

MAP Pharmaceuticals, Inc.
Form 10-Q
August 13, 2008
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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 quarterly period ended June 30, 2008

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 001-33719

MAP PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of incorporation or organization)

20-0507047
(I.R.S. Employer Identification No.)

2400 Bayshore Parkway, Suite 200, Mountain View, California
(Address of principal executive offices)

94043
(Zip code)

(650) 386-3100

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 11, 2008, the registrant had outstanding 20,397,917 shares of Common Stock.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Financial Statements****MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)****(Unaudited)**

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,092	\$ 49,116
Short-term investments	49,093	45,874
Prepaid expenses and other current assets	748	1,079
Total current assets	76,933	96,069
Property and equipment, net	5,637	4,183
Other assets	36	122
Restricted investment	321	321
Total assets	\$ 82,927	\$ 100,695
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 802	\$ 1,290
Accrued liabilities	8,506	7,622
Current portion of long-term debt	3,048	3,820
Total current liabilities	12,356	12,732
Long-term debt, net of current	17,478	6,357
Total liabilities	29,834	19,089
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Common stock	198	197
Additional paid-in capital	186,587	184,194
Accumulated other comprehensive income	31	181
Deficit accumulated during the development stage	(133,723)	(102,966)
Total stockholders' equity	53,093	81,606
Total liabilities and stockholders' equity	\$ 82,927	\$ 100,695

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

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except share and per share amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,		Period from July 3, 2003 (Inception) to June 30, 2008
	2008	2007	2008	2007	
Operating expenses:					
Research and development	\$ 12,984	\$ 6,316	\$ 24,799	\$ 10,833	\$ 97,220
Sales, general and administrative	3,165	2,708	6,305	4,457	26,950
Total operating expenses	16,149	9,024	31,104	15,290	124,170
Loss from operations	(16,149)	(9,024)	(31,104)	(15,290)	(124,170)
Interest income	588	748	1,441	991	5,587
Interest expense	(505)	(340)	(815)	(682)	(2,392)
Other income (expense), net	(391)	(72)	(279)	(367)	(731)
Net loss	(16,457)	(8,688)	(30,757)	(15,348)	(121,706)
Cumulative stock dividend attributable to preferred stockholders		(2,290)		(3,673)	(13,925)
Net loss attributable to common stockholders	\$ (16,457)	\$ (10,978)	\$ (30,757)	\$ (19,021)	\$ (135,631)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.81)	\$ (14.29)	\$ (1.52)	\$ (25.11)	
Weighted-average common shares used in computing net loss per share attributable to common stockholders, basic and diluted	20,314,390	768,212	20,262,318	757,536	

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

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six Months Ended June 30,		Cumulative Period from July 3, 2003 (Date of Inception) to June 30, 2008
	2008	2007	2008
Cash flows provided by (used for) operating activities:			
Net loss	\$ (30,757)	\$ (15,348)	\$ (121,706)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	546	384	2,450
Accretion of investment discounts, net	(550)		(1,448)
Amortization of debt issuance costs	101	47	208
Change in carrying value of warrant liability		406	621
Issuance of common stock in exchange for services			51
Share-based compensation	1,994	702	4,455
Loss on disposal of fixed assets		8	368
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	331	(255)	(974)
Other assets	61	(9)	58
Accounts payable	(488)	(577)	773
Accrued liabilities	884	1,679	8,478
Net cash used in operating activities	(27,878)	(12,963)	(106,666)
Cash flows provided by (used for) investing activities:			
Purchase of intangible assets and in-process research and development			(412)
Purchase of property and equipment	(2,001)	(636)	(8,011)
Purchase of short-term investments	(45,996)	(35,671)	(159,852)
Sales and maturities of short-term investments	43,177	10,150	112,556
Purchase of restricted investment		(121)	(321)
Net cash used in investing activities	(4,820)	(26,278)	(56,040)
Cash flows provided by (used for) financing activities:			
Proceeds from issuance of convertible notes payable			4,300
Proceeds from issuance of debt	20,000		31,006
Proceeds from sales of shares through employee equity incentive plans	401	10	467
Repayment of debt	(9,727)	(152)	(10,580)
Proceeds from issuance of common stock in IPO, net of issuance costs			62,177
Proceeds from issuance of convertible preferred stock, net of issuance costs		50,179	102,428
Net cash provided by financing activities	10,674	50,037	189,798

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Net increase (decrease) in cash and cash equivalents	(22,024)	10,796	27,092
Cash and cash equivalents at beginning of period	49,116	11,091	
Cash and cash equivalents at end of period	\$ 27,092	\$ 21,887	\$ 27,092

Supplemental disclosures of cash flow information

Cash paid for interest	\$ 645	\$ 602	\$ 2,009
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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MAP PHARMACEUTICALS, INC.

(a development stage enterprise)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. THE COMPANY AND BASIS OF PRESENTATION

MAP Pharmaceuticals, Inc., incorporated in the state of Delaware, was originally formed as a limited liability company on July 3, 2003 and converted to a corporation on December 11, 2003. We use proprietary inhalation technologies to enhance the therapeutic benefits and commercial attractiveness of proven drugs while minimizing risk by capitalizing on their known safety, efficacy and commercialization history. We have several proprietary product candidates in clinical development that address large market opportunities, including our two most advanced product candidates: a proprietary formulation of nebulized budesonide for the potential treatment of pediatric asthma in children from 12 months to eight years of age; and a proprietary orally inhaled version of dihydroergotamine for the potential treatment of migraine. We are in the development stage and since inception have devoted substantially all of our efforts to research and development, raising capital and recruiting personnel.

In October 2007, we completed our initial public offering (IPO) of 5,750,000 shares of common stock at a public offering price of \$12.00 per share. The aggregate net cash proceeds from the IPO were approximately \$62.1 million, after deducting the underwriting discount and commissions and other offering expenses. In connection with the IPO, all outstanding redeemable convertible preferred stock converted into common stock, warrants to purchase convertible preferred stock converted into warrants to purchase common stock, and redeemable convertible preferred stock warrant liability was reclassified to equity.

We have incurred losses since our inception in July 2003. Prior to achieving profitable operations, we intend to continue to fund operations through public or private financings, strategic partnerships or other arrangements.

Basis of Presentation

We have prepared the accompanying interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements and accompanying notes do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. The financial statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary for the fair statement of the balances and results for the periods presented. These interim financial statement results are not necessarily indicative of the results to be expected for the full fiscal year or any future interim period.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date. The financial statements and related disclosures have been prepared with the presumption that users of the interim financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2007.

Recent Accounting Pronouncements

We adopted Emerging Issues Task Force (EITF) Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities, on a prospective basis for new contracts entered into on or after January 1, 2008. EITF Issue No. 07-3 states that nonrefundable advance payments for future research and development activities should be deferred and recognized as an expense as the goods are delivered or the related services are performed. Entities should then continue to evaluate whether they expect the goods to be delivered or services to be rendered and, if an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The adoption of EITF Issue No. 07-3 did not have a material impact on our financial position or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. The adoption of SFAS 157 for financial assets and liabilities

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did not have a material impact on our condensed consolidated financial position, results of operations or cash flows. In February 2008, the FASB released a FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157) which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. FAS 157 as it is applied to non-financial assets and non-financial liabilities will be adopted by the company at the beginning of 2009, and we do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements. Please see Note 2. Certain Balance Sheet Components.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159) effective for us January 1, 2008. SFAS 159 permits companies to choose to measure certain financial instruments and other items at fair value. We chose not to elect the fair value option for financial assets and liabilities existing at January 1, 2008, and did not elect the fair value option on financial assets and liabilities transacted in the six months ended June 30, 2008. Therefore, the adoption of SFAS 159 had no impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). The standard expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about the fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). The new standard changes the accounting and reporting of noncontrolling interests, which have historically been referred to as minority interests. SFAS 160 requires that noncontrolling interests be presented in the consolidated balance sheets within shareholders' equity, but separate from the parent's equity, and that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented in the consolidated statements of income. Any losses in excess of the noncontrolling interest's equity interest will continue to be allocated to the noncontrolling interest. Purchases or sales of equity interests that do not result in a change of control will be accounted for as equity transactions. Upon a loss of control, the interest sold, as well as any interest retained, will be measured at fair value, with any gain or loss recognized in earnings. In partial acquisitions, when control is obtained, the acquiring company will recognize, at fair value, 100% of the assets and liabilities, including goodwill, as if the entire target company had been acquired. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with early adoption prohibited. The new standard will be applied prospectively, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. We do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141-R). The new standard changes the accounting for business combinations in a number of significant respects. The key changes include the expansion of transactions that will qualify as business combinations, the capitalization of in-process research and development as an indefinite-lived asset, the recognition of certain acquired contingent assets and liabilities at fair value, the expensing of acquisition costs, the expensing of costs associated with restructuring the acquired company, the recognition of contingent consideration at fair value on the acquisition date, and the recognition of post-acquisition date changes in deferred tax asset valuation allowances and acquired income tax uncertainties as income tax expense or benefit. SFAS 141-R is effective for business combinations that close in years beginning on or after December 15, 2008, with early adoption prohibited. This new standard will be adopted by the company at the beginning of 2009 and we do not expect the adoption of this pronouncement to have a material impact on our consolidated financial statements.

NOTE 2. CERTAIN BALANCE SHEET COMPONENTS***Short-term investments and Fair Value Measurements***

Short-term investments, all of which have a term of less than one year, are summarized as follows (in thousands):

	Amortized Cost	Unrealized Gains	Estimated Fair Market Value
At June 30, 2008:			
Corporate debt securities	\$ 12,489	\$ 20	\$ 12,509
U.S. government and agency securities	36,573	11	36,584
	\$ 49,062	\$ 31	\$ 49,093
At December 31, 2007:			
Corporate debt securities	\$ 36,336	\$ 159	\$ 36,495
U.S. government and agency securities	9,357	22	9,379

\$ 45,693 \$ 181 \$ 45,874

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly;

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and (Level 3) significant unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure our marketable securities at fair value.

Our investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments that are generally classified within Level 1 of the fair value hierarchy include money market securities. The types of investments that are generally classified within Level 2 of the fair value hierarchy include U.S. government and agency securities, corporate securities and certificates of deposits.

Fair value hierarchy of our marketable securities at fair value in connection with the adoption of SFAS 157 are summarized as follows (in thousands):

Description	Total at June 30, 2008	Fair Value Measurements at Reporting Date using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Corporate debt securities	\$ 13,009		\$ 13,009
U.S. government and agency securities	\$ 37,580		\$ 37,580

As of June 30, 2008, we applied Level 2 measurements to our holdings of commercial paper with maturity dates less than three months classified under cash equivalents. Commercial paper with maturity dates less than three months are valued at the quoted market price from broker or dealer quotations.

We chose not to elect the fair value option as prescribed by SFAS 159 for our financial assets and liabilities that had not been previously carried at fair value. Therefore, financial assets and liabilities not carried at fair value, such as short- and long-term debt and accounts payable are still reported at their carrying values.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Clinical trial related	\$ 6,052	\$ 5,440
Payroll and related expenses	1,757	1,619
Professional services and other	697	563
	\$ 8,506	\$ 7,622

NOTE 3. LONG-TERM DEBT

In September 2006, we entered into a \$3.0 million loan facility agreement for the purpose of financing equipment purchases (the Equipment Loan) and borrowed \$1.0 million under this facility. The Equipment Loan bears interest at an annual interest rate of 9.5% and matures in 2009.

In September 2006, we entered into a \$10.0 million loan facility agreement for the purpose of financing working capital (the 2006 Working Capital Loan) and borrowed all \$10.0 million under the facility agreement during the year ended December 31, 2006. The 2006 Working Capital Loan bears interest at an annual interest rate of 11.9% and matures in 2010. In May 2008, we entered into a new loan agreement (the 2008 Working Capital Loan) for \$20.0 million in order to repay the 2006 Working Capital Loan and to support general corporate purposes. The 2008 Working Capital Loan bears interest at an annual rate of 9.95%, with an effective rate of approximately 12% after factoring in a \$1.0 million

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payment due at the termination of the agreement. The 2008 Working Capital Loan has interest-only payments up to and including January 2009, maturing in October 2011, and includes customary loan covenants. Expenses incurred in connection with the new loan agreement were not material.

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The 2008 Working Capital Loan amounts are collateralized by all of our assets, excluding intellectual property, while Equipment Loan amounts are collateralized by our equipment purchased by such borrowed funds. Our long-term debt at June 30, 2008 consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Principal amount	\$ 20,451	\$ 10,177
Plus premium, based on imputed interest rate of 12%	75	
	20,526	10,177
Less current portion of long-term debt	3,048	3,820
Non-current portion	\$ 17,478	\$ 6,357

In connection with the loan facility agreements entered into in 2006, we issued warrants to purchase convertible preferred stock. The fair value of the warrants was estimated at an aggregate of approximately \$300,000 using the Black-Scholes valuation model at the dates of issuance and recorded as debt issuance costs that are amortized to interest expense over the contractual life of 7 years. The fair value of the warrants outstanding was recorded as a liability as of September 30, 2006 and revalued each subsequent reporting period with the resulting gains and losses recorded in other expense which is classified in other income (expense), net. We continued to adjust the liability for changes in fair value until the completion of our IPO, at which time all unexercised warrants converted into warrants to purchase common stock and the liability was reclassified to equity. In accordance with the revaluation through the date of the IPO, we recorded expense of approximately \$0.4 million for the six months ended June 30, 2007 and approximately \$0.6 million for the cumulative period from July 3, 2003 (date of inception) to June 30, 2008.

NOTE 4. COMMITMENTS AND CONTINGENCIES***Operating Leases***

In June 2004, we entered into a lease agreement for laboratory and office facilities in Mountain View, California and in August 2006 amended our lease agreement to include additional square footage within the same building, expiring in June 2008. In March 2008, we further amended our lease agreement to extend the agreement until June 2012, and to include additional square footage and options to lease additional square footage. Rent is subject to an annual increase for the duration of the lease. The annual lease payments for this space under the new lease agreement are approximately \$0.7 million in 2008, \$1.3 million in 2009 and 2010, \$1.4 million in 2011 and \$0.7 million 2012.

In accordance with the terms of the lease agreements we are obligated to maintain an irrevocable letter of credit from a bank as a security deposit. As collateral for the letter of credit, we are required to maintain a deposit account with the bank of \$0.3 million at June 30, 2008 and December 31, 2007, which is shown as a restricted investment on the condensed consolidated balance sheets.

Contingencies

We are subject to claims and assessments from time to time in the ordinary course of business. We do not believe that any such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operation.

Indemnification

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. Our exposure under these agreements is unknown because it involves claims that may be made against us in the future, but have not yet been made. To date, we have not paid any claims or been required to defend any action related to our indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations.

In accordance with our certificate of incorporation and bylaws, we have indemnification obligations to our officers and directors for certain events or occurrences, subject to certain limits, while they are serving at our request in such capacity. There have been no claims to date and we have a director and officer insurance policy that may enable us to recover a portion of any amounts paid for future potential claims.

NOTE 5. LICENSE AND SUPPLY AGREEMENTS

Under the June 2004 agreement, as amended, with Nektar Therapeutics UK Limited (the Nektar Agreement), we were granted a worldwide, exclusive license, with a right to sublicense, under Nektar patents and know-how, to develop and commercialize any formulation of a form of dihydroergotamine for administration by inhalation using a device. We also agreed to pay royalties at specified rates based on net sales. As of June 30, 2008, we are required to make future nonrefundable milestone payments of up to \$5.0 million related to products currently being developed under this agreement, when and if certain regulatory and commercial milestones are met. No amounts related to milestones were paid during the six months ended June 30, 2008 and 2007, and we paid \$2.6 million during the cumulative period from July 3, 2003 (date of inception) to June 30, 2008. Either party may terminate the Nektar Agreement upon a material, uncured default of the other party. We may terminate the agreement, with or without cause, at any time upon six months' written notice.

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Under the April 2004 agreement, as amended, with Elan Pharma International Limited (the Elan Agreement), Elan granted to us a worldwide, exclusive, sub-licensable license under Elan's intellectual property rights to use, market, distribute, sell, import and export ingredients for our UDB product candidate. We also agreed to pay royalties at specified rates based on net sales. As of June 30, 2008, we are required to make future nonrefundable milestone payments of up to \$16.5 million related to products currently being developed under this agreement, when and if certain regulatory and commercial milestones are met with respect to our UDB product candidate. We paid \$750,000 related to milestones during the six months ended June 30, 2008 and none for the six months ended June 30, 2007, and \$4.0 million during the cumulative period from July 3, 2003 (date of inception) to June 30, 2008. Either party may terminate the Elan Agreement upon a material, uncured default of the other party. We may terminate the agreement, with or without cause, at any time upon 90 days' written notice.

In June 2008, we entered into a Transfer and Assignment Agreement with Telesso Technologies Limited (the Telesso Agreement), formerly Eiffel Technologies Limited, which terminated our 2005 research and development, license and supply agreement with Eiffel Technologies Limited (Eiffel Agreement), including Eiffel's rights to royalty and milestone commitments under the Eiffel Agreement. Under the Telesso Agreement, Telesso will transfer and assign all intellectual property and know-how owned by Telesso related to certain methods for manufacturing drug formulations previously licensed to us and will transfer to us certain capital equipment and other materials related to the technology. We are required to make future payments for the transfer of the technology and other transferred property, and for the achievement of specified clinical and regulatory milestones for the first product developed by us using the technology when and if certain regulatory milestones are met. These payments are considered to be immaterial in nature and no amounts related to milestones have been paid under the Telesso Agreement as of June 30, 2008.

NOTE 6. EMPLOYEE EQUITY INCENTIVE PLANS***Stock-based Compensation***

We account for employee stock-based compensation under SFAS No. 123(R), Share-Based Payment (SFAS 123R), which requires compensation expense related to share-based transactions, including employee stock options, to be measured and recognized in the financial statements based on fair value. Employee stock-based compensation expense recognized is calculated based on awards ultimately expected to vest, and has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense recognized under SFAS 123R related to stock options and awards under our employee stock purchase plan (ESPP) is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Research and development	\$ 531	\$ 222	\$ 931	\$ 373
Sales, general and administrative	626	233	1,063	329
	\$ 1,157	\$ 455	\$ 1,994	\$ 702

Stock Option Awards

During the six months ended June 30, 2008 and 2007, we granted 750,650 and 954,181 stock options, respectively, to employees with a weighted-average grant date fair value of \$7.35 and \$6.83 per share, respectively. The fair value of stock option grants was estimated at the grant date using the Black-Scholes option valuation model with the following weighted-average assumptions:

	Six Months Ended June 30,	
	2008	2007
Weighted-average volatility	63.1%	56.0%
Weighted-average expected term (in years)	5.5	5.5
Risk-free interest rates	3.2%	4.7%

Expected dividend yield

0.00%

0.00%

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Option activity under our plans is as follows:

	Shares Available for Grant	Number of Shares	Outstanding Options Weighted Average Exercise Price
December 31, 2007	2,446,656	2,620,928	\$ 3.32
Shares reserved			
Options granted	(750,650)	750,650	\$ 12.99
Options exercised		(138,144)	\$ 1.33
Options cancelled	102,946	(102,946)	\$ 7.23
June 30, 2008	1,798,952	3,130,488	\$ 5.60

As of June 30, 2008, there was unrecognized compensation costs of approximately \$8.6 million related to non-vested stock option awards granted after January 1, 2006 that will be recognized on a straight-line basis over the weighted average remaining period of 2.9 years.

Employee Stock Purchase Plan

We also estimated the fair value of employee stock purchase rights granted under the ESPP, which became effective in October 2007 upon the effectiveness of the IPO, using the Black-Scholes valuation model. For the six months ended June 30, 2008, the weighted-average fair value of each stock purchase right was \$4.28 per share. The fair value of employee stock purchase rights is being recognized on a straight-line basis over the requisite service period of the purchase rights.

NOTE 7. NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss attributed to common stockholders by the weighted-average number of common shares outstanding during the period. Our potential dilutive shares, which include outstanding common stock options, unvested common shares subject to repurchase, convertible preferred stock and warrants, have not been included in the computation of diluted net loss per share for all the periods as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per share follows (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Historical net loss per share:				
Numerator				
Net loss, as reported	\$ (16,457)	\$ (8,688)	\$ (30,757)	\$ (15,348)
Less: Cumulative stock dividend attributed to preferred stockholders		(2,290)		(3,673)
Net loss attributed to common stockholders	\$ (16,457)	\$ (10,978)	\$ (30,757)	\$ (19,021)
Denominator				
Weighted-average common shares outstanding	20,327,407	833,296	20,281,843	829,129
Less: Weighted average shares subject to repurchase	(13,017)	(65,084)	(19,525)	(71,593)
Denominator for basic and diluted net loss per share	20,314,390	768,212	20,262,318	757,536
Basic and diluted net loss per share	\$ (0.81)	\$ (14.29)	\$ (1.52)	\$ (25.11)

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The following outstanding options, common stock subject to repurchase, convertible preferred stock and warrants were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an anti-dilutive effect:

	2008	June 30, 2007 (Unaudited)
Options to purchase common stock	3,130,488	2,525,393
Common stock subject to repurchase	8,678	60,745
Warrants	73,989	73,989
Convertible preferred stock (on an as if converted basis)		12,634,845

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the safe harbor created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to them. In some cases you can identify forward-looking statements by words such as may, will, should, could, would, expect, plans, anticipates, believes, estimates, projects, predicts, potential and similar expressions intended to identify forward-looking statements. Examples of these statements include, but are not limited to, statements regarding: the implications of interim or final results of our clinical trials, the progress of our research programs, including clinical testing, the extent to which our issued and pending patents may protect our products and technology, our ability to identify new product candidates, the potential of such product candidates to lead to the development of commercial products, our anticipated timing for initiation or completion of our clinical trials for any of our product candidates, our future operating expenses, our future losses, our future expenditures for research and development, and the sufficiency of our cash resources. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in Part II, Item 1A of this quarterly report on Form 10-Q and our other filings with the SEC. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report on Form 10-Q. You should read this quarterly report on Form 10-Q completely and with the understanding that our actual future results may be materially different from those we expect. Except as required by law, we assume no obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this quarterly report on Form 10-Q.

Overview

We use our proprietary inhalation technologies to enhance the therapeutic benefits and commercial attractiveness of proven drugs while minimizing risk by capitalizing on their known safety, efficacy and commercialization history. We have several proprietary product candidates in clinical development which address large market opportunities, including our two most advanced product candidates, Unit Dose Budesonide, or UDB, for pediatric asthma and MAP0004 for migraine. UDB is our proprietary nebulized version of budesonide intended to treat pediatric asthma in children from 12 months to eight years of age. UDB is designed to be administered more quickly and to provide efficacy at lower doses than conventional nebulized budesonide, which is the current leading treatment for pediatric asthma. MAP0004 is our proprietary orally inhaled version of dihydroergotamine intended to treat migraine. MAP0004 is designed to provide faster onset and longer lasting pain relief than triptans, the class of drugs most often prescribed for treating migraine.

We announced positive results from Phase 2 clinical studies of UDB and MAP0004 in early 2007 and initiated a Phase 3 clinical program for UDB in January 2008. For our MAP0004 migraine program we received a special protocol assessment (SPA) from the U.S. Food and Drug Administration, or FDA, in January 2008 and initiated a Phase 3 clinical program in July 2008. We hold worldwide commercialization rights for each of our product candidates and intend to market UDB and MAP0004 in the United States through our own focused sales force targeting pediatricians for UDB and neurologists and headache specialists for MAP0004. Our program for UDB includes Phase 3 pivotal efficacy clinical trials as well as trials of the uptake of UDB by the body, known as pharmacokinetic trials, and with respect to MAP0004, our program includes Phase 3 pivotal efficacy clinical trials as well as a pharmacokinetic trial and a trial of the effect of MAP0004 on the body, known as a pharmacodynamic trial.

Our product portfolio also includes two earlier stage product candidates, both of which highlight the broad applicability of our technologies to a diverse range of potential future products. MAP0005 is our proprietary combination of an inhaled corticosteroid and a long-acting beta-agonist for the potential treatment of asthma and chronic obstructive pulmonary disease, or COPD, and MAP0001 is our proprietary form of insulin for the potential treatment of Type 1 and Type 2 diabetes via pulmonary delivery using our proprietary Tempo inhaler. We have no current intention to further develop either of these earlier stage product candidates independently.

We are a development stage company and have not generated any product revenues. Since our inception, we have incurred losses and have an accumulated deficit of \$133.7 million as of June 30, 2008. We have financed our operations through equity financing, debt financing and the issuance of convertible notes. Prior to our initial public offering, or IPO, in October 2007, we had received net proceeds of \$106.7 million from the issuance of convertible notes payable and convertible preferred stock. With the completion of our IPO we received net proceeds of \$62.1 million after expenses and underwriters' discounts and commissions. In 2006, we entered into loan facility agreements and borrowed \$10.0 million to finance working capital and \$1.0 million to finance equipment purchases. In May 2008, we entered into an agreement to borrow \$20.0 million in order to repay the 2006 Working Capital Loan and to support general corporate purposes.

We expect to continue to incur net losses for the next several years as we continue to develop our current product candidates, develop, acquire or in-license additional products or product candidates, expand clinical trials for our product candidates currently in clinical development, expand

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our research and development activities, seek regulatory approvals and engage in commercialization preparation activities in anticipation of potential FDA approval of our product candidates. We will need to expand our commercial organization to launch any products. Significant capital is required to launch a product, and many expenses are incurred before revenues are received. We are unable to predict the extent of any future losses or when we will become profitable, if at all.

Table of Contents**Critical Accounting Policies**

The accounting policies that we consider to be our most critical (those that are most important to the portrayal of our financial condition and results of operations and that require our most difficult, subjective or complex judgments), the effects of those accounting policies applied and the judgments made in their application are summarized in *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Financial Overview**Research and Development Expenses**

Research and development expenses consist of: (i) expenses incurred under agreements with contract research organizations and investigative sites, which conduct our clinical trials and a substantial portion of our pre-clinical studies; (ii) milestone payments paid to our collaborative partners who work on our processing and supply of clinical trial material; (iii) the cost of manufacturing clinical trial materials; (iv) payments to contract service organizations, as well as consultants; (v) employee-related expenses, which include salaries and benefits; (vi) facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and equipment, depreciation of leasehold improvements and equipment and laboratory and other supplies; and (vii) stock-based compensation expense. All research and development expenses are expensed as incurred.

Conducting a significant amount of research and development is central to our business model. Through June 30, 2008, we had incurred approximately \$97.2 million in research and development expenses since our inception in 2003. Product candidates in later-stage clinical development generally have higher development costs than those in earlier stages of development, primarily due to the significantly increased size and duration of the clinical trials. We plan to increase our research and development expenses for the foreseeable future in order to complete development of our two most advanced product candidates, UDB and MAP0004, and earlier-stage research and development projects.

The following table summarizes the percentages of our research and development expenses related to our two most advanced product candidates and other projects, including MAP0005 and MAP0001. The percentages summarized in the following table reflect costs directly attributable to each development candidate, which are tracked on a project basis. A portion of our internal costs, including indirect costs relating to our product candidates, are not tracked on a project basis and are allocated based on management's estimate.

	Three Months Ended June 30,		Six Months Ended June 30,		Period from July 3, 2003 (Date of Inception) Through June 30, 2008
	2008	2007	2008	2007	
Our most advanced product candidates:					
UDB	55%	46%	52%	40%	44%
MAP0004	38%	49%	40%	51%	47%
Other projects	7%	5%	8%	9%	9%
Total	100%	100%	100%	100%	100%

The process of conducting pre-clinical studies and clinical trials necessary to obtain FDA approval is costly and time consuming. The probability of success for each product candidate and clinical trial may be affected by a variety of factors, including, among others, the quality of the product candidate's early clinical data, investment in the program, competition, manufacturing capabilities and commercial viability. As a result of the uncertainties discussed above, the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates. Development timelines, probability of success and development costs vary widely. We are currently focused on developing our two most advanced product candidates. However, we will need to raise substantial additional capital in the future in order to complete the development and potential commercialization of UDB, MAP0004 and other product candidates.

Sales, General and Administrative Expenses

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Sales, general and administrative expenses consist primarily of compensation for executive, finance, marketing, legal and administrative personnel, including share-based compensation. Other sales, general and administrative expenses include facility costs not otherwise included in research and development expenses, legal and accounting services, other professional services, the cost of market research activities and consulting fees. We expect these expenses to increase as we continue to grow our business.

Table of Contents**Results of Operations***Comparison of Three and Six Months Ended June 30, 2008 and 2007*

	Three Months Ended				Six Months Ended			
	June 30,		Increase/	% Increase/	June 30,		Increase/	% Increase/
	2008	2007	(Decrease)	(Decrease)	2008	2007	(Decrease)	(Decrease)
	(in thousands, except percentages)				(in thousands, except percentages)			
Research and development expenses	\$ 12,984	\$ 6,316	\$ 6,668	106%	\$ 24,799	\$ 10,833	\$ 13,966	129%
Sales, general and administrative expenses	3,165	2,708	457	17%	6,305	4,457	1,848	41%
Interest income	588	748	(160)	-21%	1,441	991	450	45%
Interest expense	(505)	(340)	(165)	49%	(815)	(682)	(133)	20%
Other expense, net	(391)	(72)	318	*	(279)	(367)	88	-24%

* Percentage removed as it is not meaningful.

Research and Development Expenses. The increase in research and development expenses for the three and six months ended June 30, 2008 as compared to the same periods in 2007 was primarily driven by an increase of \$5.0 million and \$9.9 million, respectively, related to clinical program expenses to support Phase 3 clinical programs initiated in 2008 for our two lead programs UDB and MAP0004, and an increase of \$1.0 million and \$2.2 million, respectively, in personnel related expenses also related to the support of our Phase 3 clinical programs.

Sales, General and Administrative Expenses. The increase in sales, general and administrative expenses for the three months ended June 30, 2008 as compared to the same period in 2007 was primarily related to increases of \$0.8 million in personnel related expenses and stock-based compensation, partially offset by a decrease in non-recurring IPO expenses incurred in the prior year. The increase in sales, general and administrative expenses for the six months ended June 30, 2008 as compared to the same period in 2007 was primarily related to increases of \$1.6 million in personnel related expenses and stock-based compensation, and increased costs as a result of being a public company, partially offset by a decrease in non-recurring IPO expenses incurred in the prior year.

Interest Income. The decrease in interest income was due primarily to a decrease in market interest rates in the three months ended June 30, 2008 as compared to 2007. The increase in interest income for the six months ended June 30, 2008 as compared to 2007 was due primarily to higher average cash balances during that period resulting from proceeds raised during our IPO in October 2007. We expect our interest income to fluctuate in the future with changes in average investment balances and market interest rates.

Interest Expense. Interest expense increased for the three months and six months ended June 30, 2008 as compared to the same periods in 2007 as a result of an increase in long-term debt related to the 2008 Working Capital Loan. We expect our interest expense to fluctuate in the future with average debt balances.