

IMARX THERAPEUTICS INC

Form 10-Q

November 13, 2008

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, 2008**

**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 001-33043**

**ImaRx Therapeutics, Inc.
(Exact Name of Registrant as Specified in Its Charter)**

**Delaware
(State or Other Jurisdiction of
Incorporation or Organization)**

**86-0974730
(I.R.S. Employer
Identification No.)**

**18116 232nd NE, Woodinville, WA
(Address of Principal Executive Offices)**

**98077
(Zip Code)**

**(520) 770-1259
(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 at least the past 90 days. 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. (Check one):

Large accelerated Filer Accelerated Filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date is as follows:

Class	Outstanding at November 12, 2008
Common Stock \$0.0001 par value	10,165,733

TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Consolidated Financial Statements</u>	3
<u>Consolidated Balance Sheets as of September 30, 2008 (unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2008 and 2007 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2008 and 2007 (unaudited)</u>	5
<u>Consolidated Notes to Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 4T. Controls and Procedures</u>	17
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	18
<u>Item 1A. Risk Factors</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 6. Exhibits</u>	20
<u>SIGNATURES</u>	21
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.**

ImaRx Therapeutics, Inc.
Consolidated Balance Sheets
(in thousands, except share and per share data)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,439	\$ 12,861
Restricted cash		388
Accounts receivable, net		349
Inventory		11,138
Inventory subject to return	587	2,560
Assets held for sale	108	
Prepaid expenses and other	208	589
 Total current assets	 3,342	 27,885
Long-term assets:		
Property and equipment, net	70	1,170
Intangible assets, net		1,633
Other		19
 Total assets	 \$ 3,412	 \$ 30,707
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,373	\$ 1,277
Accrued expenses	203	837
Accrued chargebacks and administrative fees		1,317
Deferred revenue	1,194	5,373
Notes payable and accrued interest		11,698
Other	187	
 Total current liabilities	 2,957	 20,502
Stockholders' equity:		
Common stock, \$.0001 par:		
100,000,000 shares authorized, 10,165,733 shares issued and outstanding at September 30, 2008 (unaudited) and 10,046,683 shares issued and outstanding at December 31, 2007	1	1
Additional paid-in capital	91,652	91,386
Accumulated deficit	(91,198)	(81,182)
 Total stockholders' equity	 455	 10,205
 Total liabilities and stockholders' equity	 \$ 3,412	 \$ 30,707

See accompanying notes.

Table of Contents

ImaRx Therapeutics, Inc.
Consolidated Statements of Operations
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues:				
Product sales, net	\$ 1,661	\$ 2,291	\$ 5,550	\$ 5,369
Research and development	22	58	223	341
Total revenue	1,683	2,349	5,773	5,710
Costs and expenses:				
Cost of product sales	717	1,109	2,476	2,529
Research and development	352	2,140	2,952	5,283
General and administrative	829	1,800	5,817	4,382
Asset impairment			9,978	
Total cost and expenses	1,898	5,049	21,223	12,194
Operating loss	(215)	(2,700)	(15,450)	(6,484)
Interest and other income, net	(1)	259	35	389
Interest expense		(225)	(203)	(675)
Gain on extinguishment of debt			5,602	219
Net loss	(216)	(2,666)	(10,016)	(6,551)
Deemed dividend from beneficial conversion feature for Series F redeemable convertible preferred stock		(13,842)		(13,842)
Accretion of dividends on preferred stock				(867)
Reversal of accretion of dividends on preferred stock not paid		4,919		4,919
Net loss attributable to common stockholders	\$ (216)	\$ (11,589)	\$ (10,016)	\$ (16,341)
Basic and diluted loss per common share:				
Net loss attributable to common shareholders	\$ (0.02)	\$ (1.43)	\$ (0.99)	\$ (3.66)
Weighted average common shares outstanding:				
Basic and diluted	10,165,733	8,105,910	10,100,321	4,460,148
	See accompanying notes.			

Table of Contents

ImaRx Therapeutics, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,	
	2008	2007
	(unaudited)	
Operating activities		
Net loss	\$ (10,016)	\$ (6,551)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	545	900
Stock-based compensation	266	571
Gain on extinguishments of debt	(5,602)	(219)
Loss on sale of property and equipment	314	
Asset impairment	9,978	
Changes in operating assets and liabilities:		
Inventory	937	4,751
Inventory subject to return	1,973	(3,026)
Accounts receivable	349	84
Prepaid expenses and other	400	(57)
Accounts payable	96	(327)
Accrued expenses and other liabilities	(1,562)	2,733
Deferred revenue	(4,178)	5,743
Net cash (used in) provided by operating activities	(6,500)	4,602
Investing activities		
Purchase of property and equipment	(11)	(467)
Proceeds from sale of urokinase asset	2,000	
Net cash provided by (used in) investing activities	1,989	(467)
Financing activities		
Proceeds from issuance of common stock		12,412
Payment on note payable	(6,299)	
Change in restricted cash	388	(4,764)
Net cash (used in) provided by financing activities	(5,911)	7,648
Net increase (decrease) in cash and cash equivalents	(10,422)	11,783
Cash and cash equivalents at the beginning of the period	12,861	4,256
Cash and cash equivalents at the end of the period	\$ 2,439	\$ 16,039
Supplemental Schedule of Noncash Investing and Financing Activities:		
Accretion of undeclared dividends on Series A/D/F Redeemable Convertible Preferred Stock	\$	\$ 867
Reversal of accretion of undeclared dividends on series A/D/F redeemable convertible preferred stock not paid		(4,919)

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Deemed dividend from beneficial conversion feature for Series F redeemable convertible preferred stock	13,842
Conversion of convertible preferred stock to common stock upon initial public offering	40,731
Fair value of stock warrants issued in connection with Company's initial public offering	1,180
See accompanying notes.	

Table of Contents

ImaRx Therapeutics, Inc.
Notes to Consolidated Financial Statements
September 30, 2008
(Unaudited)

1. The Company and Significant Accounting Policies

The Company

We are a biopharmaceutical company whose research and development efforts have focused on the development of therapies for stroke and other vascular disorders, using our proprietary microbubble technology together with ultrasound. Our lead program, SonoLysis, involves the administration of our proprietary MRX-801 microbubbles and ultrasound to break up blood clots and restore blood flow to oxygen deprived tissues. We were previously engaged in the commercialization of one FDA approved drug, urokinase, but recently sold all rights to that product to Microbix Biosystems, Inc, or Microbix.

On June 11, 2008, in response to new risks and challenges facing the Company, we announced a restructuring that included a significant workforce reduction in which all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. We paid a retention bonus to each of the remaining employees and entered into agreements with each of them to reimburse us a portion of the retention bonus should they voluntarily leave the employ of the Company prior to certain agreed upon dates.

In connection with the restructuring, we discontinued substantially all research and development activity and we are currently exploring strategic alternatives for our clinical-stage SonoLysis program and other company assets, which may involve the disposition of some or all of these assets.

Basis of Presentation

The accompanying interim consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K/A for the year ended December 31, 2007. The financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the Annual Report on Form 10-K/A for the year ended December 31, 2007.

On September 23, 2008, Microbix purchased our remaining urokinase inventory and related assets and assumed full responsibility for all ongoing commercial and regulatory activities associated with the product for an upfront payment of \$2.0 million and the assumption of up to \$0.5 million in chargeback liabilities for commercial product currently in the distribution channel. If the assumed chargeback liabilities paid by Microbix are less than the \$0.5 million assumed, Microbix will issue payment to us for the difference. Microbix also agreed to pay us an additional \$2.5 million upon the release of certain inventory of urokinase currently under review by the FDA. In light of this transaction we will receive no cash from future sales of urokinase. As a result, we may not have sufficient capital resources to support operations and continue as a going concern.

Our ability to continue as a going concern depends on our ability to enter into a strategic transaction for our SonoLysis program that results in significant cash proceeds to the Company and whether Microbix is successful in securing the release of the urokinase inventory by the FDA thereby triggering the \$2.5 million payment. We have had recurring losses, which have resulted in an accumulated deficit of \$91.2 million at September 30, 2008. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. The financial statements include adjustments to reduce the value of certain assets to market value, but do not include any other adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot acquire additional financing or execute the strategic alternatives being considered.

Inventory and Inventory Subject to Return

Inventory was comprised of finished goods and was stated at the lower of cost or market value. Inventory subject to return is comprised of finished goods, stated at the lower of cost or market value, and represents the amount of inventory that has been sold to wholesale distributors. When product is sold by the wholesale distributor to a hospital

or other health care provider, a reduction in this account occurs and cost of sales is recorded.

Table of Contents

Abbokinase® (urokinase), rebranded under the name Kinlytic®, was our only commercially available FDA approved product. Abbokinase is a thrombolytic or clot-dissolving agent approved for the treatment of acute massive pulmonary embolism, or blood clots in the lungs.

On September 23, 2008, we divested the urokinase business and sold all of the remaining urokinase inventory to Microbix. As such, the inventory value at September 30, 2008 is zero.

Costs related to shipping and handling were charged to general and administrative expense as incurred.

Revenue Recognition

Revenue from product sales is recognized pursuant to SEC Staff Bulletin No. 104 (SAB 104), *Revenue Recognition in Financial Statements*. Accordingly, revenue is recognized when all four of the following criteria are met:

(i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable; and (iv) collectability is reasonably assured. We apply Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS No. 48), *Revenue Recognition When the Right of Return Exists*, which amongst other criteria, requires that future returns be reasonably estimated in order to recognize revenue. The amount of future returns is uncertain due to the insufficiency of returns history data. Due to the uncertainty of returns from our wholesale distributors, we are accounting for product shipments to wholesale distributors using a deferred revenue recognition model. Under this model, we do not recognize revenue upon product shipment to wholesale distributors; therefore, recognition of revenue is deferred until the product is sold by the wholesale distributor to the end user. Our returns policy allows end users to return product within 12 months after expiration, but current practice by wholesale distributors and end users is generally a just in time purchasing methodology, meaning that the product is purchased by the end user on an as-needed basis, typically on a daily or weekly basis. Although the product was previously marketed by Abbott Laboratories, we were unable to obtain historical returns data for the product from Abbott Laboratories at the time of our acquisition of Abbokinase. Based on input from our wholesale distributors, current purchasing practices and the estimated amount of product in the channel, we anticipate immaterial product returns from end users.

Our customers consist primarily of large established pharmaceutical wholesale distributors who sell directly to hospitals and other healthcare providers. Provisions for product returns and exchanges, sales discounts, chargebacks, managed care and Medicaid rebates and other adjustments are established as a reduction of product sales revenues at the time such revenues are recognized. These deductions from gross revenue are established by management as its best estimate at the time of sale adjusted to reflect known changes in the factors that impact such reserves.

AmerisourceBergen accounted for 12%, Cardinal accounted for 46% and McKesson Corporation accounted for 38% of our total gross product revenues for the three months ended September 30, 2008. AmerisourceBergen accounted for 31%, Cardinal accounted for 39% and McKesson Corporation accounted for 26% of our total gross product revenues for the three months ended September 30, 2007.

AmerisourceBergen accounted for 23%, Cardinal accounted for 42% and McKesson Corporation accounted for 32% of our total gross product revenues for the nine months ended September 30, 2008. AmerisourceBergen accounted for 34%, Cardinal accounted for 35% and McKesson Corporation accounted for 23% of our total gross product revenues for the nine months ended September 30, 2007.

2. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), *Business Combinations* and SFAS No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective beginning in the first fiscal period ending after December 15, 2008. Early adoption is not permitted. We do not believe the adoption of these new standards, SFAS 141R and SFAS 160, will have an impact on our consolidated financial statements.

Table of Contents**3. Impact of Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and was adopted by us in the first quarter of 2008. The adoption of SFAS 157 did not have a material impact on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and was adopted by us in the first quarter of 2008. The adoption of SFAS 159 did not have any impact on our consolidated results of operations and financial condition as the fair value option was not elected for any of our financial assets or financial liabilities.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-3 (EITF No. 07-3), *Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, which requires nonrefundable advance payments for goods and services that will be used or rendered for future research and development activities to be deferred and capitalized. These amounts will be recognized as expense in the period that the related goods are delivered or the related services are performed. EITF No. 07-3 is effective for fiscal years beginning after December 15, 2007. We adopted the provisions of EITF No. 07-3 in the first quarter of 2008 and the adoption of EITF No. 07-3 did not have a material impact on our consolidated results of operations and financial condition.

4. Asset Purchase and Sale

In April 2006, we acquired from Abbott Laboratories the assets related to Abbokinase, including the remaining inventory of finished product, all regulatory and clinical documentation, validated cell lines, and intellectual property rights for a total purchase price of \$20.0 million. The total purchase price was comprised of \$5.0 million in cash and a \$15.0 million secured promissory note. In April 2008, we entered into a satisfaction, waiver and release agreement with Abbott Laboratories under which we paid Abbott Laboratories \$5.2 million in cash and upon payment of the funds, the debt obligation was deemed to be indefeasibly paid in full by us and the note was cancelled and returned to us.

On September 23, 2008 we divested our urokinase business to Microbix. Under the terms of the agreement, Microbix purchased all remaining urokinase inventory and related assets and assumed full responsibility for ongoing commercial and regulatory activities associated with the product for an upfront payment of \$2.0 million in cash and the assumption of up to \$0.5 million of chargeback liabilities for commercial product in the distribution channel. If the assumed chargeback liabilities paid by Microbix are less than the \$0.5 million assumed, Microbix will issue payment to us for the difference. An additional payment of \$2.5 million will be made upon release by the FDA of the three lots of urokinase that are currently subject to a May 2008 Approvable Letter. As a result of this transaction inventory and accrued chargebacks and administrative fees were written down to zero and offset with the \$2.0 million in cash and

\$0.5 million in assumed liabilities.

5. Restructuring

Our board of directors authorized a restructuring that was implemented on June 11, 2008, that included a workforce reduction in which the employment of all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. The costs associated with these actions for the nine months ended September 30, 2008 was \$0.8 million, of which \$0.5 million represented severance payments for the affected employees, all of which were paid prior to June 30, 2008. Certain of the Company's former key employees entered into consulting agreements with us in order to assist us in exploring strategic alternatives for our clinical-stage SonoLysis program and other assets.

Table of Contents

The following table presents the activity and balances of the restructuring (in thousands):

	Employee		Facility	Total
	Separations		Closing	
Liability, July 1, 2008	\$ 40	\$	242	\$ 282
Cash payments	(29)			(29)
Amortization			(39)	(39)
Adjustments to expense			(16)	(16)
Liability, September 30, 2008	\$ 11	\$	187	\$ 198

6. Assets Held for Sale

In connection with the June 11, 2008 restructuring, we discontinued all research and development activity other than the on-going urokinase related stability program. As such, we initiated a process to sell certain items of laboratory equipment that will not be required for a future strategic transaction associated with our SonoLysis program. We determined that the plan of sale criteria in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, had been met. Accordingly, the carrying value of the laboratory equipment was adjusted to its fair value less costs to sell, amounting to \$0.3 million, which was determined based on quoted market prices of similar assets. In the three months ended September 30, 2008, we completed the sale of \$152,000 of assets held for sale for cash of \$115,000 and the termination of a lease agreement, which resulted in a reduction of future lease payments of \$16,000. We recorded an additional loss on the sale of equipment in this transaction in the amount of \$21,000.

7. Stock-Based Compensation**Stock Options**

We maintain performance incentive plans under which incentive and non-qualified stock options are granted primarily to employees and non-employee directors. Under SFAS 123R, the fair value of each employee stock option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	84.42%	75.0%
Risk free interest rate	3.67%	4.77%
Expected life of option	7 years	7 years

The dividend yield assumption is based on our history and expectation of dividend payouts. We use guideline companies to determine volatility. The expected life of the stock options is based on simplified method which defines the life as the average of the contractual term of the options and the weighted-average vesting period for all option tranches. The simplified method is permitted after December 31, 2007 under SEC Staff Accounting Bulletin No. 110 (SAB 110). We chose to continue using the simplified method because we have limited historical exercise data due to the limited amount of time in which our shares have been publicly traded to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our stock options.

We have two equity incentive plans; the 2000 Stock Plan (2000 Plan) and the 2007 Performance Incentive Plan (2007 Plan). The 2000 Plan was terminated immediately following the closing of the initial public offering on July 31, 2007. No additional grants will be issued from the 2000 Plan; however, there are grants currently outstanding under this plan. The 2007 Plan became effective July 25, 2007, the effective date of the Company's initial public offering. As of September 30, 2008, the total compensation cost related to non-vested options not yet recognized is \$0.4 million,

which will be charged to expense over the next 2.4 years.

Table of Contents

A summary of activity under our stock plans is as follows:

	Options	Exercise Price Per Share	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Balance at December 31, 2007	1,534,269	\$ 2.10-30.00	\$ 6.81	
Granted	21,665	0.63-1.54	0.84	
Exercised				
Canceled	(823,855)	1.54-30.00	5.11	
Outstanding at September 30, 2008	732,079	\$ 0.63-30.00	\$ 6.93	8.31
Options exercisable at September 30, 2008	461,330	\$ 0.63-30.00	\$ 9.57	7.85

There was no aggregate intrinsic value on the options outstanding at September 30, 2008, since the exercise price of all outstanding options was greater than the closing stock price on September 30, 2008.

Restricted Stock Awards

On May 30, 2008, non-employee directors were issued a total of 119,050 shares of restricted stock at a grant date fair value of \$0.63 per share for services rendered on the Company's board of directors. The expense was recorded in the consolidated statement of operations under general and administrative expense.

Option Modifications

On May 31, 2008, in connection with a termination of employment, stock options granted to an executive officer were modified to accelerate the vesting for certain non-vested options by 12 months from the date of termination and the option exercise period was extended for 12 months. Options to purchase 118,000 shares of common stock were subject to this acceleration, which resulted in 29,500 shares vesting and a reduction in compensation expense of \$3,000 in the nine months ended September 30, 2008 using the assumptions on the date of modification per SFAS No. 123 (revised 2004), *Share-Based Payment*.

On June 11, 2008, in connection with termination of employment, the stock options granted to two executive officers were modified to accelerate the vesting for certain non-vested options by 12 months from the date of termination and the option exercise period was extended for 12 months. Options to purchase 399,666 shares of common stock were subject to this acceleration, which resulted in 164,582 shares vesting and a reduction in compensation expense of \$0.1 million in the nine months ended September 30, 2008 using the assumptions on the date of modification per SFAS No. 123.

8. Net Loss per Share

Basic and diluted net loss attributable to common stockholders per share is calculated by dividing the net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share for all periods presented. The effects of potentially dilutive securities are antidilutive in the loss periods.

The potential common shares have been excluded from the computation of diluted net loss per share since their effect would be antidilutive in each of the loss periods presented. The shares have been revised to account for the six-for-ten reverse stock split that was affected in September 2006 as well as the one-for-three reverse stock split that occurred in May 2007. Herein all shares presented in this quarterly report on Form 10-Q have been adjusted to reflect these stock splits.

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2008	2007	2008	2007

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Net loss attributed to common stockholders	\$ (216)	\$ (11,589)	\$ (10,016)	\$ (16,341)
Basic and diluted weighted average common shares outstanding	10,165,733	8,108,910	10,100,321	4,460,148
Basic and diluted net loss per share	\$ (0.02)	\$ (1.43)	\$ (0.99)	\$ (3.66)

The following potential common shares have been excluded from the computation of diluted net loss per share since their effect would be antidilutive in each of the loss periods presented:

	At September 30,	
	2008	2007
Stock options	732,079	789,200
Warrants	1,023,913	1,023,913

Table of Contents

9. Segment Information

We are engaged in the discovery, development and commercialization of therapies for vascular disorders. We have only one reportable segment and, therefore, all segment-related financial information required by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, is included in the consolidated financial statements. The reportable segment reflects our structure, reporting responsibilities to the chief executive officer and the nature of the products under development.

10. Subsequent Events

We were advised by The Nasdaq Stock Market pursuant to Marketplace Rule 4300 that, in view of the Company's recent business dispositions we are no longer an operating business, as a result, trading of our common stock was suspended on the Nasdaq Stock Market on October 22, 2008 and a Form 25-NSE will be filed with the Securities and Exchange Commission removing our securities from listing and registration on The Nasdaq Stock Market. A market maker is quoting our common stock on the OTC Bulletin Board, which is a regulated quotation service that displays real-time quotes, last-sales prices, and volume information in over-the-counter securities.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Statement Regarding Forward-Looking Statements**

The following discussion should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and related notes appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We cannot guarantee the accuracy of the forward-looking statements, and you should be aware that results and events could differ materially and adversely from those contained in the forward-looking statements. You should also consider carefully the statements set forth in Item 1A of Part II of this Quarterly Report entitled "Risk Factors" which address these and additional factors that could cause results or events to differ materially from those set forth in the forward-looking statements.

Our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to all such reports are available, free of charge, on our Internet website under "Investors-Financial Information," as soon as reasonably practicable after we file electronically such reports with, or furnish such reports to, the SEC. Our Internet website address is <http://www.imarx.com>. Information on our website does not constitute a part of this Quarterly Report on Form 10-Q. As used in this quarterly report on Form 10-Q, unless the context otherwise requires, the terms "we," "us," "our," the Company, and ImaRx refer to ImaRx Therapeutics, Inc., a Delaware corporation.

Overview

We are a biopharmaceutical company whose research and development efforts have focused on the development of therapies for stroke and other vascular disorders, using our proprietary microbubble technology together with ultrasound. Our lead program, SonoLysis, involves the administration of our proprietary MRX-801 microbubbles and ultrasound to break up blood clots and restore blood flow to oxygen deprived tissues. We were previously engaged in the commercialization of one FDA approved drug, urokinase, but recently sold all rights to that product to Microbix Biosystems, Inc, or Microbix.

On June 11, 2008, in order to preserve capital resources, we announced a restructuring that included a significant workforce reduction in which all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. We paid a retention bonus to each of the remaining employees and entered into agreements with each of them to reimburse us a portion of the retention bonus should they voluntarily leave the employ of the Company prior to certain agreed upon dates. In furtherance of the June 2008 restructuring we discontinued substantially all research and development activity and are now exploring strategic alternatives for our clinical-stage SonoLysis program and other Company assets. Certain of our former key employees entered into consulting agreements with us in order to assist us in these efforts.

On September 23, 2008, we divested our urokinase business to Microbix. Under the terms of the agreement, Microbix acquired the remaining urokinase inventory and related assets and assumed full responsibility for ongoing commercial and regulatory activities associated with the product. Microbix paid to us an upfront payment of \$2.0 million and assumed up to \$0.5 million in chargeback liabilities for commercial product currently in the distribution channel. If the assumed chargeback liabilities paid by Microbix are less than the \$0.5 million assumed, Microbix will issue payment to us for the difference. An additional \$2.5 million payment will be made to us upon release by the FDA of the three lots of urokinase that are currently subject to a May 2008 Approvable Letter. Urokinase is an FDA-approved thrombolytic, or clot-dissolving agent, indicated for the treatment of acute massive pulmonary embolism. We purchased the product from Abbott Laboratories and had been selling the product since 2006.

As a result of the restructuring and our selling of the urokinase franchise, we now have new risks and challenges facing us. We are seeking strategic alternatives that would enable the continued development of our SonoLysis program and are preserving our cash resources in order to provide sufficient time to accomplish this objective. Historically, one of our primary sources of cash has been the sale of our urokinase product. Due to the sale of the urokinase asset to Microbix, we do not currently have any significant source of cash.

Product Sales, Research and Development Revenue

Our primary source of revenue through the third quarter of 2008 was derived from sales of our urokinase product. We commenced sales of urokinase in October 2006 and have been generating revenue from sales of this product since that date. As a result of the sale of the urokinase franchise and inventory to Microbix, future revenues will no longer be

recognized once the product currently held at the wholesale distributors is sold through to the end user. In addition to our commercial product sales, we have also generated a limited amount of revenue by providing research services for projects funded under various government grants. We do not anticipate recognizing revenues associated with research services in future periods.

Table of Contents

All product sales recorded to date relate to sales of urokinase in the United States. Due to our limited returns history and the fact that customers may return expired urokinase product that is in its original, unopened cartons within 12 months past the product expiration date, we currently account for these product shipments using a deferred revenue recognition model. We do not recognize revenue upon product shipment to a wholesale distributor but rather, we defer the recognition of revenue until the right of return no longer exists or when the product is sold to the end user as is stipulated by SFAS No. 48, *Revenue Recognition When the Right of Return Exists*. We record product sales net of chargebacks, distributor fees, discounts paid to wholesale distributors, and administrative fees paid to Group Purchasing Organizations (GPOs). The allowances are based on historical information and other pertinent data. As of September 30, 2008, we had deferred revenue of \$1.2 million. Currently there are limited quantities of inventory remaining with our wholesale distributors and as a result of the sale of all remaining inventory of urokinase to Microbix, future revenue recognition will cease and deferred revenue will be reduced to zero.

Cost of Product Sales

Cost of product sales had been determined using a weighted-average method and included the acquisition cost of the inventory as well as additional labeling costs we incurred to bring the product to market. Our product pricing was fixed, but coul