

SANGSTAT MEDICAL CORP  
Form 10-Q  
November 12, 2002

**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, 2002

OR

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

Commission File Number: 0-22890

<b>SANGSTAT MEDICAL CORPORATION</b>		
(Exact name of registrant as specified in its charter)		
<b>Delaware</b>		<b>94-3076-069</b>
(State of incorporation)		(IRS Employer Identification No.)
<b>6300 Dumbarton Circle Fremont, CA 94555</b>		
(Address of principal executive office, Zip Code)		

Registrant's telephone number, including area code: 510-789-4300

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

CLASS	NUMBER OF SHARES
Common Stock	26,435,049*

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\* As of October 31, 2002

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**SANGSTAT MEDICAL CORPORATION**

**FORM 10-Q**

**INDEX**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**September 30, 2002 and December 31, 2001**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Three and Nine Months Ended September 30, 2002 and 2001**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**Three and Nine Months Ended September 30, 2002 and 2001**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months Ended September 30, 2002 and 2001**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. CONTROLS AND PROCEDURES**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

**SIGNATURES**

**SANGSTAT MEDICAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par values)

	September 30, 2002 (unaudited)	December 31, 2001 (1)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 86,913	\$ 32,822
Short-term investments	20,033	
Accounts receivable (net of allowances of \$3,721 in 2002 and \$4,072 in 2001)	22,854	19,872
Other receivables	1,587	480
Inventories	24,867	22,942
Prepaid expenses and other current assets	2,204	2,494
Total current assets	158,458	78,610
<b>PROPERTY AND EQUIPMENT net</b>	<b>5,753</b>	<b>5,469</b>
<b>GOODWILL</b>	<b>578</b>	
<b>INTANGIBLE ASSETS</b> (net of accumulated amortization of \$4,000 in 2002 and \$4,324 in 2001)	<b>7,892</b>	<b>9,220</b>
<b>OTHER ASSETS</b>	<b>22,799</b>	<b>21,260</b>
<b>TOTAL</b>	<b>\$ 195,480</b>	<b>\$ 114,559</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 28,149	\$ 22,019
Accrued liabilities	12,638	14,375
Capital lease obligations current portion	182	177
Deferred revenue current portion	3,158	3,158
Notes payable current portion	4,970	5,615
Total current liabilities	49,097	45,344
<b>CAPITAL LEASE OBLIGATIONS</b>	<b>239</b>	<b>326</b>
<b>DEFERRED REVENUE</b>	<b>3,948</b>	<b>6,317</b>
<b>NOTES PAYABLE</b>	<b>15,458</b>	<b>30,213</b>
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$.001 par value, 5,000 shares authorized; none outstanding		
Common stock, \$.001 par value, 40,000 shares authorized; outstanding: 2002, 26,429 shares; 2001, 20,961 shares	310,398	222,521
Accumulated deficit	(181,921)	(187,015)
Accumulated other comprehensive loss	(1,739)	(3,147)

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Total stockholders' equity		126,738		32,359
TOTAL		\$ 195,480	\$	114,559

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(1) Derived from the Company's audited consolidated financial statements at December 31, 2001.

See notes to Condensed Consolidated Financial Statements.

## SANGSTAT MEDICAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>REVENUES:</b>				
Net product sales	\$ 32,510	\$ 24,311	\$ 85,992	\$ 64,841
Revenue from collaborative agreements	790	789	2,369	2,368
Total revenues	33,300	25,100	88,361	67,209
<b>COSTS AND OPERATING EXPENSES:</b>				
Cost of product sales	16,668	11,641	42,557	29,584
Research and development	4,440	4,899	13,868	13,647
Selling, general & administrative	8,826	7,949	25,456	25,455
Amortization of intangible assets	250	348	750	1,043
Total costs and operating expenses	30,184	24,837	82,631	69,729
Income (loss) from continuing operations	3,116	263	5,730	(2,520)
OTHER INCOME (EXPENSE) - NET	(166)	(498)	708	(5,795)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,950	(235)	6,438	(8,315)
INCOME TAX PROVISION	(342)	(94)	(1,344)	(345)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	2,608	(329)	5,094	(8,660)
NET LOSS FROM OPERATIONS OF DISCONTINUED OPERATION				(763)
NET LOSS FROM DISPOSAL OF DISCONTINUED OPERATION		(381)		(381)
NET INCOME (LOSS)	\$ 2,608	\$ (710)	\$ 5,094	\$ (9,804)
<b>NET INCOME (LOSS) PER SHARE - BASIC</b>				
Continuing operations	\$ 0.10	\$ (0.01)	\$ 0.20	\$ (0.43)
Discontinued operation		(0.02)		(0.06)
Net income (loss)	\$ 0.10	\$ (0.03)	\$ 0.20	\$ (0.49)
<b>NET INCOME (LOSS) PER SHARE - DILUTED</b>				
Continuing operations	\$ 0.10	\$ (0.01)	\$ 0.19	\$ (0.43)
Discontinued operation		(0.02)		(0.06)
Net income (loss)	\$ 0.10	\$ (0.03)	\$ 0.19	\$ (0.49)

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Shares Used in Per Share Computations - Basic	26,418	20,860	25,617	19,973
Shares Used in Per Share Computations - Diluted	26,993	20,860	26,361	19,973

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 2,608	\$ (710)	\$ 5,094	\$ (9,804)
Reversal of unrealized losses on marketable securities sold during the current period		(5)		(5)
Unrealized gains and (losses) on short-term investments classified as available for sale in the current period	19		(23)	
Foreign currency translation adjustments	146	1,085	1,431	(249)
Total comprehensive income (loss)	\$ 2,773	\$ 370	\$ 6,502	\$ (10,058)

See notes to Condensed Consolidated Financial Statements.

## SANGSTAT MEDICAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2002	2001
<b>OPERATING ACTIVITIES:</b>		
Net income (loss) from continuing operations	\$ 5,094	\$ (8,660)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	1,969	2,440
Non-cash interest expense	536	861
Loss on disposal of property and equipment	37	195
Loss on disposal of discontinued operation		(381)
Deferred income taxes	(559)	
Changes in assets and liabilities:		
Accounts receivable	(2,982)	(2,685)
Other receivables	(1,107)	1,481
Inventories	(4,030)	1,733
Prepaid expenses and other current assets	290	5,326
Other assets	566	3,081
Accounts payable	6,130	(4,661)
Accrued liabilities	(1,178)	3,425
Deferred revenue	(2,369)	(2,369)
Net cash provided by (used in) continuing operating activities	2,397	(214)
Net cash used in discontinued operation		(2,563)
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,309)	(839)
Maturities of short-term investments	10,491	1,556
Proceeds from the sale of discontinued operation		1,800
Purchases of short-term investments	(30,547)	
Net cash (used in) provided by investing activities	(21,365)	2,517
<b>FINANCING ACTIVITIES:</b>		
Sale of common stock	87,877	19,948
Notes payable borrowings	1,487	355
Notes payable repayments	(17,423)	(13,072)
Repayment of capital lease obligations	(82)	(226)
Net cash provided by financing activities	71,859	7,005
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,200	(249)



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NET INCREASE IN CASH AND CASH EQUIVALENTS	54,091	6,496
CASH AND CASH EQUIVALENTS, Beginning of period	32,822	19,046
CASH AND CASH EQUIVALENTS, End of period	\$ 86,913	\$ 25,542
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 886	\$ 2,877
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unrealized loss on short-term investments	\$ (23)	\$ (5)

See notes to Condensed Consolidated Financial Statements

**SANGSTAT MEDICAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

***1. Basis of Presentation***

The condensed consolidated financial statements include the accounts of SangStat Medical Corporation (the Company) and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated.

The condensed consolidated financial statements presented are unaudited and in the opinion of management reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial condition and results of operations as of and for the interim periods presented. Certain reclassifications to the September 30, 2001 condensed consolidated financial statements were made in order to conform to the current quarter condensed consolidated financial statement presentation. The results for interim periods are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's 2001 Annual Report on Form 10-K.

***2. Net Income (Loss) Per Share***

Basic and diluted net income (loss) per share amounts have been computed using the weighted average number of common shares outstanding during the periods presented. Basic net income (loss) per share are determined solely on common shares whereas diluted earnings per share include common equivalent shares, as determined under the treasury stock method. For the three and nine month periods ended September 30, 2002, calculation of diluted net income per share also includes the dilutive effect of outstanding stock options, and does not include the effect of outstanding convertible notes and warrants of 550,773 shares as these would be anti-dilutive for the periods presented. For the three and nine month periods ended September 30, 2001, the Company incurred a net loss and as such did not include the effect of outstanding stock options of 452,591 shares and the effect of outstanding convertible notes and warrants of 550,773 shares in the diluted net loss per share calculation as their effect would be anti-dilutive.

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The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations (amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>Numerator:</b>				
Net income (loss)				
Continuing operations	\$ 2,608	\$ (329)	\$ 5,094	\$ (8,660)
Discontinued operation		(381)		(1,144)
Net income (loss)	\$ 2,608	\$ (710)	\$ 5,094	\$ (9,804)
<b>Denominator:</b>				
Basic:				
Weighted average number of common shares outstanding	26,418	20,860	25,617	19,973
Diluted:				
Weighted average number of common shares outstanding	26,418	20,860	25,617	19,973
Common share equivalents - stock options	575		744	
Weighted average number of common shares and common share equivalents	26,993	20,860	26,361	19,973
Basic net income (loss) per share				
Continuing operations	\$ 0.10	\$ (0.01)	\$ 0.20	\$ (0.43)
Discontinued operation		(0.02)		(0.06)
Net income (loss) per share	\$ 0.10	\$ (0.03)	\$ 0.20	\$ (0.49)
Diluted net income (loss) per share				
Continuing operations	\$ 0.10	\$ (0.01)	\$ 0.19	\$ (0.43)
Discontinued operation		(0.02)		(0.06)
Net income (loss) per share	\$ 0.10	\$ (0.03)	\$ 0.19	\$ (0.49)

### 3. Accumulated Other Comprehensive Loss

The following are the components of accumulated other comprehensive loss (in thousands):

	September 30, 2002	December 31, 2001
Unrealized loss on short-term investments	\$ (23)	\$
Accumulated foreign currency translation adjustments	(1,716)	(3,147)
Total	\$ (1,739)	\$ (3,147)



**4. Inventories**

Inventories, valued at the lower of cost (first-in, first-out) or market, consist of (in thousands):

	September 30, 2002	December 31, 2001
Raw materials	\$ 795	\$ 2,976
Work in process	15,950	13,868
Finished goods	8,122	6,098
Total	\$ 24,867	\$ 22,942

In addition to these inventories, the Company has classified at September 30, 2002 and December 31, 2001 approximately \$17,369,000 and \$15,263,000, respectively, of raw materials inventory as other assets in the accompanying condensed consolidated balance sheets as it is not expected that any significant portion of the inventory will be utilized in operations during the next twelve months.

**5. Goodwill and Intangible Assets**

The Company adopted Statement of Financial Accounting Standard ( SFAS ) No. 142, *Goodwill and Other Intangible Assets* on January 1, 2002. SFAS No. 142 required that the net book value of assembled workforce intangibles be reclassified to goodwill on January 1, 2002. Further, as required by SFAS No. 142, the Company performed a transitional impairment test as of January 1, 2002 and concluded that no impairment of goodwill was indicated. Intangible assets consist of the following (in thousands):