

Edgar Filing: PHARMANETICS INC - Form 10-Q

PHARMANETICS INC  
Form 10-Q  
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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, 2001.

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  
0-25133

PHARMANETICS, INC.

(Exact Name of Registrant as Specified in its Charter)

North Carolina 56-2098302  
(State or other jurisdiction of (IRS Employer Identification Number)  
Incorporation or organization)

9401 Globe Center Drive, Suite 140  
Morrisville, North Carolina 27560  
(Address of Principal Executive Office) (Zip Code)

Registrant's Telephone Number, Including Area Code 919-582-2600

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

| Class                      | Outstanding as of November 7, 2001 |
|----------------------------|------------------------------------|
| Common Stock, no par value | 9,380,805                          |

PHARMANETICS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets as of September 30, 2001  
(unaudited) and December 31, 2000

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Consolidated Statements of Operations for the Three Months  
and Nine Months ended September 30, 2001 and 2000  
(unaudited)

Consolidated Statements of Cash Flows for the Nine Months  
ended September 30, 2001 and 2000 (unaudited)

Notes to the Unaudited Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations

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PHARMANETICS, INC.

CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

### ASSETS

#### Current assets:

Cash and cash equivalents  
Short term investments, held-to-maturity  
Short term investments, trading  
Accounts and other receivables  
Inventories  
Other current assets

Total current assets

Property and equipment, net  
Patents and intellectual property, net  
Other noncurrent assets

Total assets

LIABILITIES, REDEEMABLE PREFERRED STOCK, CONTINGENTLY REDEEMABLE COMMON STOCK  
AND SHAREHOLDERS' EQUITY

Current liabilities:

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Accounts payable  
Accrued expenses  
Deferred revenue, current portion  
Current portion of long term debt and capital lease obligations

Total current liabilities

Noncurrent liabilities:

Deferred revenue, less current portion  
Long term debt and capital lease obligations, less current portion

Total noncurrent liabilities

Total liabilities

Series A convertible redeemable preferred stock, no par value; authorized 120,000 shares; 95,500 and 97,500 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively (aggregate liquidation value at September 30, 2001 of \$9,550)

Contingently redeemable common stock

Shareholders' equity:

Common stock, no par value; authorized 40,000,000 shares; 9,393,805 and 7,851,225 issued and outstanding at September 30, 2001 and December 31, 2000, respectively  
Accumulated deficit

Total shareholders' equity

Total liabilities, redeemable preferred stock, contingently redeemable common stock and shareholders' equity

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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PHARMANETICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

|           | THREE MONTHS ENDED           |                              |
|-----------|------------------------------|------------------------------|
|           | SEPTEMBER 30<br>2001<br>---- | SEPTEMBER 30<br>2000<br>---- |
| Net sales | \$1,235                      | \$ 743                       |

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|  |           |           |
|--|-----------|-----------|
| Cost of goods sold   | 1,004     | 788       |
|  | -----     | ----      |
| Gross profit   | 231       | (45)      |
|  | ----      | -----     |
| Operating expenses:  |           |           |
| General and administrative   | 1,094     | 794       |
| Sales and marketing  | 336       | 213       |
| Research and development   | 1,007     | 1,001     |
|  | -----     | -----     |
| Total operating expenses   | 2,437     | 2,008     |
|  | -----     | -----     |
| Operating loss   | (2,206)   | (2,053)   |
|  | -----     | -----     |
| Other income (expense):  |           |           |
| Interest expense   | (3)       | (47)      |
| Interest income  | 138       | 209       |
| Grant/royalty income   | -         | -         |
| Development income   | 50        | 142       |
| Other expense  | (5)       | -         |
|  | ----      | -         |
| Total other income   | 180       | 304       |
|  | ----      | ----      |
| Net and comprehensive loss   | (2,026)   | (1,749)   |
| Dividends on preferred stock   | 134       | 168       |
| Amortization of beneficial conversion feature of<br>Series A convertible preferred stock | -         | -         |
|  | -         | ----      |
| Net loss applicable to common shareholders   | (\$2,160) | (\$1,917) |
|  | =====     | =====     |
| Basic and diluted net loss per common<br>share   | (\$0.23)  | (\$0.25)  |
|  | =====     | =====     |
| Average weighted common shares outstanding   | 9,369     | 7,676     |
|  | =====     | =====     |

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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Cash flows from operating activities:

Net loss  
Adjustments to reconcile net loss to net cash  
used in operating activities:  
Loss on disposal of assets  
Depreciation  
Amortization of intangible and other assets  
Amortization of discount on investment  
Loss on trading securities  
Provision for inventory obsolescence  
Provision for warranty reserve  
Change in assets and liabilities:  
Accounts receivable  
Inventories  
Other assets  
Accounts payable and accrued expenses  
Deferred revenue

Net cash used in operating activities

Cash flows from investing activities:

Payments for purchase of property and equipment  
Costs incurred to obtain patents and intangibles  
Proceeds from maturities of investments  
Purchases of investments

Net cash provided by (used in) investing activities

Cash flows from financing activities:

Principal payments on long-term debt and capital lease  
obligations  
Proceeds from issuance of common stock, net of offering costs  
Proceeds from exercise of stock options  
Proceeds from Series A preferred stock offering, net of  
offering costs

Net cash provided by financing activities

Net increase in cash and cash equivalents  
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

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Supplemental disclosure of noncash investing and financing activities:

- Preferred stock issuance costs
- Preferred stock dividends paid with common shares
- Purchase of property and equipment through capital lease

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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PHARMANETICS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### Note 1. Organization and Basis of Presentation

PharmaNetics, Inc. (the "Company") is a holding company incorporated in July 1998 as the parent company of Cardiovascular Diagnostics, Inc. ("CVDI"). CVDI was incorporated in November 1985 and develops, manufactures and markets rapid turnaround diagnostics to assess blood clot formation and dissolution. CVDI develops tests based on its proprietary dry chemistry diagnostic test system, known as the Thrombolytic Assessment System ("TAS"), to provide rapid and accurate evaluation of hemostasis at the point of patient care. The consolidated financial statements included herein as of any date other than December 31 have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Financial information as of December 31 has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company. For further information regarding the Company's accounting policies, refer to the Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Results for the interim period are not necessarily indicative of the results for any other interim period or for the full fiscal year.

#### Note 2. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

#### Note 3. Investments

The Company makes investments in accordance with its investment policy which seeks to minimize the possibility of loss. Investments with original maturities at date of purchase beyond three months and which mature at or less than twelve months from the balance sheet date are classified as current. Investments are accounted for in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments held-to-maturity at December 31, 2000 consisted of United States government agency obligations and corporate bonds. Trading investments at September 30, 2001 consisted of marketable equity securities. These securities are classified as trading securities as the Company may hold these securities for only a short period of time.

#### Note 4. Inventory

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Inventories consisted of the following (in thousands):

|                | September 30, 2001<br>----- | December 31, 2000<br>----- |
|----------------|-----------------------------|----------------------------|
| Raw materials  | \$1,449                     | \$1,132                    |
| Finished goods | 543                         | 154                        |
|                | ---                         | ---                        |
|                | \$1,992                     | \$1,286                    |
|                | =====                       | =====                      |

### Note 5. Loss Per Common Share

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("EPS"), the Company is required to present both basic and diluted EPS on the face of the Statement of Operations. Basic EPS excludes dilution and is computed by dividing income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is the same as basic EPS for the Company's quarters ended September 30, 2001 and 2000, because, for loss periods, potential common shares (such as options) are not included in computing diluted EPS since the effect would be antidilutive. The number of potential common shares (options, warrants and convertible preferred stock) as of September 30, 2001 and 2000 totaled 2,586,175 and 2,482,148, respectively.

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### Note 6. Preferred Stock

During the first quarter of 2000, the Company completed a private placement of 120,000 shares of Series A convertible preferred stock ("Series A"), resulting in net proceeds to the Company of \$11,219,621. The Company also issued five-year warrants to acquire 240,000 shares of common stock at \$10.00 per share. Approximately \$1,275,000 of the net proceeds was allocated to the warrants based on their relative fair value. The Series A has a dividend of 6% payable quarterly in cash or in shares of common stock at the option of the Company. For the quarter ended September 30, 2001 and the year ended December 31, 2000, the Series A dividend was paid by issuing 19,070 and 40,065 shares of common stock, respectively.

Each share of the Series A is convertible into ten shares of common stock at \$10.00 per share. The Series A is convertible at the option of the holder at any time or may be redeemed at the option of the Company upon the occurrence of any of the following events: (a) the common stock closes at or above \$20.00 per share for 20 consecutive trading days, (b) a completion by the Company of a follow-on public offering of at least \$10 million at a per share price of at least \$15.00, (c) the acquisition of the Company by another entity by means of a transaction that results in the transfer of 50% or more of the outstanding voting power of the Company, (d) a sale of all or substantially all of the Company's assets, or (e) at any time after February 28, 2004.

The holders of the Series A have a liquidation preference of \$100 per preferred share plus any accrued but unpaid dividends then held, such amounts subject to certain adjustments. The liquidation preference is payable upon a change in control of the Company, thus the Series A is carried in the mezzanine section of the balance sheet. The holders also have the right to vote together with the common stock on an as-if-converted basis.

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On the date of issuance of the Series A, the effective conversion price of the Series A was at a discount to the price of the common stock into which the Series A is convertible. In accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", this discount totaled \$3,003,590 and was recorded as a preferred stock dividend during 2000.

### Note 7. Common Stock

In April 2001, Bayer Diagnostics, the Company's distributor, purchased 1,450,000 shares of common stock of the Company at \$12 per share for \$17.4 million. This investment increased Bayer's ownership percentage in the Company from approximately 7% to 19.9%. The Company and Bayer entered into an amended distribution agreement to replace the previous distribution agreement between the parties entered into during 1998.

The 2001 common stock purchase agreement with Bayer contains a provision that, upon the occurrence of a "change in control", as defined in the agreement, the Company may be required to compensate Bayer, in cash or shares of common stock, for any difference between per share prices originally paid by Bayer and the amount received by the Company's shareholders. In accordance with the implementation requirements of recently issued and adopted Emerging Issues Task Force Abstract No. 00-19, the Company has transferred to temporary equity an amount equal to the "change in control" payment called for by the purchase agreement. Under the new accounting guidelines, this temporary transfer is required only for those reporting periods in which the price per share paid by Bayer is in excess of the fair market value of a common share, as measured by reference to the NASDAQ National Market.

### Note 8. Deferred Revenue

In 2000, the Company began recognizing revenue in accordance with SEC Staff Accounting Bulletin No. 101. Under SAB 101, payments received under collaboration agreements are deferred and recognized as income over the period of the respective agreements. During 2001 and 2000, the Company received payments as part of collaboration agreements with other entities. Revenue recognized related to collaboration agreements for the quarters ended September 30, 2001 and 2000 were \$550,000 and \$142,000, respectively.

### Note 9. Significant Customers

During the quarters ended September 30, 2001 and 2000, the Company had sales to one customer totaling \$732,000 and \$711,000, respectively. At September 30, 2001 and December 31, 2000, outstanding receivables from that customer totaled 65% and 92%, respectively, of total receivables.

### Note 10. Recent Accounting Pronouncements

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS Nos. 141 and 142 will change the

accounting for business combinations and goodwill in two significant ways. First, SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. Second, SFAS No. 142 changes the



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accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business transactions, will cease upon adoption of SFAS No. 142, which for companies with calendar year ends, will be January 1, 2002. We do not anticipate that these standards will have any material impact on the Company's financial condition, results of operations or cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("FAS 143"), Accounting for Asset Retirement Obligations, and in July, 2001 the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144"), Accounting for the Impairment of Disposal of Long-Lived Assets. FAS 143 requires that obligations associated with the retirement of tangible long-lived assets be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. FAS 143 will be effective for financial statements beginning after June 15, 2002, though early adoption is encouraged. The application of this statement is not expected to have a material impact on the Company's financial statements.

FAS 144 supersedes FAS 121 and applies to all long-lived assets, including discontinued operations, and amends Accounting Principles Board Opinion No. 30 ("APB 30") Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. FAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book or fair value less costs to sell. FAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and its provisions are generally expected to be applied prospectively. The application of this statement is not expected to have a material impact on the Company's financial statements.

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

#### INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Our actual results might differ materially from those projected in the forward-looking statements due to any number of factors, including those set forth below under "--Factors That May Affect Future Results". Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in our other SEC filings, copies of which are available upon request to us.

The following discussion should be read in connection with the unaudited Consolidated Financial Statements and Notes thereto appearing elsewhere in this report. Unless the context indicates otherwise, all references to us include our wholly-owned subsidiary, Cardiovascular Diagnostics, Inc., or CVDI.

CVDI develops, markets and manufactures a Thrombolytic Assessment System, or TAS, consisting of a compact, portable analyzer and disposable test cards which are inserted into the analyzer to perform a variety of hemostasis tests. In August 1998, CVDI signed a global distribution agreement with Chiron Diagnostics, which is now a part of the diagnostics division of the Bayer Corporation ("Bayer"), to distribute CVDI's PT, aPTT, HMT, and LHMT test cards in North America and certain South American, European and Asian countries. At that time, we received an equity investment of \$6 million. This distribution agreement was replaced by an amended distribution agreement in April 2001, at which time Bayer invested \$17.4 million in exchange for 1,450,000 shares of our common stock.

Given the consolidating hospital market and pricing pressures, our strategy has evolved towards becoming more focused on the development of theranostic tests

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for drugs, some which have narrow ranges between over- and under-dosage. Theranostics is an emerging new field of medicine that enables physicians to therapeutically manage coagulation parameters of their patients in the treatment of angina, myocardial infarction (heart attack), stroke, and pulmonary and arterial emboli. The Company's flexible technology platform is the primary driver of existing collaborations with a number of major pharmaceutical companies, including Aventis Pharmaceuticals and Knoll BASF, to develop theranostic tests for specific compounds and disease indications being targeted by these corporations. These and other future collaborations for theranostic tests also may further demand for our analyzers and routine anticoagulant tests. We believe that rapid diagnostic capabilities improve patient care and turnover, and that there is a market trend to obtain diagnostic information faster in order to effect therapy sooner. We also believe that these trends should allow us to obtain higher pricing for these theranostic tests. Our development efforts will continue to focus on expanding our menu of tests to monitor developmental drugs where rapid therapeutic intervention is needed.

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### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED SEPTEMBER 30, 2001 VS SEPTEMBER 30, 2000

Net sales for the quarter ended September 30, 2001 were \$1,235,000 compared to \$743,000 in the same period in 2000. The increase was due to higher specialty card revenue in 2001, attributable to a \$1.5 million payment from AstraZeneca early in 2001 which was recorded as deferred revenue in accordance with the provisions of the contract. In the third quarter, \$500,000 of this payment was recognized as revenue. The remainder of this payment will be recognized as revenue in the fourth quarter of the year. Routine test card and TAS analyzer revenue was virtually unchanged from the prior period.

Cost of goods sold for the quarter ended September 30, 2001 was \$1,004,000 compared to \$788,000 in the same period in 2000. This increase was principally due to higher manufacturing costs related to depreciation, personnel and inventory reserves in 2001 compared to 2000. The resulting gross profit for the 2001 period was higher than the third quarter of 2000 as a result of the increased specialty test card revenue that more than offset the noted manufacturing cost increases.

Total operating expenses for the quarter ended September 30, 2001 were \$2,437,000 compared to \$2,008,000 in the third quarter of 2000. General and administrative expenses were higher in the third quarter of 2001 compared to the same period in 2000 due to technology infrastructure costs that did not occur in the comparable period in 2000, and also because of expected increased personnel costs. Sales and marketing expenses increased from 2000 primarily due to training materials expense during the third quarter of 2001 that did not occur in 2000. Research and development expenses increased slightly with expected increases in payroll costs offset by decreased clinical research costs compared to the prior year period.

Other income (expense) for the quarter ended September 30, 2001, which is composed of interest income, interest expense, royalty income and development income, was a net other income of \$180,000 compared to a net other income of \$304,000 in the third quarter of 2000. Interest income decreased in the third quarter of 2001 compared to 2000 as much lower interest rates more than offset higher average cash balances. In addition, development income decreased during the third quarter of 2001 as income was recognized during the third quarter of 2000 related to a collaborative development agreement with Bayer that ended during 2000.

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NINE MONTHS ENDED SEPTEMBER 30, 2001 VS SEPTEMBER 30, 2000

Net sales for the nine months ended September 30, 2001 were \$3,359,000 compared to \$3,609,000 for the same period in 2000. This decrease was mainly due to decreased revenue from the sale of routine test cards, analyzers and controls to our distributor in 2001 compared to 2000. This decrease was partially offset by increased specialty card revenue related to the payment from AstraZeneca in 2001.

Cost of goods sold for the nine months ended September 30, 2001 was \$2,865,000 compared to \$2,670,000 for the same period in 2000. Cost of goods sold increased in 2001 as a result of higher manufacturing costs associated with the Company's move to a new facility, including increased depreciation related to new equipment and additional personnel. The gross profit percentage decreased compared to the prior year as a result of these cost increases and lower sales volume.

Total operating expenses for the nine months ended September 30, 2001 were \$7,002,000 compared to \$5,804,000 for the same period in 2000. This increase is primarily the result of facility relocation costs, technology infrastructure costs, budgeted payroll increases and increased sales and marketing efforts.

Other income (expense) for the nine months ended September 30, 2001, was a net other income of \$388,000 compared to a net other income of \$815,000 in the same period of 2000. Interest income decreased compared to 2000 as much lower interest rates more than offset higher average cash balances. In addition, development income decreased during the nine months of 2001 as income was recognized during 2000 related to a collaborative development agreement with Bayer that ended prior to 2001.

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, we had cash and cash equivalents and investments of \$16.6 million and working capital of \$17.5 million, as compared to \$9.2 million and \$8.4 million, respectively, at December 31, 2000. During the nine months ended September 30, 2001, we used cash in operating activities of \$6.2 million. The use of cash was primarily due to funding our net operating loss, increased inventory balances and decreased payables. These outflows were somewhat offset by inflows from past revenues that were deferred to subsequent periods. Investing activities in 2001 mainly consisted of purchasing fixed assets, consisting mainly of equipment and improvements for our new facility. Financing activities in 2001 included the elimination of our remaining debt with Transamerica Business and a significant equity financing with Bayer Diagnostics, our distributor, who invested \$17.4 million in exchange for 1,450,000 shares of

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our common stock at \$12 per share. This increased Bayer's ownership percentage from approximately 7% to 19.9%. We have used and plan to continue to use the proceeds to fund our operations and to fund development and marketing of new specialty test cards.

We expect to incur additional operating losses during the remainder of 2001 and into 2002. Our working capital requirements will depend on many factors, primarily the volume of future orders of TAS products from our distributor, Bayer Diagnostics. In addition, we expect to incur costs associated with clinical trials for development of new test cards. We may acquire other products, technologies or businesses that complement our existing and planned products, although we currently have no understanding, commitment or agreement

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with respect to any such acquisitions. Management believes that our existing capital resources and cash flows from operations, including that from our distribution agreement with Bayer Diagnostics, will be adequate to satisfy our planned capital and operational requirements.

### RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS Nos. 141 and 142 will change the accounting for business combinations and goodwill in two significant ways. First, SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. Second, SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business transactions, will cease upon adoption of SFAS No. 142, which for companies with calendar year ends, will be January 1, 2002. We do not anticipate that these standards will have any material impact on the Company's financial condition, results of operations or cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("FAS 143"), Accounting for Asset Retirement Obligations, and in July, 2001 the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144"), Accounting for the Impairment of Disposal of Long-Lived Assets. FAS 143 requires that obligations associated with the retirement of tangible long-lived assets be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. FAS 143 will be effective for financial statements beginning after June 15, 2002, though early adoption is encouraged. The application of this statement is not expected to have a material impact on the Company's financial statements.

FAS 144 supersedes FAS 121 and applies to all long-lived assets, including discontinued operations, and amends Accounting Principles Board Opinion No. 30 ("APB 30") Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. FAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book or fair value less costs to sell. FAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and its provisions are generally expected to be applied prospectively. The application of this statement is not expected to have a material impact on the Company's financial statements.

### FACTORS THAT MAY AFFECT FUTURE RESULTS

A number of uncertainties exist that may affect our future operating results and stock price, including risks associated with development of new tests, particularly specialty tests that rely on development, regulatory approval, commercialization and market acceptance of collaborators' new drugs; market acceptance of TAS; our continuing losses and the resulting potential need for additional capital in the future; managed care and continuing market consolidation, which may result in price pressure, particularly on routine tests; and FDA regulations and other regulatory guidelines affecting the Company and/or its collaborators. The market price of the common stock could be subject to significant fluctuations in response to variations in our quarterly operating results as well as other factors which may be unrelated to our performance. The stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of and announcements concerning public companies. Such broad fluctuations may adversely affect the market price of our common stock. Securities of issuers having relatively limited capitalization or securities recently issued in an initial public offering are particularly susceptible to

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volatility based on short-term trading strategies of certain investors.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHARMANETICS, INC.

Date: November 9, 2001

By: /s/ James McGowan

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James McGowan  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ Paul Storey

-----  
Paul Storey  
Director of Finance/Treasurer  
(Principal Accounting Officer)

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