INFINITY PHARMACEUTICALS, INC.
Form 10-Q
November 05, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **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

¨ **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 000-31141

INFINITY PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0655706**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

780 Memorial Drive, Cambridge, Massachusetts 02139

(Address of principal executive offices) (zip code)

(617) 453-1000

(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 x No ¨

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of the registrant s Common Stock, $0.001 par value, outstanding on September 30, 2008: 19,792,644

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INFINITY PHARMACEUTICALS, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

INFINITY PHARMACEUTICALS, INC.

Condensed Consolidated Balance Sheets

(*unaudited*)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 18,820,270	$ 23,164,721
Available-for-sale securities	61,984,407	91,024,747
Accounts receivable		812,500
Unbilled accounts receivable	4,300,046	4,287,736
Notes receivable from employees	45,849	53,414
Prepaid expenses and other current assets	2,201,554	2,496,814
Total current assets	87,352,126	121,839,932
Property and equipment, net	5,066,287	5,984,711
Notes receivable from employees	30,647	47,928
Restricted cash	1,130,869	1,661,171
Other assets	224,746	190,862
Total assets	$ 93,804,675	$ 129,724,604
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 3,169,371	$ 2,097,190
Accrued expenses	6,620,505	8,519,754
Deferred revenue	10,000,000	13,750,000
Current portion of long-term debt and capital leases	18,389	375,618
Total current liabilities	19,808,265	24,742,562
Deferred revenue, less current portion	39,166,667	51,041,667
Other liabilities	2,498,820	2,777,072
Long-term debt and capital leases, less current portion	13,987	20,400
Total liabilities	61,487,739	78,581,701
Stockholders equity:		
Preferred Stock, $.001 par value; 1,000,000 shares authorized, no shares issued and outstanding at September 30, 2008 and December 31, 2007		
Common Stock, $.001 par value; 100,000,000 shares authorized at September 30, 2008 and December 31, 2007; 19,792,644 and 19,710,773 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	19,793	19,711
Additional paid-in capital	227,870,844	223,466,502
Accumulated deficit	(195,663,756)	(172,546,266)
Accumulated other comprehensive income	90,055	202,956

Total stockholders equity		32,316,936		51,142,903
Total liabilities and stockholders equity	$	93,804,675	$	129,724,604

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

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INFINITY PHARMACEUTICALS, INC.

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
Collaborative research and development revenue	$ 2,500,000	$ 7,507,109	$ 16,391,458	$ 19,277,029
Operating expenses:				
Research and development	11,732,206	8,165,903	31,029,091	23,829,282
General and administrative	3,780,740	2,899,154	11,234,423	9,429,575
Total operating expenses	15,512,946	11,065,057	42,263,514	33,258,857
Loss from operations	(13,012,946)	(3,557,948)	(25,872,056)	(13,981,828)
Other (expense)/income:				
Interest expense	(2,113)	(30,145)	(19,800)	(161,833)
Interest and investment income	623,543	1,589,683	2,774,366	5,095,720
Total other income, net	621,430	1,559,538	2,754,566	4,933,887
Net loss	$ (12,391,516)	$ (1,998,410)	$ (23,117,490)	$ (9,047,941)
Basic and diluted net loss per common share	$ (0.63)	$ (0.10)	$ (1.17)	$ (0.46)
Basic and diluted weighted average number of common shares outstanding	19,759,766	19,576,199	19,722,255	19,479,372

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

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INFINITY PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating activities		
Net loss	$ (23,117,490)	$ (9,047,941)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	1,520,018	2,179,215
Stock-based compensation	4,271,516	3,531,333
Loan forgiveness	56,103	74,356
Loss (gain) on sales of property and equipment	(29,000)	24,563
Gain on sales of available-for-sale securities	(107,313)	
Impairment of available-for-sale security	49,428	
Net accretion of available-for-sale securities	(1,497,121)	(2,774,715)
Amortization of warrants	28,922	42,063
Interest income on restricted cash	(34,684)	(62,471)
Interest income on employee loans	(1,257)	(2,828)
Changes in operating assets and liabilities:		
Accounts receivable and unbilled accounts receivable	800,190	34,839,566
Prepaid expenses and other assets	238,171	(1,209,292)
Accounts payable, accrued expenses and other liabilities	(1,066,313)	(2,505,850)
Deferred revenue	(15,625,000)	(10,312,500)
Net cash (used in) provided by operating activities	(34,513,830)	14,775,499
Investing activities		
Purchases of property and equipment	(601,594)	(2,339,910)
Proceeds from sale of property and equipment	29,000	15,000
Purchases of available-for-sale securities	(91,180,122)	(163,938,328)
Sales and maturities of available-for-sale securities	121,662,567	96,476,901
Net cash provided by (used in) investing activities	29,909,851	(69,786,337)
Financing activities		
Proceeds from issuances of common stock	93,901	308,569
Repurchase of common stock		(2,392)
Release of restricted cash	564,986	
Payments on equipment loan and other debt	(360,660)	(1,137,801)
Capital lease payments	(8,699)	(35,832)
Repayment of employee loans		11,230
New employee loans	(30,000)	(10,000)
Net cash provided by (used in) financing activities	259,528	(866,226)
Net decrease in cash and cash equivalents	(4,344,451)	(55,877,064)
Cash and cash equivalents at beginning of period	23,164,721	74,147,479
Cash and cash equivalents at end of period	$ 18,820,270	$ 18,270,415

Supplemental cash flow disclosure

Interest paid	$	13,738	$	139,278
Income taxes paid	$	92,000	$	1,100,000
Supplemental disclosure of noncash investing and financing activities				
Equipment acquired under capital leases	$		$	28,800

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

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Infinity Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

Infinity Pharmaceuticals, Inc. is a drug discovery and development company that is seeking to discover, develop and deliver to patients best-in-class medicines for the treatment of cancer and related conditions. As used throughout these unaudited, condensed consolidated financial statements, the terms Infinity, we, us, and our refer to the business of Infinity Pharmaceuticals, Inc. and its subsidiaries.

2. Basis of Presentation

These condensed consolidated financial statements include the accounts of Infinity and its majority-owned subsidiaries. We have eliminated all significant intercompany accounts and transactions in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying condensed consolidated financial statements have been included. Interim results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and accompanying footnotes included in our annual report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the U.S. Securities and Exchange Commission (SEC) on March 14, 2008.

The information presented in the condensed consolidated financial statements and related footnotes at September 30, 2008, and for the three and nine months ended September 30, 2008 and 2007, is unaudited, and the condensed consolidated balance sheet amounts and related footnotes at December 31, 2007 have been derived from our audited financial statements.

3. Significant Accounting Policies

Cash Equivalents and Available-For-Sale Securities

Cash equivalents and available-for-sale securities primarily consist of money market funds, corporate obligations, U.S. government-sponsored enterprise obligations and asset-backed securities. We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents, which consist primarily of money market funds and corporate obligations, are stated at market value and are both readily convertible to known amounts of cash and are close enough to maturity that they present insignificant risk of changes in value due to changes in interest rates. Our classification of cash equivalents is consistent with prior periods.

We determine the appropriate classification of available-for-sale securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified all of our marketable securities at September 30, 2008 and December 31, 2007 as available-for-sale. We carry available-for-sale securities at fair value, with the unrealized gains and losses reported in a separate component of stockholders equity.

We adjust the cost of available-for-sale debt securities for amortization of premiums and accretion of discounts to maturity. We include such amortization and accretion in interest and investment income. Realized gains and losses and declines in value, if any, that we judge to be other-than-temporary on available-for-sale securities are reported in interest and investment income. To determine whether an other-than-temporary impairment exists, we consider whether we have the ability and intent to hold the investment until a market price recovery, and consider whether evidence indicating the recoverability of the cost of the investment outweighs evidence to the contrary. During the nine months ended September 30, 2008, we determined that one debt security was other-than-temporarily impaired and accordingly recorded a loss of $49,428. There were no other-than-temporary impairments during the three months ended September 30, 2008, or in the three and nine months ended September 30, 2007.

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The cost of securities sold is based on the specific identification method. We include interest and dividends on securities classified as available-for-sale in interest and investment income. Realized gains on our available-for-sale securities were $107,313 for the nine months ended September 30, 2008. There were no realized gains for the three months ended September 30, 2008, or in the three and nine months ended September 30, 2007.

Segment Information

Financial Accounting Standards Board Statement (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information* (SFAS No. 131), establishes standards for the way that companies report information about operating segments in their financial statements. SFAS No. 131 also establishes standards for related disclosures about products and services. We make operating decisions based upon performance of the enterprise as a whole and utilize our consolidated financial statements for decision making. We operate in one business segment, which focuses on drug discovery and development.

All of our revenue to date has been generated under research collaboration agreements. Revenue associated with the up-front license fee we received from MedImmune, Inc., an affiliate of AstraZeneca plc, in connection with our Hsp90 collaboration accounted for 100% of our revenue for the three months ended September 30, 2008 and 46% of our revenue for the nine months ended September 30, 2008. We refer to our Hsp90 collaborator as AstraZeneca. Revenue associated with the up-front license fee and reimbursable research and development services we received from the Novartis Institutes for BioMedical Research, Inc. (Novartis) accounted for the remaining 54% of our revenue for the nine months ended September 30, 2008. Revenue associated with our collaboration with Novartis, together with those from compound acceptance fees from Novartis International Pharmaceutical Ltd. under our technology access alliance, accounted for approximately 67% and 61% of our revenue for the three and nine months ended September 30, 2007, respectively, with the remaining 33% and 39% of revenue being attributable to the up-front license fee we received from AstraZeneca.

Further, payments due from Novartis represented our entire accounts receivable balance as of December 31, 2007. Payments due from AstraZeneca represented our entire unbilled accounts receivable balance as of September 30, 2008 and 90% of our unbilled accounts receivable balance as of December 31, 2007.

Basic and Diluted Net Loss per Common Share

Basic net loss per share is based upon the weighted average number of common shares outstanding during the period, excluding restricted stock that has been issued but is not yet vested. Diluted net loss per share is based upon the weighted average number of common shares outstanding during the period, plus the effect of additional weighted average common equivalent shares outstanding during the period when the effect of adding such shares is dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options (the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury stock method), the exercise of outstanding warrants and the vesting of unvested restricted shares of common stock. In addition, under SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options. Common equivalent shares have not been included in the net loss per share calculations because the effect of including them would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following:

	At September 30, 2008	2007
Stock options	4,026,680	3,066,544
Warrants	246,629	246,629
Unvested restricted shares	14,435	77,090

Stock-Based Compensation Expense

We account for stock-based compensation under SFAS No. 123(R). SFAS No. 123(R) requires companies to expense the fair value of employee stock options and other equity compensation. We use the Black-Scholes valuation model in determining the fair value of equity awards. We use our judgment in determining the fair value of our common stock, including selecting the inputs we use for the Black-Scholes valuation model. Equity instrument valuation models are by their nature highly subjective. Any significant changes in any of our judgments, including those used to select the inputs for the Black-Scholes valuation model, could have a significant impact on the fair value of the equity instruments granted or sold and the associated compensation charge, if any, we record in our financial statements.

Revenue Recognition

To date, all of our revenue has been generated under research collaboration agreements and, accordingly, we recognize revenue in accordance with the SEC s Staff Accounting