

NEKTAR THERAPEUTICS  
Form 10-Q  
November 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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**x 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 REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission File Number: 0-24006

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**NEKTAR THERAPEUTICS**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

150 Industrial Road

San Carlos, California 94070

94-3134940  
(IRS Employer  
Identification No.)

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(Address of principal executive offices)

650-631-3100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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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, 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 by Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par value, was 90,295,638 on November 2, 2006.

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**Forward-Looking Statements**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). All statements other than statements of historical fact are forward-looking statements for purposes of this quarterly report, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, or continue, or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth in Item 1A and for the reasons described elsewhere in this quarterly report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements except as required by law or applicable regulations.

**Trademarks**

All Nektar brand and product names contained in this document are trademarks or registered trademarks of Nektar Therapeutics in the United States and other countries. All references to Exubera in this document are to a registered trademark owned by Pfizer Inc.

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements unaudited:****NEKTAR THERAPEUTICS****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	September 30, 2006 unaudited	December 31, 2005 (1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 157,668	\$ 261,273
Short-term investments	323,940	214,928
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$886 and \$70 at September 30, 2006 and December 31, 2005, respectively	31,849	8,205
Inventory	15,795	18,627
Other current assets	17,180	16,810
Total current assets	546,432	519,843
Investments in marketable securities	9,342	90,222
Property and equipment, net	136,580	142,127
Goodwill	78,431	78,431
Other intangible assets, net	9,831	13,452
Other assets	9,404	14,479
Total assets	\$ 790,020	\$ 858,554
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,761	\$ 18,895
Accrued expenses	28,607	20,988
Other liabilities	3,878	9,952
Interest payable	1,387	3,791
Capital lease obligations	604	482
Convertible subordinated notes and debentures	36,026	
Deferred revenue	18,066	15,487
Total current liabilities	95,329	69,595
Convertible subordinated notes and debentures	381,627	417,653
Capital lease obligations	19,814	20,276
Deferred revenue	23,278	8,374
Other long-term liabilities	15,994	13,436
Accrued rent	2,295	2,409
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, 10,000 shares authorized Convertible Series B, \$0.0001 par value: 40 shares designated; 20 shares issued and outstanding December 31, 2005; Liquidation preference of \$19,945 at December 31, 2005		

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Common stock, \$0.0001 par value; 300,000 authorized; 90,177 shares and 87,707 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	9	9
Capital in excess of par value	1,269,341	1,233,690
Deferred compensation		(2,949)
Accumulated other comprehensive loss	471	(1,707)
Accumulated deficit	(1,018,138)	(902,232)
 Total stockholders' equity	 251,683	 326,811
 Total liabilities and stockholders' equity	 \$ 790,020	 \$ 858,554

(1) Derived from audited consolidated financial statements at this date.

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

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**NEKTAR THERAPEUTICS**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share information)

(unaudited)

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenue:</b>				
Contract research revenue	\$ 15,111	\$ 23,657	\$ 44,250	\$ 62,737
Product sales and royalty revenue	41,451	8,450	98,005	20,313
Exubera commercialization readiness revenue	2,070	4,247	5,559	10,348
<b>Total revenue</b>	<b>58,632</b>	<b>36,354</b>	<b>147,814</b>	<b>93,398</b>
<b>Operating costs and expenses:</b>				
Cost of goods sold	30,137	6,125	73,821	16,813
Exubera commercialization readiness costs	1,042	3,075	3,126	8,035
Research and development	34,985	38,591	108,016	109,321
General and administrative	14,442	10,948	60,878	30,193
Litigation settlement			17,710	
Amortization of other intangible assets	708	982	3,331	2,945
<b>Total operating costs and expenses</b>	<b>81,314</b>	<b>59,721</b>	<b>266,882</b>	<b>167,307</b>
Loss from operations	(22,682)	(23,367)	(119,068)	(73,909)
Interest income	6,060	2,899	17,316	7,683
Interest expense	(5,255)	(2,992)	(15,335)	(8,908)
Loss on extinguishment of debt		(303)		(303)
Other income (expense), net	2,273	(32)	1,181	(1,435)
Loss before provision for income taxes	(19,604)	(23,795)	(115,906)	(76,872)
Provision for income taxes				
<b>Net loss</b>	<b>\$ (19,604)</b>	<b>\$ (23,795)</b>	<b>\$ (115,906)</b>	<b>\$ (76,872)</b>
Basic and diluted net loss per share	\$ (0.22)	\$ (0.28)	\$ (1.29)	\$ (0.90)
Shares used in computing basic and diluted net loss per share	90,017	86,228	89,550	85,331

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

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(In thousands)

(unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows used in operating activities:</b>		
Net loss	\$ (115,906)	\$ (76,872)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	19,962	13,368
Amortization of other intangible assets	3,621	3,381
Amortization of debt issuance costs	1,783	624
Amortization of deferred compensation		1,380
Amortization of gain related to sale of building	(655)	(715)
Loss on termination of capital lease		1,137
Loss on disposal of fixed assets	436	
Impairment of fixed assets	1,489	
Non-cash compensation for employee retirement plans	1,428	1,096
Stock-based compensation	25,114	179
Loss on early extinguishment of debt		303
Increase in provision for doubtful accounts and sales returns reserve	816	169
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable	(24,459)	(1,893)
Decrease (increase) in inventories	2,832	(2,460)
Decrease (increase) in prepaids and other assets	1,725	1,894
Increase (decrease) in accounts payable	(12,134)	1,587
Increase (decrease) in accrued expenses	7,619	179
Increase (decrease) in interest payable	(2,404)	(646)
Increase (decrease) in deferred revenue	17,483	(4,536)
Increase (decrease) in other liabilities	4,311	(48)
Net cash used in operating activities	(66,939)	(61,873)
<b>Cash flows from investing activities:</b>		
Purchases of investments	(296,806)	(150,327)
Sales of investments		88,950
Maturities of investments	270,962	184,885
Purchases of property and equipment	(16,023)	(11,261)
Net cash provided by (used in) investing activities	(41,867)	112,247
<b>Cash flows from financing activities:</b>		
Payments of loan and capital lease obligations	(7,627)	(1,722)
Proceeds from convertible subordinated notes		305,645
Repurchase of convertible subordinated notes		(70,964)
Issuance of common stock, net of issuance costs		31,563
Issuance of common stock related to employee stock option exercises and employee stock purchase plan	12,058	10,268