

BIOTRANSPLANT INC  
Form 10-Q  
August 14, 2001

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(MARK ONE)

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

**FOR THE PERIOD ENDED JUNE 30, 2001**

**OR**

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

**COMMISSION FILE NUMBER: 0-28324**

**BIOTRANSPLANT INCORPORATED**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**DELAWARE**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

**04-3119555**  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

**CHARLESTOWN NAVY YARD, BUILDING 75, THIRD AVENUE  
CHARLESTOWN, MASSACHUSETTS 02129**  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)  
**(617) 241-5200**

(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

As of August 10, 2001, there were 20,973,204 shares of the Registrant's Common Stock outstanding.

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**BIOTRANSPLANT INCORPORATED AND SUBSIDIARIES  
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## PART I. FINANCIAL INFORMATION

### ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### BIOTRANSPLANT INCORPORATED AND SUBSIDIARIES

(A Development Stage Company)

#### CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2000	June 30, 2001 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,481,297	\$ 18,031,833
Short-term investments	3,391,568	1,043,902
Accounts receivable from Immerge (note 4)	-	1,923,840
Other receivables	18,995	-
Prepaid expenses and other current assets	823,899	479,001
	<hr/>	<hr/>
Total current assets	15,715,759	21,478,576
	<hr/>	<hr/>
Property and equipment net	1,337,206	3,796,080
	<hr/>	<hr/>
Investment in Stem Cell Sciences	105,000	-

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Other long-term assets	-	128,000
Intangible assets net (note 9)	-	27,665,847
<b>TOTAL ASSETS</b>	<b>\$ 17,157,965</b>	<b>\$ 53,068,503</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:

Current portion of long-term debt	\$ 233,333	\$ 1,165,798
Current obligation under capital lease	37,486	37,486
Accounts payable	408,115	1,727,718
Accrued expenses	1,721,745	2,154,964
<b>Total current liabilities</b>	<b>2,400,679</b>	<b>5,085,966</b>

Long-term debt, net of current portion	252,778	927,927
Long-term obligation under capital leases, net of current portion	82,285	59,012

Stockholders' equity:

Preferred stock, \$.01 par value, authorized - 2,000,000 shares; issued and outstanding - no shares	-	-
Common stock, \$.01 par value, authorized - 50,000,000 shares at December 31, 2000 and June 30, 2001; issued and outstanding 11,796,120 shares at December 31, 2000 and 19,863,252 shares at June 30, 2001	117,962	201,106
Additional paid-in capital	83,129,855	148,697,685
Deferred compensation	-	(5,209,245)
Accumulated deficit	(68,825,594)	(96,693,948)
<b>Total stockholders' equity</b>	<b>14,422,223</b>	<b>46,995,598</b>

<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 17,157,965</b>	<b>\$ 53,068,503</b>
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative Since Inception
	2000	2001	2000	2001	
<b>Revenues:</b>					
License fees	\$ -	\$ -	\$ -	\$ -	18,500,000
Research and development	1,488,500	-	2,977,000	-	36,815,450

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Total revenues	1,488,500	-	2,977,000	-	55,315,450
<b>Expenses:</b>					
Research and development	3,633,849	2,906,003	7,325,031	4,891,170	112,806,447
General and administrative	617,457	882,126	1,228,035	1,363,852	22,739,471
Amortization of intangible assets	-	503,020	-	503,020	503,020
Stock-based compensation	-	1,350,029	-	1,350,029	1,350,029
In-process research and development	-	20,000,000	-	20,000,000	20,000,000
Total expenses	4,251,306	25,641,178	8,553,066	28,108,071	157,398,967
Operating loss	(2,762,806)	(25,641,178)	(5,576,066)	(28,108,071)	(102,083,517)
Interest income	370,619	111,600	700,031	281,411	7,268,736
Interest expense	(16,090)	(27,232)	(31,170)	(41,693)	(1,879,167)
Net loss	\$ (2,408,277)	\$ (25,556,810)	\$ (4,907,205)	\$ (27,868,353)	\$ (96,693,948)
Basic and diluted net loss per common share	\$ (0.21)	\$ (1.76)	\$ (0.43)	\$ (2.12)	
Weighted average common shares outstanding	11,679,739	14,500,556	11,356,351	13,153,909	

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six Months Ended June 30,		Cumulative Since Inception
	2000	2001	
<b>Cash flows from operating activities:</b>			
Net loss	\$ (4,907,205)	\$ (27,868,353)	\$ (96,693,948)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	206,323	294,340	4,602,519
Amortization of intangible assets	-	503,020	503,020
Stock-based compensation	-	1,350,029	1,350,029
In-process research and development	-	20,000,000	20,000,000
Noncash interest expense	-	-	465,477
Noncash expenses related to options and warrants	-	-	1,186,785
Changes in current assets and liabilities:			
Accounts receivable	(206,650)	(1,896,977)	(1,915,972)
Deposits and prepaid expenses	155,281	870,831	46,932

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Accounts payable	8,594	(610,698)	(202,583)
Accrued expenses	(91,276)	(2,736,311)	(1,014,565)
Deferred revenue	(2,750,000)	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net cash used in operating activities	(7,584,933)	(10,094,119)	(71,672,306)

Cash flows from investing activities:

Purchases of property and equipment	(88,533)	(112,734)	(5,147,796)
Disposal of property and equipment, net	-	-	40,980
Purchases of investments	(3,123,356)	(1,047,332)	(77,780,330)
Proceeds from investments	3,731,713	3,395,000	76,736,363
(Increase) decrease in investment in Stem Cell Sciences	-	105,000	160,000
Cash paid for transaction costs, net of cash received in acquisition of Eligix, Inc.	-	(3,488,715)	(3,488,715)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) investing activities	519,824	(1,148,781)	(9,479,498)

Cash flows from financing activities:

Proceeds from convertible notes payable to stockholders	-	-	9,400,000
Payments of long-term debt	(122,476)	(195,010)	(408,899)
Payments of obligations under capital leases	-	(23,274)	(2,217,484)
Proceeds from sale/leaseback of equipment	-	-	771,968
Net proceeds from long-term debt	-	-	700,000
Net proceeds from equipment leases	-	-	1,542,010
Net proceeds from sale of redeemable convertible preferred stock	-	-	25,661,526
Proceeds from sale of common stock	9,656,774	18,011,720	63,734,516
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) financing activities	9,534,298	17,793,436	99,183,637

Net increase (decrease) in cash and cash equivalents	2,469,189	6,550,536	18,031,833
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Cash and cash equivalents, beginning of period	17,648,789	11,481,297	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>

Cash and cash equivalents, end of period	\$ 20,117,978	\$ 18,031,833	\$ 18,031,833
	<u>                    </u>	<u>                    </u>	<u>                    </u>

Supplemental disclosures and noncash transactions:

Equipment acquired under capital leases	\$ -	\$ -	\$ 2,329,941
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Conversion of convertible notes payable to stockholders and accrued interest into redeemable convertible preferred stock	\$ -	\$ -	\$ 9,905,710
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Conversion of preferred stock into common stock	\$ -	\$ -	\$ 36,202,290
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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Issuance of warrants	\$	-	\$	-	\$	741,737
Interest paid during the period	\$	29,143	\$	44,876	\$	1,510,303

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. OPERATIONS AND BASIS OF PRESENTATION**

BioTransplant Incorporated (the Company) was incorporated on March 20, 1990. The Company is developing pharmaceutical products and systems to enable the body's immune system to better tolerate the transplantation of foreign cells, tissues and organs. Based on BioTransplant's proprietary technology, both alone and in collaboration with others, BioTransplant is seeking to develop a portfolio of products designed to improve therapies associated with organ and bone marrow transplantation as well as to improve the treatment of cancer, autoimmune diseases and blood disorders.

The Company is in the development stage and is devoting substantially all of its efforts toward product research and development and raising capital. The Company is subject to a number of risks similar to those of other development stage companies, including risks related to: its dependence on key individuals and collaborative research partners, competition from substitute products and larger companies, its ability to develop and market commercially usable products and obtain regulatory approval for its products under development, and its ability to obtain the substantial additional financing necessary to adequately fund the development of its products.

The interim financial statements herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair representation of interim period results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The results for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year or any future period. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC.

**2. CASH EQUIVALENTS AND INVESTMENTS**

Cash equivalents include short-term, highly liquid investments with original maturities of less than ninety days from the date of purchase. Short-term investments consist primarily of corporate notes and securities issued by the United States Treasury or other United States government agencies with original maturities of greater than three months and remaining maturities of less than one year. In accordance with Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's investments are classified as held-to-maturity and are stated at amortized cost, which approximates market value.

The Company held the following investments at December 31, 2000 and June 30, 2001:

	December 31, 2000	June 30, 2001
Cash and cash equivalents	\$ 11,481,297	\$ 18,031,833
Short-term Investments		
United States Treasury and Agency Securities (average maturity of 4 months at June 30, 2001)		540,612
	1,897,640	503,290

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Corporate Bonds (average maturity of 2 months at December 31, 2000 and 4 months at June 30, 2001)		
Commercial Paper (average maturity of 1 month at December 21, 2000)	\$	1,493,928
Total cash and cash equivalents and investments	\$	14,872,865
	\$	19,075,735

In order to provide its consent to the Eligix acquisition (see Note 9), a bank has required the Company to secure the outstanding balance on a term note (see Note 6) with cash funds until the earlier of the date the loan is paid off or the company raises additional funds. The Company transferred \$540,000 into a restricted cash account during April 2001 in order to meet this requirement. As of June 30, 2001, this amount is still restricted. The Company expects that the restricted cash will be released from the restricted account as a result of the financing completed in June 2001 (see Note 11).

**3. NET LOSS PER COMMON SHARE**

Net loss per common share is based on the weighted average number of common shares outstanding during the periods presented, in accordance with Financial Accounting Standards Board Statement No. 128, "Earnings Per Share". Diluted net loss per common share is the same as basic net loss per common share as the inclusion of common stock issuable pursuant to options and warrants would be antidilutive. Antidilutive securities not included consist of 428,783 shares issuable pursuant to common stock options and 212,496 shares issuable pursuant to common stock warrants.

**4. IMMERGE BIOTHERAPEUTICS, INC.**

In September 2000, the Company and Novartis entered into an agreement to combine their respective expertise in the field of xenotransplantation into a newly-formed, independently-run company named Immerge BioTherapeutics AG ("Immerge"). Immerge began operations in January 2001. In return for contributing its technology and an aggregate of \$30 million in funding over three years beginning January 1, 2001, Novartis obtained a 67% ownership shar