

EXELIXIS INC
Form 10-Q
May 03, 2011
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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 April 1, 2011

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: 000-30235

Exelixis, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-3257395
(I.R.S. Employer
Identification No.)

210 East Grand Ave.

South San Francisco, CA 94080

(Address of Principal Executive Offices) (Zip Code)

(650) 837-7000

(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 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

As of April 28, 2011, there were 127,835,145 shares of the registrant's common stock outstanding.

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EXELIXIS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED APRIL 1, 2011

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EXELIXIS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	March 31, 2011 (unaudited)	December 31, 2010 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 202,051	\$ 97,440
Marketable securities	99,621	65,224
Other receivables	5,771	5,896
Prepaid expenses and other current assets	16,766	14,926
Total current assets	324,209	183,486
Restricted cash and investments	4,199	6,399
Long-term investments	85,825	87,314
Property and equipment, net	13,605	15,811
Goodwill	63,684	63,684
Other assets	4,214	4,096
Total assets	\$ 495,736	\$ 360,790
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 2,945	\$ 2,046
Accrued compensation and benefits	6,888	6,555
Accrued clinical trial liabilities	31,681	30,975
Other accrued liabilities	15,993	15,026
Current portion of notes payable and bank obligations	8,064	8,848
Current portion of convertible loans	28,900	28,900
Current portion of restructuring	3,850	7,294
Deferred revenue	99,802	100,297
Total current liabilities	198,123	199,941
Long-term portion of notes payable and bank obligations	85,825	87,314
Long-term portion of convertible loans	85,240	83,396
Long-term portion of restructuring	8,954	6,987
Other long-term liabilities	8,772	9,005
Deferred revenue	177,571	202,472
Total liabilities	564,485	589,115
Commitments		
Stockholders deficit:		
Common stock	127	109

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Additional paid-in-capital	1,140,700	953,608
Accumulated other comprehensive income	(32)	12
Accumulated deficit	(1,209,544)	(1,182,054)
Total stockholders' deficit	(68,749)	(228,325)
Total liabilities and stockholders' deficit	\$ 495,736	\$ 360,790

- (1) The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

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

Table of Contents**EXELIXIS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Contract	\$ 12,410	\$ 19,740
License	22,789	24,565
Collaboration reimbursement	694	(2,106)
Total revenues	35,893	42,199
Operating expenses:		
Research and development	45,691	64,751
General and administrative	9,165	8,835
Restructuring charge	4,767	16,065
Total operating expenses	59,623	89,651
Loss from operations	(23,730)	(47,452)
Other income (expense):		
Interest income and other, net	183	315
Interest expense	(3,943)	(612)
Gain on sale of business		4,500
Total other income (expense), net	(3,760)	4,203
Net loss	\$ (27,490)	\$ (43,249)
Net loss per share, basic and diluted	\$ (0.24)	\$ (0.40)
Shares used in computing basic and diluted loss per share amounts	113,215	107,976

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

Table of Contents**EXELIXIS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (27,490)	\$ (43,249)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,929	3,072
Stock-based compensation expense	3,603	6,526
Impairment of assets due to restructuring	122	2,474
Gain on sale of business		(4,500)
Accretion of debt discount	3,324	
Other	478	938
Changes in assets and liabilities:		
Other receivables	125	4,774
Prepaid expenses and other current assets	(1,279)	(3,403)
Other assets	114	11
Accounts payable and other accrued expenses	2,905	(4,619)
Restructuring liability	(1,478)	10,769
Other long-term liabilities	(232)	(152)
Deferred revenue	(25,397)	(26,380)
Net cash used in operating activities	(43,276)	(53,739)
Cash flows from investing activities:		
Purchases of property and equipment	(405)	(252)
Proceeds from sales of property and equipment		175
Proceeds from sale of business		4,500
Decrease in restricted cash and investments	2,200	
Proceeds from maturities of marketable securities	26,718	33,971
Proceeds from sales of marketable securities		12,780
Purchases of marketable securities	(60,015)	(23,563)
Net cash (used in) provided by investing activities	(31,502)	27,611
Cash flows from financing activities:		
Proceeds from issuance of common stock	179,347	
Proceeds from exercise of stock options and warrants	3,794	871
Principal payments on notes payable and bank obligations	(3,752)	(3,247)
Net cash provided by (used in) financing activities	179,389	(2,376)
Net increase in cash and cash equivalents	104,611	(28,504)
Cash and cash equivalents, at beginning of period	97,440	86,796
Cash and cash equivalents, at end of period	\$ 202,051	\$ 58,292

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

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EXELIXIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(unaudited)

NOTE 1. Organization and Summary of Significant Accounting Policies

Organization

Exelixis, Inc. (Exelixis, we, our or us) is a biotechnology company committed to developing small molecule therapies for the treatment of cancer. We are focusing our resources and development efforts exclusively on cabozantinib (XL184), our most advanced compound, in order to maximize the therapeutic and commercial potential of this compound. We believe cabozantinib has the potential to be a high-quality, broadly-active, differentiated pharmaceutical product that can make a meaningful difference in the lives of patients. Cabozantinib inhibits MET, VEGFR2 and RET, proteins that are key drivers of tumor growth and/or vascularization. Cabozantinib is the most advanced inhibitor of MET in clinical development and is being evaluated in a broad development program encompassing multiple cancer indications. We have also developed a portfolio of other novel compounds that we believe have the potential to address serious unmet medical needs, most of which are being advanced by partners as part of collaborations.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations and cash flows for the period presented have been included. Certain reclassifications of prior period amounts have been made to our condensed consolidated financial statements to conform to the current period presentation.

Exelixis has adopted a 52- or 53-week fiscal year that ends on the Friday closest to December 31st of each year. Fiscal year 2010, a 52-week year, ended on December 31, 2010, and fiscal year 2011, a 52-week year, will end on December 30, 2011. For convenience, references in these Condensed Consolidated Financial Statements and Notes as of and for the fiscal quarters ended April 2, 2010 and April 1, 2011 are indicated as ended March 31, 2010 and 2011, respectively.

Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2011 or for any future period. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the SEC on February 22, 2011.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and Investments

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. We invest in high-grade, short-term commercial paper and money market funds, which are subject to minimal credit and market risk.

All marketable securities are classified as available-for-sale and are carried at fair value. We view our available-for-sale portfolio as available for use in current operations. Accordingly, we have classified certain investments as short-term marketable securities, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale securities are stated at fair value based upon

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quoted market prices of the securities. We have classified certain investments as cash and cash equivalents or marketable securities that collateralize loan balances; however, they are not restricted to withdrawal. Funds that are used to collateralize equipment lines of credit that extend for over 12 months have been classified as long-term investments, in accordance with the loan arrangement. Unrealized gains and losses on available-for-sale investments are reported as a separate component of stockholders' deficit. Realized gains and losses, net, on available-for-sale securities are recorded in our Consolidated Statement of Operations as Interest income and other, net. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are recorded in our Consolidated Statement of Operations as Interest income and other, net.

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EXELIXIS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2011

(unaudited)

The following summarizes available-for-sale securities included in cash and cash equivalents and restricted cash and investments as of March 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains
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