

INFINITY PHARMACEUTICALS, INC.

Form 10-Q

August 04, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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)

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Delaware
(State or Other Jurisdiction of

33-0655706
(I.R.S. Employer

Incorporation or Organization)

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 No

Indicate by check mark whether the 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 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 (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

Number of shares of the registrant's Common Stock, \$0.001 par value, outstanding on June 30, 2010: 26,304,529

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INFINITY PHARMACEUTICALS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements
INFINITY PHARMACEUTICALS, INC.****Condensed Consolidated Balance Sheets****(unaudited)**

| | June 30, 2010 | December 31, 2009 |
|---|----------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,438,822 | \$ 16,287,229 |
| Available-for-sale securities | 94,847,400 | 113,758,778 |
| Unbilled accounts receivable from Purdue entities | 387,117 | |
| Notes receivable from employees | 48,235 | 55,059 |
| Prepaid expenses and other current assets | 4,408,703 | 3,511,968 |
| Total current assets | 124,130,277 | 133,613,034 |
| Property and equipment, net | 5,544,189 | 5,694,150 |
| Loan commitment asset from Purdue entities, net | 15,154,125 | 16,020,075 |
| Long-term available-for-sale securities | 743,685 | 690,506 |
| Notes receivable from employees | 30,154 | 38,036 |
| Restricted cash | 1,120,939 | 1,146,788 |
| Other assets | 99,775 | 115,244 |
| Total assets | \$ 146,823,144 | \$ 157,317,833 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,628,145 | \$ 1,441,231 |
| Accrued expenses | 10,326,013 | 8,542,923 |
| Deferred revenue from Purdue entities | 2,987,512 | 2,987,512 |
| Current portion of capital leases | 6,729 | 6,459 |
| Total current liabilities | 14,948,399 | 12,978,125 |
| Deferred revenue from Purdue entities, less current portion | 34,361,487 | 35,855,463 |
| Other liabilities | 2,031,279 | 2,219,224 |
| Capital leases, less current portion | 2,056 | 5,489 |
| Total liabilities | 51,343,221 | 51,058,301 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred Stock, \$.001 par value; 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2010 and December 31, 2009 | | |
| Common Stock, \$.001 par value; 100,000,000 shares authorized; 26,304,529 and 26,238,954 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively | 26,305 | 26,239 |
| Additional paid-in capital | 291,365,843 | 287,593,176 |
| Accumulated deficit | (196,006,444) | (181,397,174) |

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| | | |
|--|----------------|----------------|
| Accumulated other comprehensive income | 94,219 | 37,291 |
| Total stockholders' equity | 95,479,923 | 106,259,532 |
| Total liabilities and stockholders' equity | \$ 146,823,144 | \$ 157,317,833 |

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

Table of Contents**INFINITY PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Operations****(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------------|---------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Collaborative research and development revenue from Purdue entities | \$ 18,387,597 | \$ 13,165,097 | \$ 34,381,093 | \$ 22,594,255 |
| Operating expenses: | | | | |
| Research and development | 19,010,963 | 20,712,775 | 38,388,768 | 41,954,301 |
| General and administrative | 5,216,286 | 5,681,381 | 9,965,287 | 11,011,589 |
| Total operating expenses | 24,227,249 | 26,394,156 | 48,354,055 | 52,965,890 |
| Loss from operations | (5,839,652) | (13,229,059) | (13,972,962) | (30,371,635) |
| Other income (expense): | | | | |
| Interest expense | (433,184) | (433,302) | (866,241) | (433,671) |
| Income from residual funding after reacquisition of Hsp90 program | | | | 12,450,000 |
| Income from NIH reimbursement | | 1,745,386 | | 1,745,386 |
| Interest and investment income | 24,999 | 591,985 | 229,933 | 1,334,478 |
| Total other income (expense) | (408,185) | 1,904,069 | (636,308) | 15,096,193 |
| Net loss | \$ (6,247,837) | \$ (11,324,990) | \$ (14,609,270) | \$ (15,275,442) |
| Basic and diluted loss per common share | \$ (0.24) | \$ (0.43) | \$ (0.56) | \$ (0.59) |
| Basic and diluted weighted average number of common shares outstanding | 26,285,125 | 26,118,758 | 26,264,812 | 26,015,348 |

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

Table of Contents**INFINITY PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Cash Flows****(unaudited)**

| | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|
| Operating activities | | |
| Net loss | \$ (14,609,270) | \$ (15,275,442) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,078,003 | 1,026,576 |
| Stock-based compensation, including 401(k) match | 3,696,370 | 3,666,812 |
| Gain on sales of property and equipment | | (60,046) |
| Amortization of loan commitment asset from Purdue entities | 865,950 | 432,975 |
| Net amortization (accretion) of available-for-sale securities | 862,137 | (473,663) |
| Other, net | 39,259 | 35,100 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and unbilled accounts receivable | (387,117) | 7,414,570 |
| Prepaid expenses and other assets | (896,735) | (162,789) |
| Accounts payable, accrued expenses and other liabilities | 1,800,411 | (1,309,065) |
| Deferred revenue from Purdue entities | (1,493,976) | 17,606,576 |
| Net cash provided by (used in) operating activities | (9,044,968) | 12,901,604 |
| Investing activities | | |
| Purchases of property and equipment | (928,042) | (1,508,215) |
| Proceeds from sales of property and equipment | | 60,046 |
| Purchases of available-for-sale securities | (122,801,038) | (113,360,903) |
| Proceeds from sales of available-for-sale securities | 7,239,262 | 15,420,900 |
| Proceeds from maturities of available-for-sale securities | 133,614,889 | 76,242,589 |
| Net cash provided by (used in) investing activities | 17,125,071 | (23,145,583) |
| Financing activities | | |
| Proceeds from issuances of common stock | 58,011 | 132,390 |
| Proceeds from issuance of common stock and warrants to Purdue entities | | 11,830,000 |
| Release of restricted cash | 26,642 | |
| Capital lease payments | (3,163) | (2,916) |
| New employee loans | (10,000) | (30,000) |
| Net cash provided by financing activities | 71,490 | 11,929,474 |
| Net increase in cash and cash equivalents | 8,151,593 | 1,685,495 |
| Cash and cash equivalents at beginning of period | 16,287,229 | 16,574,549 |
| Cash and cash equivalents at end of period | \$ 24,438,822 | \$ 18,260,044 |

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 utilizing its strength in small molecule drug technologies to discover and develop medicines for difficult to treat diseases. 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 wholly owned subsidiary.

2. Basis of Presentation

These condensed consolidated financial statements include the accounts of Infinity and its wholly owned subsidiary. 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 six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010.

The information presented in the condensed consolidated financial statements and related footnotes at June 30, 2010, and for the three and six months ended June 30, 2010 and 2009, is unaudited, and the condensed consolidated balance sheet amounts and related footnotes at December 31, 2009 have been derived from our audited financial statements. For further information, please 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, 2009, which was filed with the U.S. Securities and Exchange Commission (SEC) on March 12, 2010.

3. Significant Accounting Policies

Cash Equivalents and Available-For-Sale Securities

Cash equivalents and available-for-sale securities primarily consist of money market funds, U.S. government-sponsored enterprise obligations, corporate obligations, U.S. Treasury obligations and mortgage-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 of money market funds, corporate obligations and U.S. government-sponsored enterprise obligations, are stated at fair value. They are also readily convertible to known amounts of cash and close enough to maturity that each presents insignificant risk of change 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 June 30, 2010 and December 31, 2009 as available-for-sale. We carry available-for-sale securities at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income, which is 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. 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.

We conduct periodic reviews to identify and evaluate each investment that has an unrealized loss, in accordance with the meaning of other-than-temporary impairment and its application to certain investments. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses on available-for-sale debt securities that are determined to be temporary, and not related to credit loss, are recorded, net of tax, in accumulated other comprehensive income.

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For available-for-sale debt securities with unrealized losses, we perform an analysis to assess whether we intend to sell or whether we would more likely than not be required to sell the security before the expected recovery of the amortized cost basis. Where we intend to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary and the full amount of the unrealized loss is recorded within earnings as an impairment loss.

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Regardless of our intent to sell a security, we perform additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where we do not expect to receive cash flows sufficient to recover the amortized cost basis of a security and are recorded within earnings as an impairment loss.

Segment Information

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.

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All of our revenues to date have been generated under research collaboration agreements. Revenue associated with the amortization of the deferred revenue associated with the grant of licenses to, and reimbursed research and development services provided for, Mundipharma International Corporation Limited (Mundipharma) and Purdue Pharmaceutical Products L.P. (Purdue) accounted for all of our revenue for the three and six months ended June 30, 2010 and 2009. Payments due from Mundipharma and Purdue represented the entire unbilled accounts receivable as of June 30, 2010. We consider Mundipharma, Purdue and associated entities to be related parties for financial reporting purposes because of their equity ownership (see Note 8).

Basic and Diluted Loss per Common Share

Basic loss per share is based upon the weighted average number of common shares outstanding during the period, excluding restricted shares of common stock that have been issued but are not yet vested. Diluted 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) and the vesting of restricted shares of common stock. In addition, 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 loss per share calculations for the periods presented because the effect of including them would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following: