

VERTEX PHARMACEUTICALS INC / MA
Form 10-Q
November 09, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

OR

o **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 000-19319**

VERTEX PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

MASSACHUSETTS
(State or other jurisdiction of
incorporation or organization)

04-3039129
(I.R.S. Employer
Identification No.)

130 WAVERLY STREET
CAMBRIDGE, MASSACHUSETTS
(Address of principal executive offices)

02139-4242
(zip code)

(617) 444-6100
(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 ý No o

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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 definition 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.

Common Stock, par value \$0.01 per share
Class

181,189,886
Outstanding at November 4, 2009

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**VERTEX PHARMACEUTICALS INCORPORATED
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

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"We," "us," the "Company" and "Vertex" as used in this Quarterly Report on Form 10-Q refer to Vertex Pharmaceuticals Incorporated, a Massachusetts corporation, and its subsidiaries.

"Vertex" is a registered trademark of Vertex. "Agenerase," "Lexiva" and "Telzir" are registered trademarks of GlaxoSmithKline plc. "PEGASYS" is a trademark of Hoffman-La Roche. "PEGINTRON" is a registered trademark of Schering Corporation. Other brands, names and trademarks contained in this Quarterly Report on Form 10-Q are the property of their respective owners.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

Vertex Pharmaceuticals Incorporated
Condensed Consolidated Balance Sheets
(unaudited)

(in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 559,133	\$ 389,115
Marketable securities, available-for-sale	297,477	442,986
Receivable related to sale of potential future milestone payments	32,783	
Accounts receivable	10,173	23,489
Prepaid expenses and other current assets	14,500	11,991
 Total current assets	 914,066	 867,581
Restricted cash	30,313	30,258
Property and equipment, net	62,444	68,331
Intangible assets	525,900	
Goodwill	26,102	
Other assets	14,666	14,309
 Total assets	 \$ 1,573,491	 \$ 980,479
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 19,962	\$ 51,760
Accrued expenses and other current liabilities	108,297	94,203
Accrued interest	855	5,349
Deferred revenues, current portion	74,609	37,678
Accrued restructuring expense, current portion	6,407	6,319
Other obligations	21,236	21,255
 Total current liabilities	 231,366	 216,564
Accrued restructuring expense, excluding current portion	26,951	27,745
Convertible senior subordinated notes (due February 2013)	144,000	287,500
Secured notes (due October 2012)	118,840	
Liability related to sale of potential future milestone payments	36,160	

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Deferred revenues, excluding current portion	244,927	209,796
Deferred tax liability	162,503	
Total liabilities	964,747	741,605
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued and outstanding at September 30, 2009 and December 31, 2008		
Common stock, \$0.01 par value; 300,000,000 shares authorized at September 30, 2009 and December 31, 2008; 180,898,858 and 151,245,384 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	1,791	1,494
Additional paid-in capital	3,138,207	2,281,817
Accumulated other comprehensive (loss) income	(115)	3,168
Accumulated deficit	(2,531,139)	(2,047,605)
Total stockholders' equity	608,744	238,874
Total liabilities and stockholders' equity	\$ 1,573,491	\$ 980,479

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

Table of Contents**Vertex Pharmaceuticals Incorporated****Condensed Consolidated Statements of Operations****(unaudited)****(in thousands, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
Royalty revenues	\$ 7,834	\$ 7,763	\$ 19,891	\$ 28,355
Collaborative and other research and development revenues	17,123	23,846	48,109	114,338
Total revenues	24,957	31,609	68,000	142,693
Costs and expenses:				
Royalty expenses	3,712	4,194	10,555	11,471
Research and development expenses	132,132	131,728	415,044	377,574
Sales, general and administrative expenses	36,572	25,430	97,618	71,810
Restructuring expense	774	885	4,283	2,683
Acquisition-related expenses			7,793	
Total costs and expenses	173,190	162,237	535,293	463,538
Loss from operations	(148,233)	(130,628)	(467,293)	(320,845)
Interest income	595	4,396	4,683	12,885
Interest expense	(1,927)	(3,812)	(8,630)	(9,559)
Loss on exchange of convertible subordinated notes			(12,294)	
Net loss	\$ (149,565)	\$ (130,044)	\$ (483,534)	\$ (317,519)
Basic and diluted net loss per common share	\$ (0.84)	\$ (0.93)	\$ (2.86)	\$ (2.30)
Basic and diluted weighted-average number of common shares outstanding	178,735	140,109	169,137	137,788

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

Table of Contents**Vertex Pharmaceuticals Incorporated****Condensed Consolidated Statements of Cash Flows****(unaudited)****(in thousands)****Nine Months Ended
September 30,****2009 2008**

Cash flows from operating activities:		
Net loss	\$ (483,534)	\$ (317,519)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	21,724	23,621
Stock-based compensation expense	68,996	44,150
Other non-cash based compensation expense	4,585	3,757
Loss on disposal of property and equipment	2,233	
Loss on exchange of convertible subordinated notes	12,294	
Realized gain on marketable securities		(633)
Changes in operating assets and liabilities, excluding the effect of an acquisition:		
Accounts receivable	13,328	9,354
Prepaid expenses and other current assets	(2)	(6,325)
Accounts payable	(32,104)	(1,285)
Accrued expenses and other current liabilities	(1,740)	(11,174)
Accrued restructuring expense	(706)	(910)
Accrued interest	(2,395)	1,859
Deferred revenues	72,062	125,848
Net cash used in operating activities	(325,259)	(129,257)
Cash flows from investing activities:		
Purchases of marketable securities	(374,767)	(508,983)
Sales and maturities of marketable securities	517,240	244,777
Payment for the acquisition of ViroChem, net of cash acquired	(87,422)	
Expenditures for property and equipment	(15,918)	(25,568)
Increase in restricted cash	(55)	
Increase in other assets	(33)	(361)
Net cash provided by (used in) investing activities	39,045	(290,135)
Cash flows from financing activities:		
Issuances of common stock from employee benefit plans, net	24,960	18,351
Issuances of common stock from stock offerings, net	313,250	330,062
Issuance of secured notes (due October 2012)	122,217	
Issuances of convertible senior subordinated notes (due February 2013), net		278,607
Repayment of collaborator development loan		(19,997)
Debt exchange costs	(85)	
Net cash provided by financing activities	460,342	607,023
Effect of changes in exchange rates on cash	(4,110)	(418)