

AVEO PHARMACEUTICALS INC

Form 10-Q

May 13, 2010

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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 March 31, 2010

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 001-34655

**AVEO PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-3581650**  
(I.R.S. Employer  
Identification No.)

**75 Sidney Street, Cambridge, Massachusetts 02139**  
(Address of principal executive offices) (zip code)

**(617) 299-5000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of the registrant's Common Stock, \$0.001 par value, outstanding on March 31, 2010: 29,904,236

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**AVEO PHARMACEUTICALS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2010**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements.  
AVEO Pharmaceuticals, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except per share amounts)****(unaudited)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 71,647	\$ 45,290
Marketable securities	24,485	6,011
Accounts receivable	5,149	487
Prepaid expenses and other current assets	7,532	1,306
<b>Total current assets</b>	<b>108,813</b>	<b>53,094</b>
Property and equipment, net	4,022	4,197
Other assets	396	1,946
Restricted cash	607	607
<b>Total assets</b>	<b>\$ 113,838</b>	<b>\$ 59,844</b>
<b>Liabilities and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 7,302	\$ 7,491
Accrued expenses	5,625	7,389
Loans payable, net of discount	7,633	7,467
Deferred revenue	13,415	11,782
Deferred rent	206	176
<b>Total current liabilities</b>	<b>34,181</b>	<b>34,305</b>
Loans payable, net of current portion and discount	10,275	12,278
Deferred revenue, net of current portion	21,035	23,320
Deferred rent, net of current portion	753	819
Other liabilities	1,253	1,249
Warrants to purchase convertible preferred stock		1,459
Commitments and contingencies		
Convertible preferred stock, \$.001 par value: 80,624 and no shares authorized at December 31, 2009 and March 31, 2010, respectively; 75,917 shares issued and outstanding at December 31, 2009 and no shares outstanding at March 31, 2010		156,705
Stockholders equity (deficit):		
Preferred Stock, \$.001 par value: 5,000 shares and no shares authorized at March 31, 2010 and December 31, 2009, respectively; no shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	30	2

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Common stock, \$.001 par value: 100,000 and 25,500 shares authorized at March 31, 2010 and December 31, 2009, respectively; 29,904 and 1,641 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively

Additional paid-in capital	238,395	7,432
Accumulated other comprehensive income	19	
Accumulated deficit	(192,103)	(177,725)
<b>Total stockholders' equity (deficit)</b>	<b>46,341</b>	<b>(170,291)</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 113,838</b>	<b>\$ 59,844</b>

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

**Table of Contents****AVEO Pharmaceuticals, Inc.****Condensed Consolidated Statements of Operations****(in thousands, except per share amounts)****(unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Collaboration revenue	\$ 10,881	\$ 3,670
Operating expenses:		
Research and development	22,618	9,729
General and administrative	2,753	2,571
	25,371	12,300
Loss from operations	(14,490)	(8,630)
Other income and expense:		
Other income (expense), net	712	(62)
Interest expense	(607)	(743)
Interest income	7	28
Other income (expense), net	112	(777)
Net loss	\$ (14,378)	\$ (9,407)
Net loss per share basic and diluted	\$ (2.27)	\$ (5.92)
Weighted-average number of common shares used in net loss per share basic and diluted	6,340	1,590

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

**Table of Contents****AVEO Pharmaceuticals, Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net loss	\$ (14,378)	\$ (9,407)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	325	326
Stock-based compensation	816	492
Noncash interest expense	138	203
Noncash deferred rent	(37)	(34)
Loss on disposal of property and equipment	1	
Remeasurement of warrants to purchase convertible preferred stock	(713)	62
Amortization of premium on investments	11	41
Changes in operating assets and liabilities:		
Accounts receivable	(4,662)	1,991
Prepaid expenses and other current assets	(6,228)	(357)
Other noncurrent assets	1,550	(118)
Accounts payable	(189)	(625)
Accrued expenses	(1,764)	(84)
Deferred revenue	(652)	12,796
Other liabilities	4	
Net cash (used in) provided by operating activities	(25,778)	5,286
<b>Investing activities</b>		
Purchases of property and equipment	(150)	(428)
Purchases of marketable securities	(24,465)	(19,960)
Proceeds from maturities and sales of marketable securities	6,000	10,500
Net cash used in investing activities	(18,615)	(9,888)
<b>Financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs	72,229	
Proceeds from issuance of convertible preferred stock, net of issuance costs		21,770
Proceeds from exercise of stock options	495	15
Principal payments on loans payable	(1,974)	(421)
Net cash provided by financing activities	70,750	21,364
Net increase in cash and cash equivalents	26,357	16,762
Cash and cash equivalents at beginning of period	45,290	20,814
Cash and cash equivalents at end of period	\$ 71,647	\$ 37,576

**Supplemental cash flow and noncash investing and financing activities**

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Cash paid for interest	\$	484	\$	543
Cash paid for income taxes				

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



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**AVEO Pharmaceuticals, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**(1) Organization**

AVEO Pharmaceuticals, Inc. (the Company) is a drug discovery and development company focused on the discovery and development of novel, targeted cancer therapeutics. As used throughout these unaudited, condensed consolidated financial statements, the terms AVEO, we, us, and our refer to the business of AVEO Pharmaceuticals, Inc. and its subsidiaries.

**(2) Basis of Presentation**

These condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiary. We have eliminated all significant intercompany accounts and transactions in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying condensed consolidated financial statements have been included. Interim results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010 or any other future period.

The information presented in the condensed consolidated financial statements and related footnotes at March 31, 2010, and for the three months ended March 31, 2010 and 2009, is unaudited and the condensed consolidated balance sheet amounts and related footnotes at December 31, 2009 have been derived from our audited financial statements. For further information, refer to the consolidated financial statements and accompanying footnotes included in the final prospectus relating to our initial public offering filed with the Securities and Exchange Commission (SEC) on March 12, 2010.

**(3) Significant Accounting Policies**

***Basic and Diluted Earnings (Loss) per Common Share***

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the reporting period. Preferred shares are not included in the calculation of net loss per share until their conversion to common shares. Diluted net loss per common share is computed by dividing net loss by the weighted-average number of common shares and dilutive common share equivalents then outstanding. Potential common stock equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants. Since the Company had a net loss for all periods presented, the effect of all potentially dilutive securities is antidilutive. Accordingly, basic and diluted net loss per common share is the same.

**Table of Contents****AVEO Pharmaceuticals, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The following table set forth for the periods presented the potential common shares (prior to consideration of the treasury stock method) excluded from the calculation of net loss per common share because their inclusion would have been anti-dilutive:

	<b>For the Three Months</b>	
	<b>Ended</b>	
	<b>March 31,</b>	
	<b>(in thousands)</b>	
	<b>2010</b>	<b>2009</b>
Weighted average options outstanding	3,492	2,936
Weighted average warrants outstanding	182	194
	3,674	3,130

***Stock-Based Compensation***

The fair value of all awards is recognized in the Company's statements of operations on a straight-line basis over their requisite service periods based on their grant fair values as calculated using the measurement and recognition provisions of Accounting Standards Codification ASC Topic 718, *Stock Compensation*. During the three months ended March 31, 2010 and 2009, respectively, the Company recorded the following stock-based compensation expense as a result of the adoption of ASC Topic 718:

	<b>For the Three Months</b>	
	<b>Ended</b>	
	<b>March 31,</b>	
	<b>(in thousands)</b>	
	<b>2010</b>	<b>2009</b>
Research and development	\$ 358	\$ 313
General and administrative	458	179
<b>Total stock-based compensation expense</b>	<b>\$ 816</b>	<b>\$ 492</b>

Allocations to research and development expenses and general and administrative expense are based upon the department to which the associated employee reported. No related tax benefits of the stock-based compensation expense have been recognized. Share-based payments issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period.

***Revenue Recognition***

The Company's revenue is generated primarily through collaborative research and development and licensing agreements. The terms of these agreements typically include payment to the Company of one or more of the following: nonrefundable, up-front license fees; premiums on the sale of convertible preferred stock; milestone payments; and royalties on product sales. In addition, the Company generates revenue through agreements that generally provide for fees for research and development services rendered. These service agreements also contemplate royalty payments to the Company on future sales of its collaborators' products. To date, the Company has earned several milestone payments but has not earned royalty revenue as a result of product sales.

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For arrangements that include multiple deliverables, the Company identifies separate units of accounting if certain criteria are met. Accordingly, revenues from licensing and collaboration agreements are recognized based on the performance requirements of the agreement.

Nonrefundable up-front fees, where the Company has ongoing involvement or performance obligations, are recorded as deferred revenue in the balance sheet and amortized on a straight-line basis into collaboration revenue in the statements of operations over the term of the performance obligations.

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**AVEO Pharmaceuticals, Inc.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

Payments or reimbursements resulting from the Company's research and development efforts are recognized as the services are performed and are presented on a gross basis in accordance with the accounting guidance, *Overall Considerations of Reporting Revenue Gross as a Principal*, so long as there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the related receivable is reasonably assured.

At the inception of each agreement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone, specifically reviewing factors such as the scientific and other risks that must be overcome to achieve the milestone, as well as the level of effort and investment required. Revenues from milestones, if they are nonrefundable and deemed substantive, are recognized upon successful accomplishment of the milestones. Milestones that are not considered substantive are accounted for as license payments and recognized on a straight-line basis over the remaining period of performance.

Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets.

***Principles of Consolidation***

The Company's consolidated financial statements include the Company's accounts and the accounts of the Company's wholly-owned subsidiary, AVEO Pharma Limited. All intercompany transactions have been eliminated.

***Research and Development Expenses***

Research and development expenses are charged to expense as incurred. Research and development expenses consist of costs incurred in performing research and development activities, including personnel-related costs, stock-based compensation, facilities, research-related overhead, clinical trial costs, contracted services, license fees, and other external costs.

Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made in accordance with the provisions of ASC 730-20-25-13.

***Cash and***