XTENT INC
Form 10-Q
August 12, 2008
Table of Contents

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 June 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 001-33282

XTENT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**41-2047573**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

125 Constitution Drive

Menlo Park, California 94025-1118

(Address of principal executive offices, including Zip Code)

(650) 475-9400

(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 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 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 x

As of August 5, 2008, there were 23,244,674 shares of XTENT, Inc. common stock outstanding.

Table of Contents

XTENT, INC.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I: FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

XTENT, INC.

(a development stage company)

CONDENSED BALANCE SHEETS

(unaudited; in thousands, except per share amounts)

	June 30, 2008	December 31, 2007 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,660	$ 13,366
Short-term investments	22,767	44,394
Prepaid expenses and other current assets	1,090	905
Total current assets	35,517	58,665
Property and equipment, net	3,811	3,601
Other non-current assets	179	149
Total assets	$ 39,507	$ 62,415
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,981	$ 1,960
Accrued liabilities	2,181	2,124
Total current liabilities	4,162	4,084
Commitments and contingencies (note 6)		
Stockholders Equity:		
Common stock: $0.001 par value; 100,000 shares authorized at June 30, 2008 and December 31, 2007; 23,148 and 23,015 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	23	23
Additional paid-in capital	153,699	151,496
Deferred stock-based compensation	(195)	(364)
Accumulated other comprehensive income	21	36
Deficit accumulated during development stage	(118,203)	(92,860)
Total stockholders equity	35,345	58,331
Total liabilities and stockholders equity	$ 39,507	$ 62,415

(1) The condensed balance sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

Table of Contents

XTENT, INC.

(a development stage company)

CONDENSED STATEMENTS OF OPERATIONS

(unaudited; in thousands, except per share amounts)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Cumulative Period from June 13, 2002 (Date of Inception) to June 30, 2008
Operating expenses:					
Research and development (1)	$ 9,818	$ 7,704	$ 19,239	$ 13,927	$ 93,653
General and administrative (1)	3,331	2,801	6,773	5,262	30,316
Total operating expenses	13,149	10,505	26,012	19,189	123,969
Loss from operations	(13,149)	(10,505)	(26,012)	(19,189)	(123,969)
Interest and other income, net	263	1,049	669	1,798	5,766
Net loss	(12,886)	(9,456)	(25,343)	(17,391)	(118,203)
Deemed dividend related to beneficial conversion feature of redeemable convertible preferred stock					(13,095)
Net loss attributable to common stockholders	$ (12,886)	$ (9,456)	$ (25,343)	$ (17,391)	$ (131,298)
Net loss per share attributable to common stockholders - basic and diluted	$ (0.56)	$ (0.42)	$ (1.10)	$ (0.93)	
Weighted-average common shares outstanding - basic and diluted	23,033	22,551	22,978	18,649	

(1) Includes the following stock-based compensation charges:

Research and development	$ 393	$ 348	$ 781	$ 736	$ 3,842
General and administrative	$ 695	$ 413	$ 1,345	$ 832	$ 4,499

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

Table of Contents

XTENT, INC.

(a development stage company)

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited; in thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Cummulative Period from June 13, 2002 (Date of Inception) to June 30, 2008
Cash flows from operating activities:			
Net loss	$ (25,343)	$ (17,391)	$ (118,203)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	650	544	3,367
Amortization of securities discount	(268)	(735)	(1,973)
Gain (loss) on sale of investments	(26)		(6)
Loss on disposal of property and equipment			163
Stock-based compensation expense	2,126	1,568	8,341
Stock issued in exchange for services			231
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(323)	(236)	(1,005)
Accrued interest receivable on securities	138	(137)	(234)
Accounts payable	21	537	1,866
Accrued liabilities	99	708	2,272
Net cash used in operating activities	(22,926)	(15,142)	(105,181)
Cash flows from investing activities:			
Purchase of investments	(11,901)	(73,194)	(130,139)
Proceeds from maturities of investments	23,845	16,500	95,424
Proceeds from sale of investments	9,963		13,949
Restricted cash	(30)		(30)
Purchase of property and equipment	(862)	(993)	(7,338)
Proceeds from sale of property and equipment	2		20
Net cash provided by (used in) investing activities	21,017	(57,687)	(28,114)
Cash flows from financing activities:			
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs			75,592
Proceeds from initial public offering, net of offering costs		69,112	68,237
Principal payments on capital lease obligations			(23)
Proceeds from issuance of common stock and exercise of stock options	203	41	1,149
Net cash provided by financing activities	203	69,153	144,955
Net increase (decrease) in cash and cash equivalents	(1,706)	(3,676)	11,660
Cash and cash equivalents at beginning of period	13,366	23,105	

Cash and cash equivalents at end of period	$	11,660	$	19,429	$	11,660
Supplemental disclosure of noncash investing and financing activities:						
Deferred stock-based compensation	$		$		$	1,272
Reversal of deferred stock-based compensation	$	(37)	$	(13)	$	(132)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	$		$		$	(13,095)
Equipment acquired under capital leases	$		$		$	(23)
Vesting of restricted common stock from early exercises	$	42	$	52	$	417
Deferred initial public offering costs	$		$	875	$	875
Changes in net unrealized gains on investments	$	(15)	$	(30)	$	21

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

Table of Contents

XTENT, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 - Organization and Basis of Presentation

Organization

XTENT, Inc. (the Company), was incorporated in the state of Delaware on June 13, 2002 (inception), and is focused on developing and commercializing innovative drug eluting stent systems for the treatment of coronary artery disease. The Company is in the development stage and since inception has devoted substantially all of its time and efforts to developing products, raising capital and recruiting personnel.

The Company has incurred net operating losses each year since inception. At June 30, 2008, the Company had an accumulated deficit of $118.2 million. The Company has not achieved positive cash flows from operations in any year since inception. In February 2007, the Company completed its initial public offering raising net proceeds of $68.2 million. In order to continue its operations, the Company must achieve profitable operations, obtain additional debt financing or sell additional shares of its equity securities. The Company plans to sell additional equity or debt securities or obtain a credit facility during 2008. There can be no assurance that the Company will be able to obtain additional debt or equity financing on terms acceptable to the Company, or at all. The failure of the Company to obtain sufficient funds on acceptable terms when needed could require the Company to reduce the scope of, delay, or eliminate some or all of the planned clinical trials, research, development and commercialization activities, which could have a material adverse effect on the Company s business, results of operations and financial condition.

Management is currently working toward its objective of realizing profitability by obtaining regulatory approval of its products in the United States and Europe. The failure of the Company to obtain approval of its products from regulatory authorities could have a material adverse effect on the Company s business, results of operations, future cash flows and financial condition.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared by the Company in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. 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 only of normal recurring adjustments) considered necessary for a fair statement have been included. The results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008, or for any future period. These unaudited condensed financial statements and notes should be read in conjunction with the audited financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 17, 2008.

NOTE 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company deposits cash and cash equivalents with high credit quality financial institutions. Cash equivalents consist primarily of liquid money market funds and U.S. Treasury and agency securities.

Investments

Investments with an original maturity of more than three months and less than one year at the date of purchase are considered to be short-term. Investments consist primarily of fixed income securities. The Company classifies its investments as available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and they are recorded at fair value. The fair value of

Table of Contents

investments is based on quoted market prices. As of June 30, 2008 all of the Company s investments were short-term in nature.

Unrealized gains and losses are reported as accumulated other comprehensive income (loss), which is a separate component of stockholders equity, until realized. Premiums (or discounts) on investments are amortized (or accreted) to interest and other income, net over the life of the investment. Realized gains and losses on investments sold are included in interest and other income, net in the Company s statement of operations.

The Company reviews its short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. If the Company believes that an other-than-temporary decline exists in one of its marketable securities, it writes down these investments to the fair value and records the write-down within interest and other income, net in the Company s statement of operations.

Restricted Cash

The Company has restricted cash in the amount of $30,000 related to a certificate of deposit held as security against credit cards used by employees in the purchasing department.

Concentration of Credit Risk

The Company s financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and short-term investments. Financial instruments are comprised primarily of money market funds and U.S. Government and agency securities rated A1 and P1 or better. The Company s cash and cash equivalents are mainly deposited with one major financial institution, which at times exceeds the amount of insurance provided by the Federal Deposit Insurance Corporation on such deposits. The Company mitigates the concentration of credit risk by placing percentage limits on the maximum portion of the investment portfolio which may be invested in any one investment instrument. The Company has not recognized any losses from credit risks on such accounts during any of the periods presented and believes that it is not exposed to any significant risk on these balances.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. The Company s unrealized gains (losses) on available-for-sale securities represent the only component of other comprehensive loss that was excluded from the Company s net loss and is reflected as a component of stockholders equity.

Total comprehensive loss during the three and six months ended June 30, 2008 and 2007 consisted of:

	Three Months Ended June 30, 2008 (in thousands)	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008 (in thousands)	Six Months Ended June 30, 2007
Net loss attributable to common stockholders	$ (12,886)	$ (9,456)	$ (25,343)	$ (17,391)
Change in unrealized losses on available-for-sale securities	(110)	(1)	(15)	(30)
Comprehensive loss	$ (12,996)	$ (9,457)	$ (25,358)	$ (17,421)

Net Loss per Common Share

Basic and diluted net loss per common share is computed using the weighted-average number of shares of common stock outstanding during the period. Potentially dilutive shares consisting of stock options, common stock subject to repurchase, redeemable convertible preferred stock and shares issuable under the Employee Stock Purchase Plan were not included in the diluted net loss per common share calculations for all periods presented because the inclusion of such shares would have had an antidilutive effect.

Table of Contents

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share is as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Numerator:				
Net loss attributable to common stockholders	$ (12,886)	$ (9,456)	$ (25,343)	$ (17,391)
Denominator:				
Weighted-average common shares outstanding	23,107	22,865	23,078	18,989
Less: Weighted-average unvested common shares subject to repurchase	(74)	(314)	(100)	(340)
Weighted-average common shares outstanding used in computing basic and diluted net loss per common share	23,033	22,551	22,978	18,649
Net loss per share attributable to common stockholders - basic and diluted	$ (0.56)	$ (0.42)	$ (1.10)	$ (0.93)

The following potentially dilutive shares were excluded from the computation of diluted net loss per common share for the periods presented because including them would have an antidilutive effect:

	Periods Ended June 30, 2008	Periods Ended June 30, 2007
	(in thousands)	
Options to purchase common stock	2,860	1,957
Common stock subject to repurchase	59	286
Shares issuable under Employee Stock Purchase Plan	37	27

Recent and Adopted Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS No. 162 to have a material effect on the Company s financial position, operating results or cash flows.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* (EITF No. 07-3). EITF No. 07-3 requires nonrefundable advance payments for goods and services that will be used or rendered for future research and development activities be deferred and capitalized. Such amounts should be recognized as an expense as the goods are delivered or the related services are performed. EITF No. 07-3 was effective for the Company in the year beginning January 1, 2008. The adoption of EITF No. 07-3 did not have a material impact on the Company s financial position, operating results or cash flows.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS115* (SFAS No. 159). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible

Table of Contents

financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. SFAS No. 159 was effective for the Company in the year beginning January 1, 2008. The adoption of SFAS 159 did not have a material impact on the Company s financial position, operating results or cash flows.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, (SFAS 157) as it relates to financial assets and financial liabilities. 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 delayed the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Also in February 2008, the FASB issued FSP No. FAS 157-1*, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13,* which states that SFAS No. 13, *Accounting for Leases,* (SFAS 13) and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13 are excluded from the provisions of SFAS 157, except for assets and liabilities related to leases assumed in a business combination that are required to be measured at fair value under SFAS No. 141, *Business Combinations,* (SFAS 141) or SFAS No. 141 (revised 2007) *Business Combinations,* (SFAS 141(R)). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. The adoption of SFAS 157 did not have a material impact on the Company s financial position, operating results or cash flows. The Company has not yet determined the impact on its financial statements from the adoption of SFAS No. 157 as it pertains to non-financial assets and non-financial liabilities.

NOTE 3 - Investments

Short-term investments, which are classified as available-for-sale, had maturities of less than one year and consisted of the following:

As of June 30, 2008	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
		(in thousands)		
US government and agency securities	$ 22,746	$ 23	$ (2)	$ 22,767
Total	$ 22,746	$ 23	$ (2)	$ 22,767

As of December 31, 2007	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
		(in thousands)		
Commercial paper	$ 4,685	$ 21	$	$ 4,706
US government and agency securities	33,694	21	(9)	33,706
Corporate bonds	5,979	3		5,982
Total	$ 44,358	$ 45	$ (9)	$ 44,394

Fair Value Measurements

In the first quarter of 2008, we adopted SFAS No. 157, *Fair Value Measurements* for financial assets and liabilities. This standard defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Table of Contents

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

The fair value hierarchy of the Company s marketable securities at fair value in connection with the adoption of SFAS No. 157 consisted of the following as of June 30, 2008:

	Balance as of June 30, 2008	Significant Other Observable Inputs (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)
Money market funds (1)	$ 10,691	$ 10,691	$
US government and agency securities	22,767		22,767
Total	$ 33,458	$ 10,691	$ 22,767

(1) Money market funds are classified as part of cash equivalents on the condensed balance sheet

NOTE 4 - Common Stock

On February 1, 2007, the Company sold 4,700,000 shares of its common stock at a public offering price of $16.00 per share. Net cash proceeds from the Initial Public Offering were approximately $68.2 million, after deducting underwriting discounts and commissions and other offering costs.

Each share of common stock has the right to one vote. The holders of common stock are entitled to dividends when funds are legally available and when declared by the Board of Directors.

Restricted common stock

Certain common stock option holders have the right to exercise unvested options, subject to a repurchase right held by the Company to repurchase the stock, at the original exercise price, in the event of voluntary or involuntary termination of employment of the stockholder. In accordance with Emerging Issues Task Force Issue No. 00-23, *Issues Related to the Accounting for Stock Compensation* under APB 25 and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, the Company accounts for the cash received in consideration for the early exercised options as a liability. As of June 30, 2008 and December 31, 2007, there were approximately 59,000 and 164,000 shares of common stock, respectively, subject to repurchase, and a related liability of $24,000 and $66,000, respectively.

Table of Contents

NOTE 5 - Stock Option Plans

Stock-based compensation and valuation assumptions

The Company calculates the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for each respective period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Stock Options:				
Expected volatility	61%	54%	60%	54%
Risk free rate	2.63% - 3.57%			