

NANOGEN INC
Form 10-Q
November 14, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 September 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 000-23541

NANOGEN, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

33-0489621
(I.R.S. Employer
Identification No.)

10398 Pacific Center Court, San Diego, California
(Address of principal executive offices)

92121
(Zip Code)

(858) 410-4600
(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 twelve 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 ninety 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. (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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on October 29, 2008, was as follows:

Class	Number of Shares
Common Stock, \$0.001 per share par value	82,296,609

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NANOGEN, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

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(in thousands, except par value and share data)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,689	\$ 5,806
Short-term investments		1,450
Receivables, net	18,130	14,821
Inventories, net	2,587	2,267
Other current assets	2,213	1,840
Total current assets	24,619	26,184
Property and equipment, net	5,562	6,662
Acquired technology rights and intangibles, net	12,029	14,905
Restricted cash	9,340	9,626
Other non-current assets, net	1,679	2,011
Goodwill	38,948	38,963
Total assets	\$ 92,177	\$ 98,351
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,866	\$ 15,600
Deferred revenues	5,312	663
Conversion feature of convertible debt	5,227	664
Current portion of assigned royalty interests obligation		2,868
Common stock warrants	3,605	1,708
Current portion of debt obligations	12,089	4,868
Total current liabilities	46,099	26,371
Debt obligations, less current portion	7,780	8,139
Long-term deferred revenues	20,140	
Sponsored research payable	4,839	4,848
Long-term assigned royalty interests obligation		14,711
Other long-term liabilities	2,887	2,778
Total long-term liabilities	35,646	30,476
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized at September 30, 2008 and December 31, 2007; no shares issued and outstanding at September 30, 2008 or December 31, 2007		
Common stock, \$0.001 par value, 245,000,000 and 135,000,000 shares authorized at September 30, 2008 and December 31, 2007, respectively; 81,200,909 and 73,218,128 shares issued and outstanding	81	73

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at September 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	445,209	440,583
Accumulated other comprehensive income	1,863	2,237
Accumulated deficit	(436,721)	(400,618)
Treasury stock, at cost, 0 and 416,027 shares at September 30, 2008 and December 31, 2007, respectively		(771)
 Total stockholders' equity	 10,432	 41,504
 Total liabilities and stockholders' equity	 \$ 92,177	 \$ 98,351

See accompanying notes.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues:				
Product sales	\$ 7,819	\$ 5,549	\$ 23,861	\$ 16,927
License fees	1,514	1,833	4,772	5,132
Contracts and grants	4,428	986	8,744	6,277
Total revenues	13,761	8,368	37,377	28,336
Costs and expenses:				
Cost of product sales (excluding amortization of purchased intangibles)	4,466	8,705	14,783	18,064
Research and development	4,768	7,540	13,710	21,598
Selling, general and administrative	8,036	9,167	25,093	29,253
Amortization of purchased intangible assets	707	733	2,350	2,260
Total costs and expenses	17,977	26,145	55,936	71,175
Loss from operations	(4,216)	(17,777)	(18,559)	(42,839)
Other income (expense):				
Interest income	154	188	631	757
Interest expense	(3,135)	(1,439)	(6,341)	(3,438)
Other income (expense)	37	27	325	(26)
Loss on extinguishment of debt	(3,050)		(15,295)	
Change in fair value of warrants and conversion rights	4,185	5,426	3,126	5,436
Gain (loss) on foreign currency transactions	33	(12)	10	(26)
Gain on deconsolidation of VIE		12,686		12,686
Total other income (expense)	(1,776)	16,876	(17,544)	15,389
Net loss	\$ (5,992)	\$ (901)	\$ (36,103)	\$ (27,450)
Net loss per share basic and diluted	\$ (0.08)	\$ (0.01)	\$ (0.48)	\$ (0.38)
Number of shares used in computing net loss per share basic and diluted	78,468	72,966	75,624	72,035

See accompanying notes.

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NANOGEN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2008	2007
Operating activities:		
Net loss	\$ (36,103)	\$ (27,450)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,490	5,818
Gain on deconsolidation of VIE		(12,686)
Other asset impairment and non-cash charges	1,342	2,134
Inventory provision	141	4,574
Accretion related to short-term investments		104
Stock-based compensation expense	1,462	3,180
Warrant valuation and conversion right adjustment	(3,126)	(5,426)
Loss on extinguishment of debt	15,295	
Accretion of long-term debt	2,927	169
Non-controlling interests share in loss of VIE		302
Increase (decrease) in cash caused by changes in operating assets and liabilities:		
Receivables, net	(3,604)	(3,485)
Inventories, net	(451)	(370)
Other current and long-term assets	(1,166)	(2,770)
Accounts payable and accrued liabilities	4,781	5,234
Deferred revenue and other long-term liabilities	7,926	95
Net cash used in continuing operating activities	(6,086)	(30,577)
Investing activities:		
Purchase of short-term investments		(19,374)
Proceeds from sale and maturities of short-term investments	1,450	26,225
Acquisition of business, net of cash acquired		(2,030)
Proceeds from the conversion of restricted cash to cash	269	(3,904)
Purchase of equipment and technology rights	(1,937)	(1,798)
Net cash used in investing activities	(218)	(881)
Financing activities:		
Principal payments on capital lease obligations	(385)	(530)
Principal payments on debt obligations	(374)	
Payments on receivable financing	(6,699)	(3,299)
Proceeds from debt financing secured by receivables	5,918	4,208
Principal payments on assigned royalty interests obligation	(738)	(1,528)
Proceeds from debt obligations of variable interest entity		1,894
Issuance of common stock		7,587
Proceeds from short-term obligations	4,617	19,051