

MEDAREX INC  
Form 10-Q  
May 10, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

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 No. 0-19312

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**MEDAREX, INC.**

(Exact Name of Registrant as Specified in Its Charter.)

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**New Jersey**  
(State or Other Jurisdiction of Incorporation or Organization)

**22-2822175**  
(I.R.S. Employer Identification No.)

**707 State Road, Princeton, New Jersey**  
(Address of Principal Executive Offices)

**08540**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (609) 430-2880**

Indicate by check x whether 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 x No "

Indicate by check x whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No "

The number of shares of common stock, \$.01 par value, outstanding as of April 30, 2004 was 79,103,639 shares.

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## MEDAREX, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2003	March 31, 2004
	<u>          </u>	<u>          </u>
		(Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,998	\$ 55,231
Marketable securities	285,460	274,808
Segregated cash	5,617	6,245
Prepaid expenses and other current assets	6,244	5,465
	<u>          </u>	<u>          </u>
Total current assets	370,319	341,749
Property, buildings and equipment:		
Land	6,624	6,624
Buildings and leasehold improvements	74,764	75,066
Machinery and equipment	37,006	38,195
Furniture and fixtures	4,081	4,085
Construction in progress	4,384	3,780
	<u>          </u>	<u>          </u>
	126,859	127,750
Less accumulated depreciation and amortization	(31,494)	(34,814)
	<u>          </u>	<u>          </u>
	95,365	92,936
Investments in Genmab	10,976	6,768
Investments in IDM	48,199	48,199
Investments in, and advances to, other partners	11,182	11,082
Segregated cash	11,579	10,354
Other assets	10,106	8,994
	<u>          </u>	<u>          </u>
Total assets	\$ 557,726	\$ 520,082
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 2,197	\$ 2,028
Accrued liabilities	13,878	9,154
Deferred contract revenue - current	3,807	3,501
	<u>          </u>	<u>          </u>
Total current liabilities	19,882	14,683
Deferred contract revenue - long-term	661	607
Other long-term liabilities	3,172	3,184
Convertible senior notes	125,000	146,986
Convertible subordinated notes	175,000	142,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$1.00 par value, 2,000,000 shares authorized; none issued and outstanding		
Common stock, \$.01 par value; 200,000,000 shares authorized; 79,501,080 shares issued and 79,007,564 outstanding at	795	795

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December 31, 2003 and 79,512,124 shares issued and 79,094,077 shares outstanding at March 31, 2004		
Capital in excess of par value	639,784	650,080
Treasury stock, at cost 493,516 shares in 2003 and 418,047 shares in 2004	(1,242)	(1,051)
Deferred compensation	994	855
Accumulated other comprehensive income	6,560	5,783
Accumulated deficit	(412,880)	(443,840)
	<u>          </u>	<u>          </u>
Total shareholders' equity	234,011	212,622
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$ 557,726	\$ 520,082
	<u>          </u>	<u>          </u>

See notes to these unaudited consolidated financial statements.

## MEDAREX, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2003	2004
Sales	\$ 25	\$
Contract and license revenues	2,174	1,106
Sales, contract and license revenues from Genmab	1,765	823
Total revenues	3,964	1,929
Costs and expenses:		
Cost of sales	3	
Research and development	23,526	22,988
General and administrative	5,684	5,808
Total costs and expenses	29,213	28,796
Operating loss	(25,249)	(26,867)
Equity in net loss of affiliate	(3,754)	(4,766)
Interest and other income	2,632	3,988
Additional payments related to asset acquisitions	(86)	
Interest expense	(2,308)	(3,635)
Gain on extinguishment of debt		326
Pre tax loss	(28,765)	(30,954)
Provision for income taxes	28	6
Loss before cumulative effect of change in accounting principle	(28,793)	(30,960)
Cumulative effect of change in accounting principle	(830)	
Net loss	\$ (29,623)	\$ (30,960)
Basic and diluted net loss per share:		
Loss before cumulative effect of change in accounting principle	\$ (0.37)	\$ (0.39)
Cumulative effect of change in accounting principle	(0.01)	
Net loss	\$ (0.38)	\$ (0.39)
Weighted average number of common shares outstanding basic and diluted	77,953	79,505

See notes to these unaudited consolidated financial statements.



## MEDAREX, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months	
	Ended	
	March 31,	
	2003	2004
Operating activities:		
Net income (loss)	\$ (29,623)	\$ (30,960)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Cumulative effect of change in accounting principle	830	
Depreciation	2,588	2,883
Amortization	812	1,155
Stock options and awards	139	126
Non-cash revenue Genmab		(500)
Equity in net loss of Genmab	3,754	4,766
Impairment loss on investments in partners		316
Gain on exchange of convertible debt		(326)
Gain on sale of equity securities		(1,664)
Changes in operating assets and liabilities		
Other current assets	1,959	791
Trade accounts payable	283	(169)
Accrued liabilities	(5,802)	(4,021)
Deferred contract revenue	502	140
Net cash used in operating activities	(24,558)	(27,463)
Investing activities:		
Purchase of property and equipment	(1,947)	(1,545)
Increase in investments and advances to affiliates and partners	(1,000)	
Decrease (increase) in segregated cash		597
Sales of marketable securities	40,044	10,765
Net cash provided by investing activities	37,097	9,817
Financing activities:		
Cash received from sales of securities, net		67
Capitalized debt exchange costs		(149)
Principal payments under debt obligations	(113)	(39)
Net cash used in financing activities	(113)	(121)
Net increase (decrease) in cash and cash equivalents	12,426	(17,767)
Cash and cash equivalents at beginning of period	61,812	72,998

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Cash and cash equivalents at end of period	\$ 74,238	\$ 55,231
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Income taxes	\$	\$
Interest	\$ 3,944	\$ 3,107

See notes to these unaudited consolidated financial statements.



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MEDAREX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, unless otherwise indicated, except per share data)

**1. Basis of Presentation and Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared from the books and records of Medarex, Inc. and Subsidiaries (the Company) in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the year. The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2003.

*Net Loss per Share*

Basic and diluted net loss per share are calculated in accordance with the Financial Accounting Standards Board (FASB) SFAS No. 128, *Earnings per Share*. Basic net loss per share is based upon the number of weighted average shares of common stock outstanding. Diluted net loss per share is based upon the weighted average number of shares of common stock and dilutive potential shares of common stock outstanding. Potential shares of common stock result from the assumed exercise of outstanding stock options, which are included under the treasury stock method. For the three month periods ended March 31, 2003 and 2004, all potentially dilutive securities have been excluded from the computation of diluted net loss per share, as their effect is antidilutive.

*Marketable Securities and Long-Term Non-Marketable Investments*

Marketable securities consist of fixed income investments with a maturity of greater than three months and other highly liquid investments that can be readily purchased or sold using established markets. Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, these investments are classified as available-for-sale and are reported at fair value on the Company's consolidated balance sheet. Unrealized holding gains and losses are reported within accumulated other comprehensive income as a separate component of shareholders equity. Under the Company's accounting policy, a decline in the fair value of marketable securities is deemed to be other than temporary and such marketable securities are generally considered to be impaired if their fair value is less than the Company's cost basis for more than six months, or some other period in light of the particular facts and circumstances surrounding the investment. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge.

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In addition, the Company has investments in several of its partners whose securities are not publicly traded. Because these securities are not publicly traded, the Company values these investments by using information acquired from industry trends, the management of these companies, financial statements, and other external sources. Based on the information acquired through these sources, the Company records an impairment charge when it believes an investment has experienced a decline in value that is considered to be other than temporary.

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**MEDAREX, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company recorded impairment charges of \$0 and \$0.2 million related to investments in partners whose securities are publicly traded for the three month periods ended March 31, 2003 and 2004, respectively. In addition, the Company recorded impairment charges of \$0 and \$0.1 million in partners whose securities are privately held for the three month periods ended March 31, 2003 and 2004, respectively. Such impairment charges are included with Interest and other income in the Company's statement of operations for the three month period ended March 31, 2004.

***Stock Based Compensation***

The Company accounts for its stock option plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as all options granted under the Company's stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	<b>Three Months Ended March 31</b>	
	<b>2003</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
Net loss, as reported	\$ (29,623)	\$ (30,960)
Add: Non-cash employee compensation	139	51
Deduct: Total stock-based employee compensation expense determined under fair value method	(2,482)	(3,185)
	<u>          </u>	<u>          </u>
Pro forma net loss	\$ (31,966)	\$ (34,094)
	<u>          </u>	<u>          </u>
Loss per share:		
Basic and diluted, as reported	\$ (0.38)	\$ (0.39)
	<u>          </u>	<u>          </u>
Basic and diluted, pro forma	\$ (0.41)	\$ (0.43)
	<u>          </u>	<u>          </u>