FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

ALLIANCE PHARMACEUTICAL CORP
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SIC: **2835** In vitro & in vivo diagnostic substances

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D)
- ---------
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1995

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 0-12900

ALLIANCE PHARMACEUTICAL CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW YORK	14-1644018
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
3040 SCIENCE PARK ROAD SAN DIEGO, CALIFORNIA	92121
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	ZIP CODE
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:	619-558-4300

INDICATE BY A CHECK 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 FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO _____

AS OF MAY 3, 1995, REGISTRANT HAD 24,602,437 SHARES OF ITS COMMON STOCK, $.01 PAR VALUE, OUTSTANDING.

ALLIANCE PHARMACEUTICAL CORP. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION:

Item 1. Financial Statements

ALLIANCE PHARMACEUTICAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1995	June 30, 1994
ASSETS	(Unaudited)	(Note)
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Current assets:		
Cash and cash equivalents	$ 4,579,000	$ 1,902,000
Short-term investments	9,723,000	19,154,000
Research revenue receivable	2,000,000	
Inventory and other current assets	1,345,000	1,349,000
Total current assets	17,647,000	22,405,000
Property, plant and equipment - net	9,798,000	10,165,000
Purchased technology - net	16,162,000	17,033,000
Other assets - net	1,908,000	3,529,000
	$ 45,515,000	$ 53,132,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,711,000	$ 1,074,000
Accrued expenses	1,945,000	1,885,000
Total current liabilities	3,656,000	2,959,000
Other	681,000	348,000
Stockholders' equity:		
Preferred stock - $.01 par value; 5,000,000 shares authorized; 1,500,000 shares outstanding at March 31, 1995	15,000	
Common stock - $.01 par value; 30,000,000 shares authorized at June 30, 1994 and 50,000,000 shares authorized at March 31, 1995; 21,412,370 and 21,372,054 shares issued and outstanding at March 31, 1995 and June 30, 1994, respectively	214,000	214,000
Additional paid-in capital	223,045,000	208,954,000
Accumulated deficit	(182,096,000)	(159,343,000)
Total stockholders' equity	41,178,000	49,825,000
	$ 45,515,000	$ 53,132,000

Note : The balance sheet at June 30, 1994 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See Notes to Condensed Consolidated Financial Statements.

ALLIANCE PHARMACEUTICAL CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	Nine months ended March 31,

	1995	1994	1995	1994
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Revenues:				
Product revenue	$ 26,000	$ 91,000	$ 135,000	$ 241,000
License and research revenue	2,450,000	28,000	9,550,000	130,000
	2,476,000	119,000	9,685,000	371,000
Operating expenses:				
Research and development	7,797,000	6,879,000	26,778,000	22,434,000
General and administrative	2,515,000	1,851,000	6,467,000	5,236,000
	10,312,000	8,730,000	33,245,000	27,670,000
Loss from operations	(7,836,000)	(8,611,000)	(23,560,000)	(27,299,000)
Other income -- net	232,000	449,000	807,000	1,400,000
Net loss	(7,604,000)	(8,162,000)	(22,753,000)	(25,899,000)
Dividends on preferred stock	(188,000)		(407,000)	
Net loss applicable to common shares	$ (7,792,000)	$ (8,162,000)	$ (23,160,000)	$ (25,899,000)
Net loss per share	$ (0.36)	$ (0.38)	$ (1.08)	$ (1.30)
Weighted average number of shares outstanding	21,409,000	21,330,000	21,393,000	19,848,000

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

ALLIANCE PHARMACEUTICAL CORP. AND SUBSIDIARIES
- --

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
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	Nine months ended March 31,	
	1995	1994
	(Unaudited)	
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OPERATING ACTIVITIES:		
Net loss	$ (22,753,000)	$ (25,899,000)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	2,175,000	2,227,000
Acquired research and development	1,686,000	
Changes in assets and liabilities:		
Research revenue receivable	(2,000,000)	
Accounts payable and accrued expenses and other	395,000	(162,000)
Net adjustments	2,256,000	2,065,000
Net cash used in operating activities	(20,497,000)	(23,834,000)
FINANCING ACTIVITIES:		
Issuance of common stock, preferred stock, and warrants	14,859,000	15,368,000
Net cash provided by financing activities	14,859,000	15,368,000

INVESTING ACTIVITIES:		
Short-term investments	9,083,000	11,558,000
Property, plant, and equipment	(768,000)	(1,246,000)
Net cash provided by investing activities	8,315,000	10,312,000
INCREASE IN CASH AND CASH EQUIVALENTS	2,677,000	1,846,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,902,000	5,316,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,579,000	$ 7,162,000

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

ALLIANCE PHARMACEUTICAL CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Alliance Pharmaceutical Corp. ("Alliance") and its subsidiaries (collectively, the "Company") are engaged in the development, manufacturing, and early-stage marketing of medical and pharmaceutical products.

Principles of Consolidation

The consolidated financial statements include the accounts of Alliance and its wholly owned subsidiaries, BioPulmonics, Inc. and Rosanin Corporation, and its majority-owned subsidiaries, Astral, Inc., and Applications et Transferts de Technologies Avancees. All significant intercompany accounts and transactions have been eliminated. Certain amounts in fiscal 1994 have been reclassified to conform to the current year's presentation.

Interim Condensed Financial Statements

The condensed consolidated balance sheet as of March 31, 1995, the condensed consolidated statements of operations for the three and nine months ended March 31, 1995 and 1994, and the condensed consolidated statements of cash flows for the nine months ended March 31, 1995 and 1994 are unaudited. In the opinion of management, such unaudited financial statements include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of the results to be expected for the full year. The financial statements should be read in conjunction with the Company's consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 1994.

Cash, Cash Equivalents, and Short-Term Investments

Effective July 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 ("FASB No. 115"), Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of short-term investments at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company classifies its short-term investments as available-for-sale. Available-for-sale investments are stated at fair value, with unrealized gains and losses carried as a component of stockholders' equity.

Purchased Technology

The purchased technology was acquired by virtue of the merger of Fluoromed Pharmaceutical, Inc. into a subsidiary of the Company in fiscal 1989. The technology acquired is the Company's core perfluorochemical ("PFC") technology and was valued based on an analysis of the present value of future earnings anticipated from this technology at that time. The Company identified alternative future uses for the PFC technology, including Oxygent (temporary blood substitute) and LiquiVent (intrapulmonary oxygen carrier) products.

The PFC technology is the basis for the Company's main drug development program and is being amortized over a 20-year life. Amortization of purchased technology is included in research and development expense. Accumulated amortization was $6,193,000 and $7,065,000 at June 30, 1994 and March 31, 1995, respectively.

The carrying value of purchased technology is reviewed periodically based

on the projected cash flows to be received from license fees, milestone payments, royalties and other product revenues. If such cash flows are less than the carrying value of the purchased technology, the difference will be charged to expense.

Net Loss Per Share
- ------------------

Net loss per share is based on the weighted average number of shares outstanding during the respective periods and does not include common stock equivalents since their effect on the net loss per share would be anti-dilutive.

2. LICENSE AGREEMENT

In August 1994, the Company executed a license agreement with Ortho Biotech, Inc. and The R.W. Johnson Pharmaceutical Research Institute, a division of Ortho Pharmaceutical Corporation (collectively referred to as "Ortho"), which provides Ortho with worldwide marketing and, at its election, manufacturing rights to the Company's injectable perfluorochemical emulsions capable of transporting oxygen for therapeutic use. Ortho will pay to Alliance a royalty based upon its sales of the product after commercialization. In addition, Ortho paid to Alliance an initial license fee of $4.0 million and will make other payments based on the achievement of certain milestones. Ortho will also be responsible for substantially all the remaining costs of developing the products. As of March 31, 1995, the Company had recorded a receivable of $2.0 million, representing funding due from Ortho for development costs incurred. Through April 1995, the Company had received research revenue payments of $5.1 million from Ortho. Such amounts are recorded as research revenue in the consolidated statements of operations. In conjunction with the license agreement, Johnson & Johnson Development Corp. purchased 1.5 million shares of Alliance convertible preferred stock for $15.0 million and obtained a warrant to purchase 300,000 shares of Alliance common stock at $15 per share during the next three years.

3. SALE OF COMMON STOCK

In April 1995, the Company completed offerings of 3.2 million shares of newly issued common stock. Net proceeds to the Company from such offerings were approximately $14.5 million.

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

(References to years are to the Company's fiscal years ended June 30.)

Alliance has devoted substantial resources to research and development related to its pharmaceutical products based upon perfluorochemical ("PFC") and emulsion technologies. The Company has been unprofitable since inception and expects to incur operating losses for at least the next several years due to continued requirements for research and development, preclinical testing and clinical trials, regulatory activities, commercial manufacturing start-up, and the establishment of a sales and marketing organization and/or arrangements therefor. The amount of net losses and the time required by the Company to achieve profitability are highly uncertain. There can be no assurance that the Company will be able to achieve profitability at all or on a sustained basis.

LIQUIDITY AND CAPITAL RESOURCES

In April 1995, the company completed offerings of 3.2 million shares of newly issued common stock. Net proceeds to the company from such offerings were approximately $14.5 million.

Through March 1995, the Company financed its activities primarily from public and private sales of equity and funding from marketing and related agreements with corporate partners. In August 1994, the Company and Ortho Biotech, Inc. and the R.W. Johnson Pharmaceutical Research Institute, a division of Ortho Pharmaceutical Corporation (collectively referred to as "Ortho") entered into a worldwide exclusive license agreement ("License Agreement") for injectable PFC emulsions capable of transporting oxygen for therapeutic use, including Oxygent (temporary blood substitute). Pursuant to the License Agreement, license and research revenues are expected to continue to increase in 1995. Under the License Agreement, Ortho paid to Alliance an initial fee of $4.0 million and will make other payments upon the achievement of certain milestones. Ortho is responsible for substantially all the remaining costs of developing the products and will pay Alliance a royalty based upon sales of products after commercialization. As of March 31, 1995, the Company had recorded a receivable of $2.0 million, representing funding due from Ortho for development costs incurred. As of April 1995, the Company had received research revenue payments

of $5.1 million from Ortho. In conjunction with the License Agreement, Johnson & Johnson Development Corp. ("J&JDC") purchased 1.5 million shares of Alliance convertible preferred stock for $15.0 million and obtained a warrant to purchase 300,000 shares of Alliance common stock at $15 per share during the next three years. The Company has financed substantially all of its office and research facilities and related leasehold improvements under operating lease arrangements.

The Company had net working capital of $14.0 million at March 31, 1995, compared to $19.4 million at June 30, 1994. The Company's cash, cash equivalents, and short-term investments declined to $14.3 million at March 31, 1995, from $21.1 million at June 30, 1994. The decrease resulted primarily from cash used for operating expenses of $27.7 million and from property, plant, and equipment additions of $768,000. These uses of cash were offset by $15.0 million received from the sale of convertible preferred stock to J&JDC, and from receipt of $4.0 million of license revenue and $3.1 million of research revenue attributable to the License Agreement. Capital expenditures for 1995 are expected to be less than those incurred during 1994. The Company's operations to date have consumed substantial amounts of cash, and are expected to continue to do so over the foreseeable future.

The Company continually reviews its product development activities in an effort to allocate its resources to those product candidates that the Company believes have the greatest commercial potential. Factors considered by the Company in determining the products to pursue include projected markets and need, potential for regulatory approval and reimbursement under the existing health care system, as well as anticipated health care reforms, technical feasibility, expected and known product attributes, and estimated costs to bring the product to market. Based on these and other factors, the Company may from time to time reallocate its resources among its product development activities. Additions to products under development or changes in products being pursued can substantially and rapidly change the Company's funding requirements.

In December 1993, the Company entered into an agreement with its primary supplier of raw material for certain products. Under the terms of the agreement, the Company is obligated to fund the supplier at defined minimum levels. All costs associated with the contract are charged to expense as incurred.

The Company expects to incur substantial additional expenditures associated with product development. The Company may seek additional collaborative research and development relationships with suitable corporate partners for its non-licensed products. There can be no assurance that such relationships, if any, will successfully reduce the Company's funding requirements. Additional equity or debt financing may be required, and there can be no assurance that funds from these sources would be available on favorable terms, if at all. If adequate funds are not available, the Company may be

required to delay, scale back, or eliminate one or more of its product development programs, or obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, or products that the Company would not otherwise relinquish.

Alliance anticipates that its current capital resources, including the $14.5 million in net proceeds from the April 1995 offerings, expected revenues from the License Agreement, its investments, and product sales, will be adequate to satisfy its capital requirements and fund current and planned operations for approximately one year. The Company's future capital requirements will depend on many factors, including continued scientific progress in its research and development programs, progress with preclinical testing and clinical trials, the time and cost involved in obtaining regulatory approvals, patent costs, competing technological and market developments, changes in existing collaborative relationships, the ability of the Company to establish development arrangements, the cost of manufacturing scale-up, and the establishment of an effective sales and marketing organization and/or arrangements therefor.

While the Company believes that it can produce materials for the initial market launch of its emulsion products at its existing San Diego facility, it may need to expand its commercial manufacturing capability for all of its products in the future. This expansion may occur in stages, each of which would require regulatory approval, and product demand could at times exceed supply capacity. The Company has not selected a site or obtained any regulatory approvals for construction of a commercial production facility for its products. The projected location and completion date of any production facility will depend upon regulatory and development activities and other factors. The Company cannot predict the amount that it will expend for the construction of such a production facility, and there can be no assurance as to when or whether the U.S. Food and Drug Administration will determine that such facility conforms with Good Manufacturing Practices. The License Agreement provides an option to Ortho to elect to manufacture the emulsion products referred to therein, or to require the Company to manufacture such products at a negotiated price.

The Company's business is subject to significant risks, including the uncertainties associated with the lengthy regulatory approval process, obtaining and enforcing patents important to the Company's business, and possible competition from other products. Even if the Company's products appear promising at an early stage of development, they may not reach the market for a number of reasons. Such reasons include, but are not limited to, the possibilities that the potential products will be found ineffective during clinical trials, failure to receive necessary regulatory approvals, difficulties in manufacturing on a large scale, failure to obtain market acceptance, and the inability to commercialize because of proprietary rights of third parties. The research, development, and market introduction of new products will require the application of considerable technical and financial resources by Alliance, while revenues generated from such products, assuming they are developed successfully, may not be realized for several years. Other material and unpredictable factors which could affect operating results include, without limitation, the uncertainty of the timing of product approvals and introductions and of sales growth; the ability to obtain necessary raw materials at cost effective prices or at all; the effect of possible technology and/or other business acquisitions or transactions; and the increasing emphasis on controlling health care costs and potential legislation or regulation of health care pricing.

The Company and certain of its officers and directors are named as defendants in a lawsuit filed by certain shareholders in September 1992. The Company believes it has meritorious defenses and intends to defend vigorously against the claims brought by the shareholders in the action. The Company believes the eventual outcome of the litigation will not have a material adverse effect on the Company's financial condition.

RESULTS OF OPERATIONS

NINE MONTHS ENDED MARCH 31, 1995 AS COMPARED WITH NINE MONTHS ENDED MARCH 31, 1994

The Company's license and research revenue increased to $9.5 million for the nine months ended March 31, 1995, compared to $130,000 for the nine months ended March 31, 1994. The increase was due to $4.0 million of license and $5.1 million of research revenues derived from the License Agreement. The Company expects license and research revenue to continue at higher levels during 1995, compared to 1994, due to the License Agreement.

The Company incurred total operating expenses of $33.2 million for the nine months ended March 31, 1995. Operating expenses include $3.9 million for purchases of raw material for certain products currently being developed, $1.8 million for Oxygent (temporary blood substitute) costs incurred prior to execution of the License Agreement, $545,000 for products no longer promoted or developed by Alliance, and a $1.7 million charge for capitalized product rights. The $3.9 million charge for purchase of raw materials arises under a December 1993 agreement the Company entered into with its primary supplier. Under terms of the agreement, the Company is obligated to fund the supplier at defined minimum levels. All costs associated with the contract are charged to research and development expense as incurred. In January 1994, the Company regained from Boehringer Ingelheim International GmbH ("BII") all marketing and manufacturing rights to Imagent(R) (diagnostic imaging agents) and Oxygent products outside of North America. In conjunction with the acquisition of the marketing and manufacturing rights from BII, the Company recorded product rights of $1.8 million, based on the value of warrants issued to acquire the rights. The unamortized portion ($1.7 million) of these product rights was charged to research and development expense when the Company licensed these product rights to Ortho.

Research and development expenses increased by 20% to $26.8 million for the nine months ended March 31, 1995, compared to $22.4 million for the nine months ended March 31, 1994. The growth in expenses is primarily a result of increased raw material costs and the product rights charge discussed above and increased staffing to support growth in research and development efforts. These expenses were partially offset by a reduction in payments to universities and outside consultants.

General and administrative expenses increased by 25% to $6.5 million for the nine months ended March 31, 1995, compared to $5.2 million for the nine months ended March 31, 1994. The increase in general and administrative expenses was primarily due to increased professional fees.

Investment and other income was $807,000 for the nine months ended March 31, 1995, compared to $1.4 million for the nine months ended March 31, 1994. The decline was primarily a result of lower average cash balances.

Alliance expects to incur substantial operating losses over the next several years due to continuing and increasing expenses associated with its research and development programs. Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of revenues earned and expenses incurred and such fluctuations may be substantial. The Company's

historical results are not necessarily indicative of future results.

THREE MONTHS ENDED MARCH 31, 1995 AS COMPARED WITH THREE MONTHS ENDED MARCH 31, 1994

The Company's license and research revenue increased by $2.4 million for the three months ended March 31, 1995 from $28,000 for the three months ended March 31, 1994. The increase was primarily a result of research revenues derived from the License Agreement. The Company expects license and research revenue to continue at higher levels during 1995, compared to 1994, due to the License Agreement.

Research and development expenses increased by 13% to $7.8 million for the three months ended March 31, 1995, compared to $6.9 million for the three months ended March 31, 1994, primarily a result of increased materials purchases.

General and administrative expenses increased to $2.5 million for the three months ended March 31, 1995, compared to $1.9 million for the three months ended March 31, 1994. The increase in general and administrative expenses was primarily due to increased professional fees.

Investment and other income was $232,000 for the three months ended March 31, 1995, compared to $449,000 for the three months ended March 31, 1994. The decline was primarily a result of lower average cash balances.

Alliance expects to incur substantial operating losses over the next several years due to continuing and increasing expenses associated with its research and development programs. Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of revenues earned and expenses incurred and such fluctuations may be substantial. The Company's historical results are not necessarily indicative of future results.

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.

ALLIANCE PHARMACEUTICAL CORP.

(Registrant)

/s/ Theodore D. Roth

Theodore D. Roth
Executive Vice President
and Chief Financial Officer

Date: May 10, 1995

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This schedule contains summary financial information extracted from the Condensed Consolidated Balance Sheet, and Condensed Consolidated Statement of Operations and is qualified in its entirety by reference to such financial statements.
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