

BIODELIVERY SCIENCES INTERNATIONAL INC
Form 10QSB
May 17, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2004

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 0-28931

BioDelivery Sciences International, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

35-2089858

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(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

185 South Orange Avenue, Administrative Building 4

Newark, New Jersey 07103

(Address of principal executive offices)

(973) 972-0015

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

The Issuer had 7,085,863 shares of common stock issued and 6,985,863 shares of common stock outstanding as of May 14, 2004.

Transitional Small Business Disclosure Format (Check one): Yes No

Table of Contents

NOTE ON FORWARD-LOOKING STATEMENTS

The information set forth in this Report on Form 10-QSB under the Sections Management's Discussion and Analysis or Plan of Operation, Management's plans regarding liquidity and capital resources and elsewhere relate to future events and expectations and as such constitute Forward-Looking Statement within the meaning of the Private Securities Litigation Act of 1995. The words believes, anticipates, plans, expect and similar expressions in this report are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to materially differ from any future results, performance, or achievements expressed or implied by such forward-looking statements and to vary significantly from reporting period to reporting period. Such factors include those detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be different from the expectations expressed in this report.

Table of Contents

BioDelivery Sciences International, Inc. and Subsidiary

Form 10-QSB

Index

	Page
Part I. Financial Information	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of March 31, 2004 (unaudited) and December 31, 2003</u>	2
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003 (unaudited)</u>	3
<u>Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2004 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2004 and 2003 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2004 and 2003 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis or Plan of Operation</u>	13
Item 3. <u>Controls and Procedures</u>	16
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	17
Item 6. <u>Exhibits and Reports on Form 8-K</u>	17
<u>Signatures</u>	S-1

See notes to condensed consolidated financial statements.

Table of Contents**BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2004 AND DECEMBER 31, 2003****ASSETS**

	March 31,	December 31,
	2004	2003
	(unaudited)	
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 287,467	\$ 525,670
Investments	1,045,000	2,027,652
Accounts receivable	23,532	
Prepaid expenses and other current assets	260,293	222,490
	<u> </u>	<u> </u>
Total current assets	1,616,292	2,775,812
Equipment, net	1,039,962	1,067,596
Licenses	468,166	477,641
Other assets, net	26,478	26,953
	<u> </u>	<u> </u>
Total assets	<u>\$ 3,150,898</u>	<u>\$ 4,348,002</u>

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Current maturities of note payable, bank	\$ 246,813	\$ 225,979
Accounts payable and accrued liabilities	202,620	158,148
Due to related parties		61,836
Deferred revenue		23,974
Capital lease obligation	3,556	4,742
	<u> </u>	<u> </u>
Total current liabilities	452,989	474,679
Notes payable, bank	649,021	732,354
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$.001 par value, 20,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$.001 par value 80,000,000 shares authorized, 7,085,863 shares issued, 6,985,763 shares outstanding	7,086	7,086
Additional paid-in capital	14,139,228	14,106,366
Treasury stock, at cost, 100,000 shares	(303,894)	(303,894)
Accumulated deficit	(11,793,532)	(10,668,589)
	<u> </u>	<u> </u>
Total stockholders equity	2,048,888	3,140,969

Total liabilities and stockholders' equity	<u>\$ 3,150,898</u>	<u>\$ 4,348,002</u>
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See notes to condensed consolidated financial statements.

Table of Contents**BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003****(Unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
Sponsored research revenues	\$ 271,312	\$ 255,125
License fees		600,000
	<u>271,312</u>	<u>855,125</u>
Expenses:		
Research and development	699,115	643,495
General and administrative	670,069	814,020
Stock based compensation	32,862	
Total expenses	<u>1,402,046</u>	<u>1,457,515</u>
Interest income (expense), net	5,791	30,483
Loss before income taxes	(1,124,943)	(571,907)
Income tax benefit		
Net loss	<u>(\$ 1,124,943)</u>	<u>(\$ 571,907)</u>
Net loss per common share:		
Basic and diluted	<u>(\$ 0.16)</u>	<u>(\$ 08)</u>
Weighted average common stock shares outstanding basic and diluted	<u>6,985,863</u>	<u>6,985,863</u>

See notes to condensed consolidated financial statements.

Table of Contents

BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2004

(Unaudited)

	Preferred Stock		Common Stock		Treasury Capital	Additional Paid-In Stock	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2003		\$	7,085,863	\$ 7,086	(\$ 303,894)	\$ 14,106,366	(\$ 10,668,589)	\$ 3,140,969
Issuance of common stock options						32,862		32,862
Net loss							(1,124,943)	(1,124,943)
Balance, March 31, 2004 (unaudited)			7,085,863	\$ 7,086	(\$ 303,894)	\$ 14,139,228	(\$ 11,793,532)	\$ 2,048,888

See notes to condensed consolidated financial statements.

Table of Contents**BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003****(Unaudited)**

	Three Months Ended	
	March 31,	
	2004	2003
Operating activities:		
Net loss	(\$ 1,124,943)	(\$ 571,907)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	80,658	71,638
Loss on sale of marketable securities	7,297	
Stock-based compensation	32,862	9,730
Changes in assets and liabilities:		
Accounts receivable	(23,532)	1,994,961
Prepaid expenses and other assets	(37,803)	(611)
Accounts payable and accrued liabilities	44,472	74,440
Deferred revenue	(23,974)	(566,875)
Net cash flows provided by (used in) operating activities	(1,044,963)	1,011,376
Investing activities:		
Purchase of equipment	(43,074)	(321,665)
Investments, net	975,355	(3,500,000)
Net cash flows provided by (used in) investing activities	932,281	(3,821,665)
Financing activities:		
Repayment of borrowings from related parties	(61,836)	(51,725)
Payment on notes and capital leases payable	(63,685)	(3,196)
Net cash flows provided by (used in) financing activities	(125,521)	(54,921)
Net change in cash and cash equivalents	(238,203)	(2,865,210)
Cash and cash equivalents at beginning of period	525,670	5,207,303
Cash and cash equivalents at end of period	\$ 287,467	\$ 2,342,093

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash investing and financing activities:		
Unrealized losses on marketable equity securities	\$	\$ 110,810

See notes to condensed consolidated financial statements.

Table of Contents

BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(Unaudited)

	<u>2004</u>	<u>2003</u>
Net loss	(\$ 1,124,943)	(\$ 571,907)
Other comprehensive gain (loss):		
Unrealized gain (loss) on marketable equity securities		(110,810)
	<u> </u>	<u> </u>
Comprehensive loss	<u>(\$ 1,124,943)</u>	<u>(\$ 682,717)</u>

Note: Accumulated comprehensive loss consists exclusively of unrealized losses on marketable equity securities.

See notes to condensed consolidated financial statements.

Table of Contents

BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(Unaudited)

1. Basis of presentation:

The condensed consolidated balance sheets of BioDelivery Sciences International, Inc. and its majority-owned subsidiary, Bioral Nutrient Delivery, LLC (collectively the Company) as of March 31, 2004, and the condensed consolidated statements of operations for the three months ended March 31, 2004 and 2003 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2004 and for all periods presented, have been made. The condensed consolidated balance sheet at December 31, 2003, has been derived from the Company's audited consolidated financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission (SEC) rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2003, included in the Company's 2003 Annual Report on Form 10-KSB filed with the SEC on March 30, 2004.

The results of operations for the three months ended March 31, 2004, are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

The accompanying consolidated financial statements include the accounts of BioDelivery Sciences International, Inc. and its majority-owned subsidiary, Bioral Nutrient Delivery, LLC. All intercompany accounts and transactions have been eliminated.

2. Summary of significant accounting policies:

Revenue recognition:

Sponsored research amounts are recognized as revenue when the research underlying such payments has been performed or when the funds have otherwise been utilized, such as for the purchase of operating assets. Revenue is recognized to the extent provided for under the related grant or collaborative research agreement. Research and development expenses are charged to operations as incurred. Research and development expenses principally include, among other things, consulting fees and cost reimbursements to the University of Medicine and Dentistry of New Jersey, testing of compounds under investigation, and salaries and benefits of employees engaged in research and development activities.

Table of Contents

BIODELIVERY SCIENCES INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003 (Continued)
(Unaudited)

2. Summary of significant accounting policies (continued):

Revenue recognition (continued):

License fees are up-front payments for the initial license of and access to the Company's technology. For nonrefundable license fees received at the initiation of license agreements for which the Company has an ongoing research and development commitment, the Company defers these fees and recognizes them ratably over the period of the related research and development. For nonrefundable license fees received under license agreements where the continued performance of future research and development services is not required, the Company recognizes revenues upon delivery of the technology. In addition to license fees, the Company may also generate revenue from time to time in the form of milestone payments. Milestone payments are only received and recognized as revenues if the specified milestone is achieved and accepted by the customer and continued performance of future research and development services related to that milestone are not required. To date, no milestone payments have been received.

3. Subsidiary corporate structure:

On January 8, 2003, the Company formed Bioral Nutrient Delivery, LLC, a Delaware limited liability company ("BND") as a majority-owned subsidiary. BND is governed by a limited liability company operating agreement, dated January 8, 2003, as amended and restated. The agreement was executed by the Company as the holder of 708,586 of BND's Class A Membership Shares (which gives the Company the right to act as the sole managing member of BND) and 8,600,000 Class B Membership Shares ("Class B Shares") and certain other individuals and entities (as the holders of a