

ANTIGENICS INC /DE/
Form 10-Q
May 09, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 2008

**•• 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: 000-29089

Antigenics Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

06-1562417
(I.R.S. Employer
Identification No.)

162 Fifth Avenue, Suite 900, New York, New York 10010

(Address of principal executive offices, including zip code)

(212) 994-8200

(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 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

Number of shares outstanding of the registrant's Common Stock as of May 1, 2008: 65,660,797 shares.

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Antigenics Inc.

Quarterly Period Ended March 31, 2008

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ANTIGENICS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 35,409,715	\$ 14,479,322
Short-term investments		4,199,996
Accounts receivable	308,374	318,707
Inventories	320,475	510,872
Prepaid expenses	1,458,804	837,075
Other current assets	297,066	436,012
Total current assets	37,794,434	20,781,984
Plant and equipment, net	13,628,663	14,604,243
Goodwill	2,572,203	2,572,203
Core and developed technology, net	3,257,233	3,534,048
Debt issuance costs, net	1,305,489	1,380,963
Other long-term assets	1,660,455	1,663,401
Total assets	\$ 60,218,477	\$ 44,536,842
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current portion, long-term debt	\$ 146,061	\$ 146,061
Current portion, deferred revenue	1,394,499	1,413,255
Accounts payable	735,345	674,473
Accrued liabilities	5,125,624	5,783,740
Other current liabilities	520,775	365,037
Total current liabilities	7,922,304	8,382,566
Convertible senior notes	77,400,533	77,400,533
Deferred revenue	2,699,037	3,038,280
Other long-term liabilities	2,734,622	2,775,766
Commitments and contingencies (Note F)		
Stockholders' deficit:		
Preferred stock, par value \$0.01 per share; 25,000,000 shares authorized:		
Series A convertible preferred stock; 31,620 shares designated, issued, and outstanding at March 31, 2008 and December 31, 2007; liquidation value of \$31,817,625 at March 31, 2008	316	316
Series B1 convertible preferred stock; 10,000 shares designated, issued, and outstanding at March 31, 2008 and December 31, 2007	100	100
Series B2 convertible preferred stock; 5,250 shares designated, issued, and outstanding at March 31, 2008 and December 31, 2007	53	53
Common stock, par value \$0.01 per share; 250,000,000 shares authorized; 56,698,751 and 47,557,007 shares issued at March 31, 2008 and December 31, 2007, respectively	566,988	475,570

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Additional paid-in capital	478,702,894	451,114,779
Treasury stock, at cost; 45,594 and 5,953 shares of common stock at March 31, 2008 and December 31, 2007, respectively	(98,629)	(12,168)
Accumulated deficit	(509,709,741)	(498,638,953)
Total stockholders' deficit	(30,538,019)	(47,060,303)
Total liabilities and stockholders' deficit	\$ 60,218,477	\$ 44,536,842

See accompanying notes to unaudited condensed consolidated financial statements.

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ANTIGENICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Quarter Ended March 31,	
	2008	2007
Revenue	\$ 850,224	\$ 2,352,807
Operating expenses:		
Research and development	(5,730,737)	(5,962,290)
General and administrative	(5,272,927)	(4,334,752)
Operating loss	(10,153,440)	(7,944,235)
Other income (expense):		
Non-operating income	2,310	
Interest expense	(1,270,746)	(1,227,048)
Interest income	351,088	474,854
Net loss	(11,070,788)	(8,696,429)
Dividends on series A convertible preferred stock	(197,625)	(197,625)
Net loss attributable to common stockholders	\$ (11,268,413)	\$ (8,894,054)
Per common share data, basic and diluted:		
Net loss attributable to common stockholders	\$ (0.20)	\$ (0.19)
Weighted average number of common shares outstanding, basic and diluted	55,745,587	45,962,041

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ANTIGENICS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Quarter Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (11,070,788)	\$ (8,696,429)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,329,440	1,378,311
Share-based compensation	1,771,144	1,176,891
Changes in operating assets and liabilities:		
Accounts receivable	10,333	(194,757)
Inventories	190,397	130,433
Prepaid expenses	(621,729)	(684,519)
Accounts payable	60,872	(438,064)
Deferred revenue	(357,999)	(110,319)
Accrued liabilities and other current liabilities	(391,351)	(1,771,714)
Other operating assets and liabilities	(100,029)	104,841
Net cash used in operating activities	(9,179,710)	(9,105,326)
Cash flows from investing activities:		
Proceeds from maturities of available-for-sale securities	4,200,000	11,800,000
Purchases of available-for-sale securities		(7,245,672)
Investment in AGTC		(165,000)
Proceeds from the sale of limited partner interest in AGTC		1,665,000
Purchases of plant and equipment	(2,798)	(12,666)
Net cash provided by investing activities	4,197,202	6,041,662
Cash flows from financing activities:		
Proceeds from sale of equity	26,126,151	
Equity offering costs	(94,238)	
Proceeds from exercise of stock options	43,881	
Proceeds from employee stock purchases	121,193	30,366
Treasury stock received to satisfy minimum tax withholding requirements	(86,461)	
Payment of series A convertible preferred stock dividend	(197,625)	(197,625)
Debt issuance costs		(50,000)
Net cash provided by (used in) financing activities	25,912,901	(217,259)
Net increase (decrease) in cash and cash equivalents	20,930,393	(3,280,923)
Cash and cash equivalents, beginning of period	14,479,322	24,218,683
Cash and cash equivalents, end of period	\$ 35,409,715	\$ 20,937,760

See accompanying notes to unaudited condensed consolidated financial statements.

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ANTIGENICS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

Note A Business and Basis of Presentation

Antigenics Inc. (including its subsidiaries, also referred to as Antigenics, the Company, we, us, and our) is a biotechnology company developing technologies to treat cancers and infectious diseases, primarily based on immunological approaches. Our most advanced product, Oncophage[®] (vitespen), is a patient-specific therapeutic cancer vaccine registered for use in Russia in the treatment of kidney cancer patients at intermediate risk for disease recurrence. Oncophage has been tested in Phase 3 clinical trials for the treatment of renal cell carcinoma, the most common type of kidney cancer, and for metastatic melanoma, and it has also been tested in Phase 2 and Phase 1 clinical trials in a range of indications and is currently in a Phase 2 clinical trial in recurrent glioma, or brain cancer. Our product candidate portfolio includes (1) QS-21 Stimulon[®] adjuvant, or QS-21, which is used in numerous vaccines under development in trials as advanced as Phase 3 for a variety of diseases, including hepatitis, human immunodeficiency virus, influenza, cancer, Alzheimer's disease, malaria, and tuberculosis, (2) AG-707, a therapeutic vaccine program in a Phase 1 clinical trial for the treatment of genital herpes, and (3) Aroplatin, a liposomal chemotherapeutic in a Phase 1 clinical trial for the treatment of solid tumors and B-cell lymphomas. Our related business activities include research and development, regulatory and clinical affairs, clinical manufacturing, business development, marketing, and administrative functions that support these activities.

Our product candidates require clinical trials and approvals from regulatory agencies, as well as acceptance in the marketplace. We are conducting clinical trials in various cancers and in one infectious disease indication. Part of our strategy is to develop and commercialize some of our product candidates by continuing our existing collaborative arrangements with academic and corporate collaborators and licensees and by entering into new collaborations.

We have incurred significant losses since our inception. As of March 31, 2008, we had an accumulated deficit of \$509.7 million. Since our inception, we have financed our operations primarily through the sale of equity and convertible notes, interest income earned on cash, cash equivalents, and short-term investment balances, and debt provided through secured lines of credit. We believe, based on our current plans and activities, that our working capital resources at March 31, 2008, along with the proceeds from our equity sales completed in April 2008 (see Note J), and the estimated proceeds from our license, supply, and collaborative agreements, will be sufficient to satisfy our liquidity requirements into the second half of 2009. In addition, we expect to attempt to raise additional funds in advance of depleting our current funds. Satisfying long-term liquidity needs may require the successful commercialization of our product, Oncophage, and potentially our product candidates and will require additional capital.

The accompanying condensed consolidated balance sheet as of December 31, 2007, which has been derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to 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 annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of our consolidated financial position and operating results. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain amounts previously reported have been reclassified in order to conform to the current period's presentation. Operating results for the quarter ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (the SEC) on March 17, 2008.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Table of Contents**ANTIGENICS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Note B Net Loss Per Share**

Basic loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding and common shares issuable under our directors' deferred compensation plan. Diluted loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding and common shares issuable under our directors' deferred compensation plan plus the dilutive effect of outstanding stock options and warrants, nonvested shares, our series A convertible preferred stock, our class B convertible preferred stock, our 5.25% convertible senior notes due 2025, and the 8% senior secured convertible notes (the 2006 Notes) due 2011. Because we have reported a net loss attributable to common stockholders for all periods, diluted loss per common share is the same as basic loss per common share, as the effect of including shares underlying the outstanding stock options and warrants, nonvested shares, the series A convertible preferred stock, the class B convertible preferred stock, the 5.25% convertible senior notes due 2025, and the 2006 Notes in the calculation would have reduced the net loss per common share. Therefore, shares underlying the 26,126,151 outstanding warrants, the 6,662,890 outstanding stock options, the 970,472 outstanding nonvested shares, the 31,620 outstanding shares of series A convertible preferred stock, the 10,000 outstanding shares of series B1 convertible preferred stock, the 5,250 outstanding shares of series B2 convertible preferred stock, and the impact of conversion of the 5.25% convertible senior notes due 2025 and the 2006 Notes are not included in the calculation of diluted net loss per common share.

Note C Inventories

Inventories are stated at cost using the first-in, first-out method. The components of inventories are as follows (in thousands).

	March 31, 2008	December 31, 2007
Work in process	\$ 235	\$ 414
Finished goods	85	97
	\$ 320	\$ 511

Note D Share-Based Compensation

Share-based compensation expense includes compensation expense for all share-based options granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Share-based compensation expense also includes compensation expense for all share-based options granted, modified, or settled after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, *Share-Based Payment* (SFAS No. 123R) and the fair market value of shares issued to non-employees for services rendered.

We have applied the provisions of Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* (SAB No. 107), in accounting for share-based compensation in accordance with SFAS No. 123R. SAB No. 107 contains the SEC's guidance on certain aspects of SFAS No. 123R and the valuation of share-based payments for public companies.

Stock options granted to non-employees are accounted for based on the fair-value method of accounting in accordance with SFAS No. 123R and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. As a result, the non-cash charge to operations for non-employee options with vesting or other performance criteria is affected each reporting period, until the non-employee options vest, by changes in the fair value of our common stock.

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Certain of our fully vested options granted to non-employees are outside the scope of SFAS No. 123R and are subject to EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially*

Table of Contents**ANTIGENICS INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Settled in, a Company's Own Stock (EITF Issue No. 00-19), which requires that stock options held by certain non-employee consultants be accounted for as liability-classified awards. The fair value of the award is remeasured at each financial statement date until the award is exercised or expires. As of March 31, 2008, stock options to acquire approximately 759,000 shares of common stock held by non-employee consultants are accounted for as liability-classified awards, and remained unexercised.

We use the Black-Scholes option pricing model to value options for employee populations, as well as options granted to members of our Board of Directors. The effects of applying SFAS No. 123R, for purposes of recognizing compensation cost under such pronouncement, may not be representative of the effects on our reported results of operations for future years. All stock option grants have a 10 year term and generally vest ratably over a four-year period. The fair value of each option granted is estimated on the date of grant with the following weighted average assumptions.

	Quarter Ended	
	March 31, 2008	2007
Expected volatility	72%	65%
Expected term in years	5	5
Risk-free interest rate	2.78%	4.67%
Dividend yield	0%	0%

A summary of option activity for the quarter ended March 31, 2008 is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	6,782,901	\$ 5.75		
Granted	97,500	2.30		
Exercised	(26,921)	1.63		
Forfeited	(45,748)	3.30		
Expired	(144,842)	7.09		
Outstanding at March 31, 2008	6,662,890	\$ 5.70	6.62	\$ 910,385
Vested or expected to vest at March 31, 2008	5,932,868	\$ 6.05	6.35	\$ 763,846
Exercisable at March 31, 2008	3,645,815	\$ 8.08	5.02	\$ 267,818

The weighted average grant-date fair values of options granted during the quarters ended March 31, 2008 and 2007 were \$1.34 and \$1.30, respectively.

During the first quarter of 2008, all options were granted with exercise prices equal to the fair market value of the underlying shares of common stock on the grant date.

As of March 31, 2008, \$2.1 million of total unrecognized compensation cost related to stock options granted to employees and directors is expected to be recognized over a weighted-average period of 2.0 years.

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As of March 31, 2008, unrecognized expense for options granted to outside advisors for which performance (vesting) has not yet been completed but the exercise price of the option is known is \$232,000. Such amount is subject to change each reporting period based upon changes in the fair value of our common stock, expected volatility, and the risk-free interest rate, until the outside advisor completes his or her performance under the option agreement.

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ANTIGENICS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Certain employees and consultants have been granted nonvested stock. In accordance with S