

DURECT CORP
Form 10-Q
November 03, 2006
Table of Contents

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 September 30, 2006

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 000-31615

DURECT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

2 Results Way, Cupertino, California
(Address of principal executive offices)

94-3297098
(I.R.S. Employer
Identification No.)

95014
(Zip Code)

Edgar Filing: DURECT CORP - Form 10-Q

(408) 777-1417

(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 a check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of October 31, 2006, there were 68,893,682 shares of the registrant's Common Stock outstanding.

Table of Contents

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Balance Sheets</u>	
<i>As of September 30, 2006 and December 31, 2005</i>	3
<u>Condensed Statements of Operations</u>	
<i>For the three and nine months ended September 30, 2006 and 2005</i>	4
<u>Condensed Statements of Cash Flows</u>	
<i>For the nine months ended September 30, 2006 and 2005</i>	5
<u>Notes to Condensed Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3. <u>Defaults Upon Senior Securities</u>	45
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	45
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45
<u>(a) Exhibits</u>	45
<u>Signatures</u>	46

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****DURECT CORPORATION****CONDENSED BALANCE SHEETS**

(in thousands, except per share amounts)

	September 30,	December 31,
	2006 (unaudited)	2005 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,717	\$ 65,542
Short-term investments	25,099	18,022
Restricted investments		321
Accounts receivable, net of allowances of \$36 and \$128, respectively	3,471	4,488
Inventories	2,205	2,047
Prepaid expenses and other current assets	1,611	3,659
Total current assets	70,103	94,079
Property and equipment, net	7,447	7,304
Goodwill	6,399	6,399
Intangible assets, net	119	536
Long-term investments	9,955	5,459
Restricted investments	1,508	1,653
Other long-term assets	1,073	1,984
Total assets	\$ 96,604	\$ 117,414
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,121	\$ 1,835
Accrued liabilities	4,042	3,874
Contract research liabilities	871	1,418
Interest payable on convertible notes	681	149
Deferred revenue, current portion	2,412	2,367
Equipment financing obligations and term loan, current portion	32	34
Bonds payable, current portion	200	200
Total current liabilities	9,359	9,877
Equipment financing obligations and term loan, noncurrent portion	150	27
Bonds payable, noncurrent portion	675	675
Convertible subordinated notes	37,337	57,337
Deferred revenue, noncurrent portion	4,375	6,016
Other long-term liabilities	279	130
Commitments		
Stockholders equity:		
Common stock, \$0.0001 par value: 110,000 shares authorized at September 30, 2006 and December 31, 2005; 68,784 and 61,609 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	7	6

Edgar Filing: DURECT CORP - Form 10-Q

Additional paid-in capital	263,555	239,057
Deferred royalties and commercial rights	(13,480)	(13,480)
Accumulated other comprehensive loss	(58)	(212)
Accumulated deficit	(205,595)	(182,019)
Stockholders' equity	44,429	43,352
Total liabilities and stockholders' equity	\$ 96,604	\$ 117,414

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

Table of Contents**DURECT CORPORATION****CONDENSED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Collaborative research and development and other revenue	\$ 3,158	\$ 5,369	\$ 10,264	\$ 15,896
Product revenue, net	1,976	1,653	6,189	5,299
Revenue from sale of intellectual property rights		1,600		1,600
Total revenues	5,134	8,622	16,453	22,795
Operating expenses:				
Cost of revenues (1)	666	573	2,265	1,933
Research and development (1)	9,930	7,024	25,643	21,301
Selling, general and administrative (1)	3,346	2,699	9,540	8,362
Amortization of intangible assets	22	303	416	909
Total operating expenses	13,964	10,599	37,864	32,505
Loss from operations	(8,830)	(1,977)	(21,411)	(9,710)
Other income (expense):				
Interest and other income	957	467	2,841	1,359
Interest expense	(710)	(1,095)	(2,719)	(3,329)
Debt conversion expense		(403)	(2,287)	(403)
Net other income (expense)	247	(1,031)	(2,165)	(2,373)
Loss before income taxes	(8,583)	(3,008)	(23,576)	(12,083)
Income tax provision		4		4
Net loss	\$ (8,583)	\$ (3,012)	\$ (23,576)	\$ (12,087)
Net loss per share, basic and diluted	\$ (0.12)	\$ (0.06)	\$ (0.36)	\$ (0.23)
Shares used in computing basic and diluted net loss per share	68,688	52,786	64,943	52,240

(1) Stock-based compensation related to the following:

Cost of revenues	\$ 20	\$	\$ 47	\$
Research and development	774	60	2,084	106
Selling, general and administrative	368		1,011	347
	\$ 1,162	\$ 60	\$ 3,142	\$ 453

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

Table of Contents**DURECT CORPORATION****CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Nine months ended September 30,	
	2006	2005
Cash flows from operating activities		
Net loss	\$ (23,576)	\$ (12,087)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on impairment and disposal of fixed assets	34	
Depreciation and amortization	1,933	2,419
Stock-based compensation	3,142	453
Non-cash expense related to the early conversion of convertible subordinate notes		403
Changes in assets and liabilities:		
Accounts receivable	1,017	(3,289)
Inventories	(116)	(195)
Prepaid expenses and other assets	2,440	(15)
Accounts payable	(714)	(749)
Accrued liabilities and other long-term liabilities	1,017	1,473
Contract research liability	(547)	357
Interest payable on convertible notes	532	915
Deferred revenue	(1,596)	8,722
Total adjustments	7,142	10,494
Net cash and cash equivalents used in operating activities	(16,434)	(1,593)
Cash flows from investing activities		
Purchases of property and equipment	(1,694)	(1,660)
Purchases of available for sale securities	(44,275)	(11,601)
Proceeds from sales and maturities of available for sale securities	33,322	23,047
Net cash and cash equivalents provided by (used in) investing activities	(12,647)	9,786
Cash flows from financing activities		
Payments on term loan and equipment financing obligations	(78)	(220)
Net proceeds from issuances of common stock	1,334	871
Proceeds from notes receivable from shareholders		37
Net cash and cash equivalents provided by financing activities	1,256	688
Net increase (decrease) in cash and cash equivalents	(27,825)	8,881
Cash and cash equivalents, beginning of the period	65,542	20,032
Cash a		