	\$	53,834,237	\$ 53,835	\$ 47,453,079	\$(32,824,670)	\$(34,747)
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See accompanying notes to condensed financial statements.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Nine months ended September 30,		Inception (June 12, 1996) through September 30, 2004
	2004	2003	
Cash flows from operating activities:			
Net loss	\$ (4,343,524)	\$ (1,516,942)	\$ (33,320,273)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	19,199	5,146	10,117,906
Forgiveness of employee receivable			30,036
Impairment loss write off of goodwill			5,702,130
Expenses paid by warrants	86,375	105,883	573,357
Expenses paid by preferred stock			142,501
Expenses related to stock warrants issued			612,000
Expenses related to employee stock options issued	412,271	249,969	1,027,600
Expenses paid by issuance of common stock		160,299	817,548
Equity in loss of investee			178,936
Write-off of license agreement			152,866
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	(257,174)	(42,707)	(432,661)
Increase (decrease) in accounts payable and accrued liabilities	603,435	(184,877)	172,407
Increase in sponsored research payable and license obligation			924,318
Net cash used in operating activities	(3,479,418)	(1,223,229)	(13,275,508)
Cash flows from investing activities:			
Purchase of certificate of deposit			(1,016,330)
Maturity of certificate of deposit			1,016,330
Purchases of property and equipment	(289,884)	(7,191)	(412,353)
Payment on obligation under license agreement			(106,250)
Cash acquired in acquisition of subsidiary			64,233
Issuance of note receivable related party			(35,000)
Payments on note receivable			405,993

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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 (used in) investing activities	(289,884)	(7,191)	36,673
Cash flows from financing activities:			
Proceeds from sale of preferred stock			4,200,993
Proceeds from sale of common stock	15,626,450	5,164,745	24,152,596
Proceeds from sale or exercise of warrants	27,353		411,590
Repurchase of warrants			(55,279)
Payment of financing and offering costs	(1,354,541)		(1,453,517)
Payments of notes payable and long-term debt		(253,948)	(605,909)
Proceeds from issuance of notes payable and detachable warrants			1,344,718
Net cash provided by financing activities	14,299,262	4,910,797	27,995,192
Net increase in cash and cash equivalents	10,529,960	3,680,377	14,756,357
Cash and cash equivalents at beginning of period	4,226,397	103,928	
Cash and cash equivalents at end of period	\$ 14,756,357	\$ 3,784,305	\$ 14,756,357
See accompanying notes to condensed consolidated financial statements.			

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

(1) Description of the Company

ADVENTRX Pharmaceuticals, Inc., a Delaware corporation, (the Company) is a development stage enterprise that conducts biomedical research and development focused on treatments for cancer and certain viral infections, including HIV. The Company currently does not manufacture, market, sell or distribute any product. Through its license agreements with University of Texas M.D. Anderson Cancer Center (M.D. Anderson), The University of Southern California (USC), and the National Institutes of Health (NIH), the Company has rights to drug candidates in varying early stages of development.

On May 30, 2003, the Company merged its wholly-owned subsidiary, Biokeys, Inc., into itself and changed the name of the Company from Biokeys Pharmaceuticals, Inc. to ADVENTRX Pharmaceuticals, Inc. The merger had no effect on the financial statements of the Company.

In July 2004, the Company formed a wholly-owned subsidiary, ADVENTRX (Europe) Ltd., in the United Kingdom for the purpose of conducting drug trials in the European Union.

(2) Basis of Presentation

In management's opinion, the accompanying unaudited condensed financial statements of the Company have been prepared in accordance with the interim reporting requirements of Form 10-QSB, pursuant to the rules and regulations of the Securities and Exchange Commission. However, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

In management's opinion, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of results that may be expected for the year ending December 31, 2004. For additional information, refer to the Company's financial statements and notes thereto for the year ended December 31, 2003, contained in the Company's Form 10-KSB.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

Supplementary Cash Flow Information

Interest of \$212 and \$1,386 was paid during the three and nine months ended September 30, 2003, respectively. No income taxes were paid during 2004 and 2003.

Noncash investing and financing transactions excluded from the condensed statements of cash flows for the nine months ended September 30, 2004 and 2003 and for the period from Inception (June 12, 1996) through September 30, 2004 are as follows:

	2004	2003	Inception (June 12, 1996) through September 30, 2004
Issuance of warrants, common stock and preferred stock for:			
Conversion of notes payable and accrued interest	\$	\$ 53,326	\$ 1,213,988
Payment of operating expenses			1,224,281
Conversion of preferred stock	2,000	701	2,705
Acquisitions			14,617,603
Payment of dividends			213,000
Financial advisor services in conjunction with private placement	1,137,456		1,137,456
Settlement of claim	86,375		86,375
Assumptions of liabilities in acquisitions			1,009,567
Acquisition of license agreement for long-term debt			161,180
Cashless exercise of warrants	465		3,743
Dividends accrued		18,920	621,040
Dividends extinguished	72,800		408,240
Trade payable converted to note payable			83,948
Issuance of warrants for return of common stock		50,852	50,852
Acquisition of treasury stock in settlement of a claim	34,747		34,747
Detachable warrants issued with notes payable			450,000

New Accounting Pronouncements

No new pronouncements were issued during the nine months ended September 30, 2004 that are expected to have a material effect on the Company's financial position or results of operations.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

(3) Equity Transactions

In March 2004, a warrant to purchase 3,750 shares of common stock at \$0.60 per share was exercised for proceeds of \$2,250 and the Company issued 38,372 shares of common stock upon the cashless exercise of a warrant to purchase 50,000 shares of common stock at \$0.50 per share.

In March 2004, 473 shares of Series A cumulative convertible preferred stock, representing all of the Series A cumulative convertible preferred stock then outstanding, was converted into 236,500 shares of common stock. In conjunction with the conversion, dividends payable of \$72,800 at December 31, 2003, were extinguished.

In March 2004, 200,000 shares of Series B convertible preferred stock, representing all of the Series B convertible preferred stock then outstanding, were converted into 200,000 shares of common stock.

In April 2004, the Company sold 10,417,624 shares of common stock and issued warrants to purchase 3,125,272 shares of common stock at \$2.00 and warrants to purchase 2,083,518 shares of common stock at \$2.50 per share to accredited investors in a private placement for aggregate gross proceeds of \$15,626,450 in cash. In connection with the private placement, the Company paid cash commissions of \$900,452 and other related expenses of \$454,089 and issued warrants to purchase 632,547 shares of common stock at \$2.00 per share to two placement agents, having a fair market value of \$890,963 on the date of issuance.

In April 2004, the Company engaged W.R. Hambrecht + Co., LLC for financial advisory and investment banking services and, in connection with that engagement, issued to it a warrant to purchase 175,000 shares of common stock at \$2.00 per share, having a fair market value of \$246,493 on the date of issuance.

In May 2004, a warrant to purchase 20,082 shares of common stock at \$1.25 per share was exercised for gross proceeds of \$25,103.

In May 2004, the Company issued 46,784 shares of common stock upon the cashless exercise of two warrants to purchase a total of 60,000 shares of common stock.

In June 2004, the Company issued 379,417 shares of common stock upon the cashless exercise of a warrant to purchase 502,540 shares of common stock.

Nonemployee stock-based compensation that is not valued at the fair value of consideration received is valued, as of the grant date, using the Black-Scholes pricing model with the following assumptions for grants in 2004 and 2003: no dividend yield for either year; expected weighted average volatility of 88% and 187%, respectively; risk-free interest rates 2.78% to 4.74%; and expected lives of three and seven years, respectively.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

At September 30, 2004, there were outstanding warrants to purchase a total of 10,854,964 shares of common stock as follows:

Warrants	Exercise price	Expiration date
118,094	\$0.49	September 2005
440,000	0.50	October 2005
100,000	3.00	April 2006
2,090,537	0.60	May 2006
502,528	0.49	June 2006
914,175	1.25	October 2006
150,000	0.50	December 2006
523,293	1.25	December 2006
300,000	2.50	October 2007
3,932,819	2.00	April 2009
2,083,518	2.50	April 2009
11,154,964		

(4) Stock Compensation Plans

The Company applies Statement of Financial Accounting Standards No. 123 and related interpretations in accounting for employee stock-based compensation, and includes the required footnote disclosures thereon.

In January and February 2004, three individuals became members of the Company's board of directors. Each new director was granted an option to purchase 50,000 shares of common stock at a purchase price of \$1.50 per share. The options begin vesting 90 days from the date of grant and vest in equal installments over the next four quarters. The options expire on December 30, 2008. The value of the options on the dates of grant was \$223,826.

In February 2004, an individual became a member of the Company's Scientific Advisory Board. The new member was granted an option to purchase 30,000 shares of common stock at a purchase price of \$1.50 per share. The option will vest in equal installments over eight quarters, starting March 1, 2004. The option will expire on December 30, 2008. The value of the option on the date of grant was \$45,350.

In March 2004, the Company granted an option to purchase 100,000 shares of common stock at a purchase price of \$1.50 per share to the Company's Vice President of Clinical and Medical Affairs. The option will vest in three installments over three years starting March 2004. The value of the option on the date of grant was \$152,050.

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In April 2004, the Company granted an option to purchase 30,000 shares of common stock at a purchase price of \$1.50 per share to the Director of Antiviral Research. The option will vest in three installments over three years starting April 2004. The value of the option on the date of grant was \$37,600.

In May 2004, the Company granted an option to purchase 30,000 shares of common stock at a purchase price of \$1.50 per share to the Director of Marketing and Technical Support. The option will vest in three installments over three years starting May 2004. The value of the option on the date of grant was \$36,782.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

In July 2004, the Company granted an option to purchase 15,000 shares of common stock at a purchase price of \$1.80 per share to an employee. The option will vest in three installments over three years starting June 2004. The value of the option on the date of grant was \$16,545.

In August 2004, the Company granted an option to purchase 21,000 shares of common stock at a purchase price of \$1.20 per share to an employee. The option will vest in three installments over three years starting August 2004. The value of the option on the date of grant was \$18,765.

In September 2004, the Company granted an option to purchase 100,000 shares of common stock at a purchase price of \$1.30 per share to the Chief Technical Officer. The option will vest as follows: 25,000 shares will vest on October 1, 2005. The remaining 75,000 shares will vest ratably at the end of each month from October 31, 2005 through September 30, 2008. The value of the option on the date of grant was \$79,989.

The Company recognized compensation expense of \$412,271 and \$249,969 in the nine months ended September 30, 2004 and 2003, respectively, related to the portion of the options which vested in that period.

	September 30, 2004		December 31, 2003	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Non-statutory Stock Options				
Outstanding at beginning of period	2,980	\$ 0.38	1,690	\$ 0.23
Granted	476	\$ 1.45	2,040	\$ 0.58
Exercised				
Forfeited			(750)	\$ 0.50
Outstanding at end of period	3,456	\$ 0.53	2,980	\$ 0.38
Options exercisable at period end	2,628		1,808	
Weighted-average fair value of options granted during the period	\$ 1.15		\$ 0.54	

Range of Exercise Price	Number Outstanding at 9/30/04	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 9/30/04	Weighted-Average Exercise Price
\$0.20 to \$1.80	3,456,000	4.4 years	\$0.529	2,627,835	\$0.398

None of the foregoing options were issued pursuant to a stock option plan. The options expire on December 30, 2008 and vest on varying dates through September 2008.

ADVENTRX PHARMACEUTICALS, INC. AND SUBSIDIARY

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

Nine months ended September 30, 2004 and 2003

(Unaudited)

(5) Net Loss per Common Share

The computation of basic and diluted net loss per share for the three and nine months ended September 30, 2004 and 2003 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Numerator:				
Net loss	\$ (2,123,807)	\$ (485,467)	\$ (4,343,524)	\$ (1,516,942)
Preferred stock dividends		(9,460)		(28,380)
Numerator for basic and diluted loss per share	\$ (2,123,807)	\$ (494,927)	\$ (4,343,524)	\$ (1,545,322)