MEDAREX INC
Form 10-Q
May 10, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

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 No. 0-19312

MEDAREX, INC.

(Exact Name of Registrant as Specified in Its Charter.)

New Jersey	**22-2822175**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
707 State Road, Princeton, New Jersey	**08540**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(609) 430-2880**

Indicate by check ý whether 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 ý No o

Indicate by check ý whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o

The number of shares of common stock, $.01 par value, outstanding as of April 29, 2005 was 110,675,999 shares.

MEDAREX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2004	March 31, 2005 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,843	$ 55,548
Marketable securities	309,664	341,036
Segregated securities	12,301	
Prepaid expenses and other current assets	6,708	11,405
Total current assets	393,516	407,989
Property, buildings and equipment:		
Land	6,795	6,795
Buildings and leasehold improvements	77,995	78,436
Machinery and equipment	43,077	43,673
Furniture and fixtures	4,290	4,319
Construction in progress	2,821	2,937
	134,978	136,160
Less accumulated depreciation and amortization	(45,098)	(48,703)
	89,880	87,457
Investment in Genmab	1,657	
Investment in IDM	41,206	20,942
Investments in, and advances to, other partners	10,482	10,482
Segregated cash	1,700	1,700
Other assets	10,904	7,454
Total assets	$ 549,345	$ 536,024
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 4,998	$ 2,109
Accrued liabilities	32,148	19,958
Deferred contract revenue - current	15,260	17,264
Total current liabilities	52,406	39,331
Deferred contract revenue - long-term	86,691	114,278
Other long-term liabilities	5,873	2,603
4.25% Convertible senior notes due August 15, 2010	146,986	
2.25% Convertible senior notes due May 15, 2011	150,000	150,000
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $1.00 par value, 2,000,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 200,000,000 shares authorized; 85,865,333 shares issued and 85,673,693 outstanding at December 31, 2004 and 110,792,172 shares issued and 110,675,999 shares outstanding at March 31, 2005	859	1,108
Capital in excess of par value	699,380	869,730

Treasury stock, at cost; 191,640 shares at December 31, 2004 and 116,173 shares at March 31, 2005		(482)		(292)
Deferred compensation		372		194
Accumulated other comprehensive income		6,649		5,357
Accumulated deficit		(599,389)		(646,285)
Total shareholders equity		107,389		229,812
Total liabilities and shareholders equity	$	549,345	$	536,024

See notes to these consolidated financial statements.

MEDAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
Contract and license revenues	$ 1,106	$ 7,911
Contract and license revenues from Genmab	823	600
Total revenues	1,929	8,511
Costs and expenses:		
Research and development	22,988	29,126
General and administrative	5,808	5,735
Total costs and expenses	28,796	34,861
Operating loss	(26,867)	(26,350)
Equity in net loss of affiliate	(4,766)	(1,657)
Interest and dividend income	4,304	2,439
Impairment loss on investments in partners	(316)	(20,264)
Additional receipts related to asset acquisitions		69
Interest expense	(3,635)	(1,075)
Gain on extinguishment of debt	326	
Pre tax loss	(30,954)	(46,838)
Provision for income taxes	6	58
Net loss	$ (30,960)	$ (46,896)
Basic and diluted net loss per share:	$ (0.37)	$ (0.44)
Weighted average number of common shares outstanding - basic and diluted	77,953	106,999

MEDAREX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2004	For the Three Months Ended March 31, 2005
Operating activities:		
Net loss	$ (30,960)	$ (46,896)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,883	3,161
Amortization	1,155	1,874
Stock options and awards to employees and non-employees	126	85
Non cash revenue - Genmab	(500)	
Equity in net loss of Genmab	4,766	1,657
Impairment loss on investments in partners	316	20,264
Gain on exchange of convertible debt	(326)	
Gain on sale of partners stock	(1,664)	
Changes in operating assets and liabilities		
Other current assets	791	(4,697)
Trade accounts payable	(169)	(2,889)
Accrued liabilities	(4,021)	(13,713)
Deferred contract revenue	140	29,590
Net cash used in operating activities	(27,463)	(11,564)
Investing activities:		
Purchase of property and equipment	(1,545)	(1,721)
Decrease in segregated cash	597	
Purchase of marketable securities		(56,108)
Sales and maturities of marketable securities	10,765	34,835
Net cash provided by (used in) investing activities	9,817	(22,994)
Financing activities:		
Cash received from sales of securities and exercise of stock options, net	67	25,497
Deferred offering costs - Celldex		(234)
Debt exchange costs	(149)	
Principal payments under debt obligations	(39)	
Net cash provided by (used in) financing activities	(121)	25,263
Net decrease in cash and cash equivalents	(17,767)	(9,295)
Cash and cash equivalents at beginning of period	72,998	64,843
Cash and cash equivalents at end of period	$ 55,231	$ 55,548
Non-cash financing activities:		
Conversion of 4.25% Convertible Notes into common stock	$	$ 143,784
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Income taxes	$	$
Interest	$ 3,107	$ 2,343

See notes to these consolidated financial statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared from the books and records of Medarex, Inc. and its Subsidiaries (collectively, the Company) 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 complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year. The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2004.

Net Loss per Share

Basic and diluted net loss per share are calculated in accordance with the Financial Accounting Standards Board (FASB) SFAS No. 128, *Earnings per Share*. Basic net loss per share is based upon the number of weighted average shares of common stock outstanding. Diluted net loss per share is based upon the weighted average number of shares of common stock and dilutive potential shares of common stock outstanding. Potential shares of common stock result from the assumed exercise of outstanding stock options, which are included under the treasury stock method, as well as the assumed conversion of convertible senior notes. Potentially dilutive securities have been excluded from the computation of diluted net loss per share for all periods presented, as their effect is antidilutive.

Marketable Securities and Long-Term Non-Marketable Investments

Marketable securities consist of fixed income investments with a maturity of greater than three months and other highly liquid investments that can be readily purchased or sold using established markets. Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, these investments are classified as available-for-sale and are reported at fair value on the Company s consolidated balance sheet. Unrealized holding gains and losses are reported within accumulated other comprehensive income as a separate component of shareholders equity. Under the Company s accounting policy, a decline in the fair value of marketable securities is deemed to be other than temporary and such marketable securities are generally considered to be impaired if their fair value is less than the Company s cost basis for more than six months, or some other period in light of the particular facts and circumstances surrounding the investment. If a decline in the fair value of a marketable security below the Company s cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge.

In addition, the Company has investments in several of its partners whose securities are not publicly traded. These investments are accounted for under the cost basis. Because these securities are not publicly traded, the Company values these investments by using information acquired from industry trends, the management of these companies, such companies financial statements, and other external sources. Specifically, the Company s determination of any potential impairment of the value of the securities of privately held companies includes an analysis of the following for each such privately held company on a periodic basis: review of interim and year-end financial statements, cash position and overall rate of cash used to support

operations, the progress and development of technology and product platform, the per share value of subsequent financings and potential strategic alternatives. Based on the information acquired through these sources, the Company records an impairment charge when it believes an investment has experienced a decline in value that is considered to be other than temporary.

The Company recorded impairment charges of $0.2 million and $0 related to investments in partners whose securities are publicly traded for the three month periods ended March 31, 2004 and 2005, respectively. In addition, the Company recorded impairment charges of $0.1 million and $20.3 million in partners whose securities are privately held for the three month periods ended March 31, 2004 and 2005, respectively. The impairment charge for the three month period ended March 31, 2005 related entirely to the Company s investment in IDM. The amount of the impairment charge was calculated as the difference between (i) the estimated per share value expected to be received by IDM shareholders upon completion of its merger with Epimmune, Inc., publicly announced on March 16, 2005, and (ii) the Company s cost basis. According to IDM and Epimmune, the transaction is expected to close in the second or third quarter of 2005. If the Company deems these investments to be further impaired at the end of any future period, it may incur additional impairment charges on these investments.

Revenue Recognition

The Company receives payments from customers and partners from the sale of antibodies, for licenses to its proprietary technology for product development, for services and from the achievement of product development milestones. These payments are generally non-refundable and are reported as deferred revenue until they are recognizable as revenue. The Company follows the following principles in recognizing revenue:

The Company sells antibodies primarily to partners in the United States and overseas. Revenue from these sales is recognized when the antibodies are shipped.

Fees received from the licensing of the Company s proprietary technologies for research and development performed by its customers and partners is recognized generally over the term of the respective license period beginning after both the license period has begun and the technology has been delivered.

Fees received for product development services are recognized ratably over the period during which the services are performed.

Milestone payments are recognized as revenue upon the achievement of mutually agreed milestones, provided that (i) the milestone event is substantive and its achievement is not reasonably assured at the inception of the agreement, and (ii) there are no continuing performance obligations associated with the milestone payment.

Revenue arrangements that include multiple deliverables, are divided into separate units of accounting if the deliverables meet certain criteria, including whether the fair value of the delivered items can be determined and whether there is evidence of fair value of the undelivered items. In addition, the consideration is allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units of accounting.

Revenues derived from reimbursements of costs associated with the development of product candidates are recorded in compliance with EITF Issue 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent (EITF 99-19). According to the criteria established by EITF 99-19, in transactions where the Company acts as a principal, with discretion to choose suppliers, bears credit risk and performs part of the services required in the transaction, the Company has met the criteria to record revenue for the gross amount of the reimbursements.

Stock Based Compensation

The Company accounts for its stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. The following table illustrates the effect on net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Three Months Ended March 31			
		2004		**2005**
Net loss, as reported	$	(30,960)	$	(46,896)
Add: Non-cash employee compensation		51		85
Deduct: Total stock-based employee compensation expense determined under fair value method		(3,185)		(3,776)
Pro forma net loss	$	(34,094)	$	(50,587)
Loss per share:				
Basic and diluted, as reported	$	(0.39)	$	(0.44)
Basic and diluted, pro forma	$	(0.43)	$	(0.47)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended March 31	
	2004	**2005**
Expected stock price volatility	64.0%	99.2%
Risk-free interest rate	2.75%	4.5%
Expected life of options	5 years	6.25 years
Expected dividend yield		