INTERLEUKIN GENETICS INC
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission File Number: 001-32715

INTERLEUKIN GENETICS, INC.
(Exact name of registrant in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3123681 (I.R.S. Employer Identification No.)
135 Beaver Street, Waltham, MA (Address of principal executive offices)	02452 (Zip Code)

Registrant's Telephone Number: (781) 398-0700

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 each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 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 ¨	Accelerated filer ¨
Non-Accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2011
Common Stock, par value $0.001 per share	36,709,706

INTERLEUKIN GENETICS, INC.

FORM 10-Q
FOR THE QUARTER ENDED September 30, 2011

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Smaller Reporting Company – Scaled Disclosure

Pursuant to Item 10(f) of Regulation S-K promulgated under the Securities Act of 1933, as amended, as indicated herein, we have elected to comply with the scaled disclosure requirements applicable to “smaller reporting companies”.

PART I —FINANCIAL INFORMATION

Item 1. Financial Statements

INTERLEUKIN GENETICS, INC.

CONDENSED BALANCE SHEETS

	September 30, 2011	December 31, 2010
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 1,014,764	$ 3,999,029
Trade accounts receivable	76,367	36,960
Federal grant receivable	—	117,946
Receivables from related party	36,960	14,657
Inventory	75,534	117,849
Prepaid expenses	235,204	266,349
Other current assets	—	200,000
Total current assets	1,438,829	4,752,790
Fixed assets, net	348,471	554,172
Intangible assets, net	543,448	630,037
Other assets	38,001	38,001
Total assets	$ 2,368,749	$ 5,975,000
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
Current liabilities:		
Accounts payable	$ 383,089	$ 509,647
Accrued expenses	249,354	443,255
Deferred revenue	791,668	515,953
Current portion of long-term debt	11,000,000	—
Liabilities of discontinued operations	—	164,241
Total current liabilities	12,424,111	1,633,096
Convertible long-term debt	—	11,000,000
Total liabilities	12,424,111	12,633,096
Commitments and contingencies (Note 8)		
Stockholders’ deficit		
Convertible preferred stock, $0.001 par value — 6,000,000 shares authorized; 5,000,000 shares of Series A issued and outstanding at September 30, 2011 and December 31, 2010; aggregate liquidation preference of $18,000,000 at September 30, 2011	5,000	5,000
Common stock, $0.001 par value — 100,000,000 shares authorized; 36,684,256 and 36,594,799 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	36,684	36,594
Additional paid-in capital	91,056,873	90,851,709
Accumulated deficit	(101,153,919)	(97,551,399)
Total stockholders’ deficit	(10,055,362)	(6,658,096)
Total liabilities and stockholders’ deficit	$ 2,368,749	$ 5,975,000

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

INTERLEUKIN GENETICS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Genetic testing	$ 731,194	$ 531,151	$ 2,229,757	$ 1,460,601
Other	34,222	13,593	52,008	25,805
Total revenue	765,416	544,744	2,281,765	1,486,406
Cost of revenue	370,740	409,010	1,166,793	1,254,033
Gross profit	394,676	135,734	1,114,972	232,373
Operating expenses:				
Research and development	324,669	317,155	989,287	1,059,450
Selling, general and administrative	1,086,606	1,168,314	3,542,203	4,209,879
Amortization of intangibles	28,863	28,863	86,590	86,590
Total operating expenses	1,440,138	1,514,332	4,618,080	5,355,919
Loss from operations	(1,045,462)	(1,378,598)	(3,503,108)	(5,123,546)
Other income (expense):				
Interest income	1,030	1,522	5,337	2,724
Interest expense	(90,110)	(73,726)	(267,390)	(213,254)
Gain on disposal of assets	—	8,659	4,275	33,159
Total other expense	(89,080)	(63,545)	(257,778)	(177,371)
Loss from continuing operations before income taxes	(1,134,542)	(1,442,143)	(3,760,886)	(5,300,917)
Benefit for income taxes	—	—	—	—
Loss from continuing operations	(1,134,542)	(1,442,143)	(3,760,886)	(5,300,917)
Income from discontinued operations, net of income taxes	—	—	158,366	482,530
Net loss	$ (1,134,542)	$ (1,442,143)	$ (3,602,520)	$ (4,818,387)
Basic and diluted net loss per common share from:				
Continuing operations	$ (0.03)	$ (0.04)	$ (0.10)	$ (0.15)
Discontinued operations	—	—	0.00	0.01
Net Loss	$ (0.03)	$ (0.04)	$ (0.10)	$ (0.14)
Weighted average common shares outstanding, basic and diluted	36,674,829	36,545,747	36,647,874	35,410,705

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

INTERLEUKIN GENETICS, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	Convertible Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance as of December 31, 2009	5,000,000	$ 5,000	32,102,435	$ 32,102	$ 85,763,379	$ (91,565,109)	$ (5,764,628)
Net loss	—	—	—	—	—	(4,818,387)	(4,818,387)
Common stock issued:							
Private placement, net of offering costs of $365,329	—	—	4,375,002	4,375	4,880,299	—	4,884,674
Exercise of stock option	—	—	1,300	2	336	—	338
Employee stock purchase plan	—	—	72,278	72	33,908	—	33,980
Stock-based compensation expense	—	—	—	—	137,738	—	137,738
Balance as of September 30, 2010	5,000,000	$ 5,000	36,551,015	$ 36,551	$ 90,815,660	$ (96,383,496)	$ (5,526,285)
Balance as of December 31, 2010	5,000,000	$ 5,000	36,594,799	$ 36,594	$ 90,851,709	$ (97,551,399)	$ (6,658,096)
Net loss	—	—	—	—	—	(3,602,520)	(3,602,520)
Common stock issued:							
Employee stock purchase plan	—	—	89,457	90	25,484	—	25,574
Stock-based compensation expense	—	—	—	—	179,680	—	179,680
Balance as of September 30, 2011	5,000,000	$ 5,000	36,684,256	$ 36,684	$ 91,056,873	$ (101,153,919)	$ (10,055,362)

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

INTERLEUKIN GENETICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,602,520)	$ (4,818,387)
Income from discontinued operations	158,366	482,530
Loss from continuing operations	(3,760,886)	(5,300,917)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	295,548	320,179
Stock-based compensation expense	179,680	137,738
Changes in operating assets and liabilities:		
Accounts receivable	(39,407)	(15,240)
Federal grant receivable	117,946	—
Receivable from related party	(22,303)	21,162
Inventory	42,315	24,290
Prepaid expenses and other current assets	31,144	(41,705)
Accounts payable	(126,558)	67,570
Accrued expenses	(193,900)	365,587
Deferred revenue	275,715	356,256
Net cash provided by (used) in operating activities of discontinued operations	(5,875)	(475,819)
Net cash used in operating activities	(3,206,581)	(4,540,899)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Fixed asset additions	(3,258)	(82,318)
Net cash provided by investing activities of discontinued operations	200,000	—
Net cash provided by (used) in investing activities	196,742	(82,318)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	—	4,000,000
Proceeds from registered direct offering of common stock	—	5,250,002
Registered direct offering costs	—	(365,329)
Proceeds from employee stock purchase plan	25,574	33,980
Proceeds from exercise of employee stock options	—	338
Net cash provided by financing activities	25,574	8,918,991
Net increase (decrease) in cash and cash equivalents	(2,984,265)	4,295,774
Cash and cash equivalents, beginning of period	3,999,029	906,248
Cash and cash equivalents, end of period	$ 1,014,764	$ 5,202,022
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 267,390	$ 189,925

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

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INTERLEUKIN GENETICS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2011

Note 1—Basis of Presentation

The condensed financial statements include the accounts of Interleukin Genetics, Inc. (the Company) as of September 30, 2011 and December 31, 2010 and for the three and nine months ended September 30, 2011 and 2010.

The financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. These unaudited condensed financial statements, which, in the opinion of management, reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation, should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Operating results are not necessarily indicative of the results that may be expected for any future interim period or for the entire fiscal year.

For information regarding our critical accounting policies and estimates, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" contained in our Annual Report on Form 10-K for the year ended December 31, 2010 and Note 4 to our condensed financial statements contained herein.

The Company develops genetic tests for sale into the emerging personalized health market and performs testing services that can help individuals improve and maintain their health through preventive measures. The Company's principal operations and markets are located in the United States.

Note 2—Operating Matters and Liquidity

The Company has experienced net operating losses since its inception through September 30, 2011, including a net loss of $3.6 million for the nine months then ended, contributing to an accumulated deficit of $101 million as of September 30, 2011. The Company has borrowings of $11.0 million at September 30, 2011 and $3.3 million of available funds under its line of credit with Pyxis Innovations Inc., an affiliate of Alticor ("Pyxis"). Borrowings under the line of credit become due on June 30, 2012.

The Company continues to take steps to further reduce operating costs including consulting, research and personnel expenses. In addition the Company has reduced its costs of processing genetic tests in its laboratory by working with suppliers to develop more efficient raw materials such as equipment processing plates. The Company's current laboratory space is deemed to be adequate and able to process high volumes of genetic tests.

The Company expects that its current and anticipated financial resources, including the $3.3 million available under its credit facility with Pyxis, are adequate to maintain current and planned operations through June 30, 2012, however, if the Company is not successful in capital raising efforts, partnering negotiations, extending the due date of its debt or in generating additional revenues, it will not be able to fund operations beyond June 30, 2012. The Company continues to attempt to raise additional capital, seek additional streams of revenue, extend the due date of its debt and improve sales with new and existing channels. The Company expects to meet its goals in these areas and generate the additional cash needed to fund operations into 2013 and beyond, however, there can be no assurance that it will be able to do so.

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The ability of the Company to realize the carrying value of its fixed assets and intangible assets depends on its ability to successfully execute on its long-term business plan. As noted in the preceding paragraph, the Company needs to generate additional funds in order to meet its financial obligations beyond June 30, 2012. If it is unsuccessful in doing so, the Company may not be able to realize the carrying value of its fixed assets and intangible assets.

Note 3—Discontinued Operations

In August 2006, the Company acquired the assets and business of the Alan James Group, LLC (the Alan James Group). The Alan James Group was a provider of products and services in the consumer healthcare marketplace and the acquired business primarily developed, marketed and sold nutritional products and engaged in related activities. Prior to the opening of business on July 1, 2009, the Company and its wholly-owned subsidiary, AJG Brands, Inc. entered into an asset purchase agreement with Nutraceutical Corporation and Pep Products, Inc., a wholly-owned subsidiary of Nutraceutical Corporation, pursuant to which substantially all of the Alan James Group business and assets of AJG Brands, Inc. were sold to Pep Products, Inc.

Prior to June 30, 2011, the Company reserved for estimated sales returns, discontinued items and trade promotions applicable to the non-acquired accounts resulting from our sale of substantially all of the assets of the Alan James Group business. On June 30, 2011, the Company completed an analysis of all return activity since the time of sale and determined that the remaining reserve was no longer required. The adjustment was reflected in income from discontinued operations in the June 30, 2011 statement of operations. Since June 30, 2011, payments related to returns were insignificant and any future payments are expected to be minimal.

The balance of other current assets of $200,000 at December 31, 2010 represents a receivable from Nutraceutical Corporation in connection with the transaction in June 2009 which was received on July 1, 2011.

Note 4—Significant Accounting Policies

Revenue Recognition

Revenue from genetic testing services is recognized when there is persuasive evidence of an arrangement, service has been rendered, the sales price is determinable and collectability is reasonably assured. Service is deemed to be rendered when the results have been reported to the individual who ordered the test. To the extent that tests have been prepaid but results have not yet been reported, recognition of all related revenue is deferred. As of September 30, 2011 and December 31, 2010, the Company has deferred genetic test revenue of $792,000 and $506,000, respectively.

Revenue from contract research and development is recognized over the term of the contract as the Company performs its obligations under that contract (including revenue from Alticor, a related party).

Sales Commissions

The Company accounts for sales commissions due to Amway Global, a related party, under the Merchant Channel and Partner Agreement in accordance with SEC Staff Accounting Bulletin (“SAB”) 104. Commissions are recorded as an expense at the time they become due which is at the point of sale by Amway Global. Commissions were $762,000 and $263,000 for the nine months ended September 30, 2011 and 2010, respectively.

Accounts Receivable

Accounts receivable is stated at estimated net realizable value, which is generally the invoiced amount less any estimated discount related to payment terms. The Company offers its commercial genetic test customers a 2% cash discount if payment is made by bank wire transfer within 10 days of the invoice date.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. As the Company does not manufacture any products, no overhead costs are included in inventory. No inventory reserve is required at September 30, 2011 as all test kits are available for sale and are expected to be sold at amounts in excess of cost. When a kit is sold, the corresponding cost of the kit is recorded as deferred cost of goods sold, a component of prepaid expenses, and removed from inventory. The Company recognizes the cost of the kit as cost of goods sold when the genetic test report is issued.

Inventory consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Raw materials	$ 72,751	$ 110,347
Finished goods	2,783	7,502
Total inventory	$ 75,534	$ 117,849

Income Taxes

The Company accounts for income taxes by recording taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized.

Significant management judgment is required in determining the Company's provision (benefit) for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. The Company has recorded a full valuation allowance against its deferred tax assets of approximately $29.6 million as of September 30, 2011, due to uncertainties related to its ability to utilize these assets. The valuation allowance is based on management's estimates of taxable income by jurisdiction in which the Company operates and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, the Company may need to adjust its valuation allowance, which could materially impact its financial position and results of operations.

The Company files a combined Massachusetts tax return with certain Alticor affiliated entities, referred to herein as "the unitary group". Since 2009, Massachusetts law requires corporations with net operating loss carryforwards to go back to each year in which the loss was generated and recompute the loss as if it occurred on a consolidated basis. The Company is required to include data from the unitary group as if the unitary group was in place during the loss years. As a result, the losses generated at a state level by the Company were eliminated through this required computation. The Company estimates that the combined filing will have no impact on the Company's financial condition, results of operations and cash flows.

The Company reviews its recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. The Company reviews all material tax positions for all years open to statute to determine whether it is more likely than not that the positions taken would be sustained based on the technical merits of those positions. The Company did not recognize any adjustments for uncertain tax positions as of and during the three and nine months ended September 30, 2011 and 2010.

Research and Development

Research and development costs are expensed as incurred.

Basic and Diluted Net Loss per Common Share

Basic and diluted net loss per share was determined by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is the same as basic net loss per share for all the periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to the loss in each period. Potential common stock equivalents excluded from the calculation of diluted net loss per share consists of stock options, warrants, convertible preferred stock and convertible debt as set forth in the table below:

	As of September 30, 2011	2010
Options outstanding	2,206,767	1,658,467
Warrants outstanding	2,150,000	2,150,000
Convertible preferred stock	28,160,200	28,160,200
Convertible debt	1,937,200	1,937,200
Total	34,454,167	33,905,867

Fair Value of Financial Instruments

The Company, using available market information, has determined the estimated fair values of financial instruments. The stated values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the nature of these instruments. The fair value of our convertible debt is inherently difficult to determine as a result of the Company's financial condition and history of operating losses. For financial reporting purposes, the Company has estimated the fair value of its debt as the difference between the book value of its assets less liabilities to third parties other than the debt holder (See Note 6).

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents with domestic financial institutions that the Company believes to be of high credit standing. The Company believes that, as of September 30, 2011, its concentration of credit risk related to cash and cash equivalents was not significant. Cash and cash equivalents are available on demand and at times may be in excess of FDIC insurance limits.

Recent Accounting Pronouncements

Please see the discussion of "Recent Accounting Pronouncements" in this Note 4, Significant Accounting Policies contained in the Notes to Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Recently Issued

Fair Value Measurement — In May 2011, the Financial Accounting Standards Board (FASB) issued Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Accounting Standards Update (ASU) No. 2011-04) , which provides additional guidance for fair value measurements. These updates to the FASB Accounting Standards Codification (ASC or Codification) include clarifications regarding existing fair value measurement principles and disclosure requirements, and also specific new guidance for items such as measurement of instruments classified within stockholders' equity and disclosures regarding the sensitivity of Level 3 measurements to changes in valuation model inputs. These updates to the Codification are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the implementation of this guidance to have a material impact on its financial statements.

Comprehensive Income — In June 2011, the FASB issued Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU No. 2011-05) , which updates the Codification to require the presentation of the components of net income, the components of other comprehensive income (OCI) and total comprehensive income in either a single continuous statement of comprehensive income or in two separate, but consecutive statements of net income and comprehensive income. These updates do not affect the items reported in OCI or the guidance for reclassifying such items to net income. These updates to the Codification are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the implementation of this guidance to have a material impact on its consolidated financial statements.

No new updates or other guidance issued to date by the FASB in 2011 are expected to have a material impact on the Company’s financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The Company concluded that patent related legal costs, which had previously been classified with research and development expenses, should be classified as selling, general and administrative expenses. For the three and nine months ended September 30, 2010, these costs amounted to $110,000 and $369,000, respectively. Such reclassifications had no impact on the Company's reported results of operations.

Note 5—Strategic Alliance with Alticor Inc.

Since March 2003, the Company has maintained a broad strategic alliance with several affiliates of the Alticor family of companies. The alliance previously included an equity investment, a multi-year research and development agreement, a licensing agreement with royalties on marketed products, the deferment of outstanding loan repayment and the refinancing of bridge financing obligations. Pyxis Innovations, Inc., an affiliate of Alticor, is the Company's largest shareholder and is the holder of the Company's debt.

In October 2009, the Company entered into a Merchant Network and Channel Partner Agreement with Amway Corp., d/b/a/ Amway Global ("Amway Global") a subsidiary of Alticor Inc. Pursuant to this Agreement, Amway Global sells the Company's Inherent Health® brand of genetic tests through its e-commerce website via a hyperlink to our e-commerce site. We paid Amway Global $762,000 and $263,000 in commissions for the nine months ended September 30, 2011 and 2010, respectively, and $219,000 and $95,000, respectively, for the three months ended September 30, 2011 and 2010, respectively, representing a percentage of net sales to their customers.

On April 15, 2011, the Company entered into a contract services agreement with Alticor Corporate Enterprises Inc. and Amway International Inc. (collectively, "Alticor"). Pursuant to this agreement, the Company provided marketing, promotional and training services to Alticor in connection with its marketing of the Company's weight management genetic test. Upon execution of the agreement on April 15, 2011, the agreement received retroactive effect as of October 15, 2010 and the initial term expired on October 14, 2011. The Company is currently in discussions with Alticor for a possible extension of the agreement. The Company received approximately $143,000 for its services under the agreement for the initial term. The agreement may be renewed for successive one-year periods upon mutual written agreement by the parties. Alticor has the right to designate which personnel of the Company perform services under the agreement. Alticor may terminate the agreement at any time if the Company fails to perform the services in a timely, diligent, workmanlike or acceptable manner or with anyone other than the Company's personnel specified by Alticor, or in the event that the Company becomes insolvent. The Company may terminate the agreement if Alticor defaults under the agreement. The agreement also contains standard confidentiality, ownership and restrictions on the transfer of intellectual property covenants. As of September 30, 2011, the Company has received $107,232 under the agreement and recorded an unbilled receivable for $29,844 representing amounts due under the agreement at September 30, 2011.

Note 6—Convertible Debt

On August 17, 2006, our existing credit facility with Pyxis was amended to provide the Company with access to approximately $14.4 million of working capital borrowings at any time prior to August 17, 2008. Any amounts borrowed thereunder bear interest at the prime rate, require quarterly interest payments and become due on demand beginning on August 16, 2011. The principal amount of any borrowing under this credit facility is convertible at Pyxis' election into a maximum of 2,533,234 shares of common stock, reflecting a conversion price of $5.6783 per share.

This credit facility has been extended several times. Most recently, on September 30, 2010, the Company entered into an amendment to extend the availability of borrowings under the existing credit facility with Pyxis until June 30,

2012. In addition, the due date was extended from August 16, 2011 to June 30, 2012. As of September 30, 2011, there was $11,000,000 in principal outstanding under the credit facility leaving $3,316,255 of available credit. The fair value of the convertible debt is estimated to be approximately $1.0 million at September 30, 2011.

Note 7—Intangible Assets

Intangible assets at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Patent costs	$ 1,154,523	$ 1,154,523
Less — Accumulated amortization	(611,075)	(524,486)
Total	$ 543,448	$ 630,037

Patent amortization expense was $28,863 for the three months ended September 30, 2011 and 2010, respectively, and $86,590 for the nine months ended September 30, 2011 and 2010, respectively.