

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**  
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### FILER

#### **VION PHARMACEUTICALS INC**

CIK: **944522** | IRS No.: **133671221** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-26534** | Film No.: **02645473**  
SIC: **2836** Biological products, (no diagnostic substances)

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 March 31, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-26534

VION PHARMACEUTICALS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3671221  
(I.R.S. Employer  
Identification No.)

4 Science Park  
New Haven, CT  
(Address of Principal Executive Offices)

06511  
(Zip Code)

Registrant's telephone number, including area code: (203) 498-4210

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

The number of shares outstanding of the registrant's Common Stock as of May 10, 2002 was 28,886,959.

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PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

Vion Pharmaceuticals, Inc.  
(A Development Stage Company)  
Balance Sheet

<TABLE>  
<CAPTION>

	March 31, 2002	December 31, 2001
(In thousands, except share and per share data)		
	-----	
<S>	(Unaudited) <C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,855	\$ 6,645
Short-term investments	12,173	15,999
	-----	
Total cash, cash equivalents and short-term investments	19,028	22,644

Interest receivable	254	193
Accounts receivable	53	54
Other current assets	79	130
	-----	-----
Total current assets	19,414	23,021
Property and equipment, net	536	550
Security deposits	30	30
	-----	-----
Total assets	\$19,980	\$23,601
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,055	\$ 2,503
	-----	-----
Total current liabilities	3,055	2,503
	-----	-----
Shareholders' Equity:		
Preferred stock, \$0.01 par value, authorized: 5,000,000 shares; issued and outstanding: none	--	--
Common stock, \$0.01 par value, authorized: 100,000,000 shares; issued and outstanding: 28,883,209 and 28,873,373 shares at March 31, 2002 and December 31, 2001, respectively	289	289
Additional paid-in-capital	112,412	112,377
Accumulated other comprehensive loss	(185)	(6)
Accumulated deficit	(95,591)	(91,562)
	-----	-----
	16,925	21,098
	-----	-----
Total liabilities and shareholders' equity	\$19,980	\$23,601
	=====	=====

</TABLE>

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

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Vion Pharmaceuticals, Inc.  
(A Development Stage Company)  
Statement of Operations

<TABLE>

<CAPTION>

(In thousands, except share and per share data)	For the Three Months Ended		For the Period from May
	2002	March 31, 2001	1, 1994 (Inception) through March 31, 2002
	(Unaudited)		(Unaudited)
<S>	<C>	<C>	<C>
Revenues:			
Contract research grants	\$ 21	\$ 126	\$ 2,034
Technology license fees	26	19	4,429
Laboratory support services	--	--	117
Research support	--	--	5,498
	-----	-----	-----
Total revenues	47	145	12,078
	-----	-----	-----
Operating expenses:			
Research and development	2,011	2,429	54,970
Clinical trials	1,420	1,176	17,890
	-----	-----	-----
Total research and development	3,431	3,605	72,860
General and administrative	911	730	20,376
	-----	-----	-----
Total operating expenses	4,342	4,335	93,236
	-----	-----	-----
Interest income	(266)	(464)	(4,519)
Interest expense	--	--	208
	-----	-----	-----
Net loss	(4,029)	(3,726)	(76,847)

Preferred stock dividends and accretion	--	--	(18,489)
Loss applicable to common shareholders	\$ (4,029)	\$ (3,726)	\$ (95,336)
Loss applicable to common shareholders per share	\$ (0.14)	\$ (0.14)	
Weighted-average number of shares of common stock outstanding	28,879,931	26,176,637	

</TABLE>

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

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Vion Pharmaceuticals, Inc.  
(A Development Stage Company)  
Statement of Changes in Shareholders' Equity

<TABLE>

<CAPTION>

(In thousands, except share data)	Class A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1999	498,194	\$ 5	18,242,119	\$182	\$ 68,012	\$ (3)	\$ --	\$ (62,343)	\$ 5,853
Conversion of Class A convertible preferred stock	(502,928)	(5)	1,397,035	14	(9)				--
Redemption of Class A convertible preferred stock	(545)	--			(5)				(5)
Class A convertible preferred stock dividend	5,279	--			248			(248)	--
Series 1998 convertible preferred stock accretion								(358)	(358)
Conversion of Series 1998 convertible preferred stock			1,507,024	15	5,523				5,538
Exercise of stock options			650,409	7	2,868				2,875
Exercise of warrants			4,371,055	44	23,270				23,314
Compensation associated with stock options					120				120
Amortization of deferred compensation						3			3
Change in net unrealized gains and losses							120		120
Net loss								(14,803)	(14,803)
Balance at December 31, 2000	--	\$--	26,167,642	\$262	\$ 100,027	\$ --	\$ 120	\$ (77,752)	\$ 22,657
Issuance of common stock			2,500,000	25	11,386				11,411
Exercise of stock options			191,527	2	777				779
Exercise of warrants			4,015	--	14				14
Compensation associated with stock options					111				111
Issuances under employee benefit plans			10,189	--	62				62
Change in net unrealized gains and losses							(126)		(126)
Net loss								(13,810)	(13,810)
Balance at December 31, 2001	--	\$--	28,873,373	\$289	\$ 112,377	\$ --	\$ (6)	\$ (91,562)	\$ 21,098
Exercise of stock options			6,645	--	23				23
Issuances under employee benefit plans			3,191	--	12				12
Change in net unrealized gains and losses							(179)		(179)
Net loss								(4,029)	(4,029)

Balance at March 31, 2002 (unaudited)      --    \$--    28,883,209    \$289    \$ 112,412    \$    --            \$ (185)    \$ (95,591)    \$16,925

</TABLE>

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

Vion Pharmaceuticals, Inc.  
(A Development Stage Company)  
Statement of Cash Flows

<TABLE>  
<CAPTION>

(In thousands)	For the Three Months Ended March 31,		For The Period From May 1, 1994 (Inception) through March 31,
	2002	2001	2002
	(Unaudited)		(Unaudited)
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	\$ (4,029)	\$ (3,726)	\$ (76,847)
Adjustments to reconcile net loss to net cash used in operating activities-			
Depreciation and amortization	58	76	2,239
Loss on fixed asset disposals	--	--	4
(Increase) decrease in receivables and other current assets	(9)	198	(385)
Increase in other assets	--	--	(27)
Increase (decrease) in accounts payable and accrued expenses	552	(332)	3,020
Non-cash compensation	--	111	1,068
Purchased research and development	--	--	4,481
Stock issued for services	--	--	600
Amortization of financing costs	--	--	346
Extension/reissuance of placement agent warrants	--	--	168
Net cash used in operating activities	(3,428)	(3,673)	(65,333)
Cash flows from investing activities:			
Purchases of marketable securities	(2,297)	(1,015)	(83,351)
Maturities of marketable securities	5,944	6,386	70,993
Acquisition of property and equipment	(44)	(195)	(1,835)
Net cash provided by (used in) investing activities	3,603	5,176	(14,193)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	35	43	33,854
Net proceeds from exercise of placement agent warrants	--	--	115
Net proceeds from issuance of preferred stock	--	--	20,716
Net proceeds from exercise of Class A Warrants	--	--	5,675
Net proceeds from exercise of Class B Warrants	--	--	17,538
Initial public offering	--	--	9,696
Repayment of equipment capital leases	--	(2)	(927)
Other financing activities, net	--	--	(286)
Net cash provided by financing activities	35	41	86,381
Increase in cash and cash equivalents	210	1,544	6,855
Cash and cash equivalents, beginning of period	6,645	6,198	--
Cash and cash equivalents, end of period	\$ 6,855	\$ 7,742	\$ 6,855

</TABLE>

Vion Pharmaceuticals, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

1. The Company

Vion Pharmaceuticals, Inc. (the "Company") is a development stage biopharmaceutical company engaged in the research, development and commercialization of cancer treatment technologies. The Company, formerly OncoRx, Inc., was incorporated in March 1992 as a Delaware corporation and began operations on May 1, 1994.

2. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 31, 2001 on Form 10-K (File No. 000-26534).

3. Gift to Yale University

In January 2002, the Company provided a gift to Yale University of \$0.2 million, payable in four quarterly installments of \$50,000 each beginning January 2002, to support research projects. In accordance with Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made, the Company recorded the total amount of the gift as research and development expense in the three-month period ended March 31, 2002.

4. Per Share Data - Antidilution

The warrants, stock options and preferred stock were antidilutive and not included in the calculation of the diluted loss applicable to common shareholders per share.

5. Liquidity

The Company believes it has sufficient cash and cash resources available to fund its expected clinical activities, planned research and development, and operating expenses into the second quarter of 2003.

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

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including without limitation statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", regarding our financial position, business strategy, and plans and objectives of our management for future operations, are forward-looking statements. When used in this Quarterly Report on Form 10-Q, words such as "may," "will," "should," "could," "potential," "seek," "project," "predict," "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to us or our management, identify forward-looking statements. Forward-looking statements are based on the beliefs of our management as well as

assumptions made by and information currently available to our management. These statements are subject to risks and uncertainties that may cause actual results and events to differ significantly. A detailed discussion of risks attendant to the forward-looking statements is included under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2001. The information contained in this Quarterly Report on Form 10-Q is believed to be current as of the date of filing with the Securities and Exchange Commission. We do not intend to update any of the forward-looking statements after the date of this filing to conform these statements to actual results or to changes in our expectations, except as required by law.

#### Overview

We are a development stage biopharmaceutical company committed to the discovery, development and commercialization of therapeutics and technologies for the treatment of cancer. Our activities to date have consisted primarily of research and product development, obtaining regulatory approval for clinical trials, conducting clinical trials, negotiating and obtaining collaborative agreements, and obtaining financing in support of these activities. Our revenues currently consist of contract research grants and technology license fees. Since inception, we have generated minimal revenues and have incurred substantial operating losses from our activities. We expect to incur substantial operating losses for the next several years due to expenses associated with our activities.

Our plan of operations for the next 12 months includes the following elements:

- o Continue to conduct internal research and development with respect to our core technologies and other product candidates that we may identify;
- o Conduct Phase I clinical "optimization" TAPET'r' studies of the "unarmed base vector" for further safety and "optimized" selective accumulation of bacteria in the tumor;
- o Conduct Phase I clinical studies of an "armed" TAPET vector for safety and selective accumulation of the bacteria and the anticancer agent within tumors;

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- o Conduct Phase I studies for safety and dosage of Triapine'r' in conjunction with standard chemotherapy treatments;
- o Conduct Phase II clinical studies of Triapine;
- o Conduct Phase I clinical studies of VNP40101M, a member of the Sulfonyl Hydrazine Prodrug class, for safety and dosage;
- o Continue to support research and development being performed at Yale University and by other collaborators; and
- o Continue to seek collaborative partnerships, joint ventures, co-promotional agreements or other arrangements with third parties.

#### Results of Operations

##### Comparison of the Three-Month Periods Ended March 31, 2002 and 2001

Revenues. Revenues were \$47,000 for the three-month period ended March 31, 2002, as compared to \$145,000 for the same period in 2001. The decrease was due primarily to lower revenues for the first quarter of 2002 from Small Business Innovation and Research ("SBIR") and other research grants.

Research and Development. Total research and development expenses (which include clinical trials expenses) were \$3.4 million for the three-month period ended March 31, 2002, compared with \$3.6 million for the same 2001 period. Clinical trials expenses were \$1.4 million for the three-month period ended March 31, 2002, as compared to \$1.2 million for the same period in 2001. The increase in 2002 was due to costs associated with patient enrollment for expanded clinical trials of TAPET, Triapine and VNP401010M. Other research and

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development costs decreased to \$2.0 million for the three months ended March 31, 2002, from \$2.4 million for the same period in 2001. The decrease of \$0.4 million was due primarily to lower headcount in 2002, which is not expected to impact planned research and development activities.

**General and Administrative.** General and administrative expenses increased to \$0.9 million for the three-month period ended March 31, 2002 from \$0.7 million for the comparable 2001 period. The increase was due primarily to higher patent-related fees.

**Interest Income and Expense.** Interest income was \$0.3 million for the three-month period ended March 31, 2002, as compared to \$0.5 million for the same period in 2001. The 2002 decrease in interest income is due to lower interest rates and a lower level of invested funds.

**Loss Applicable to Common Shareholders.** The loss applicable to common shareholders was \$4.0 million, or \$0.14 per share, for the three-month period ended March 31, 2002, compared to a loss of \$3.7 million, or \$0.14 per share, for the same period in 2001. Weighted-average shares outstanding for the three-month periods ended March 31, 2002 and 2001, were 28.9 million and 26.2 million, respectively.

#### Liquidity and Capital Resources

At March 31, 2002, we had cash, cash equivalents and short-term investments of \$19.0 million compared to \$22.6 million at December 31, 2001. The decrease was due primarily to cash used to fund operating activities.

We currently estimate that our existing cash, cash equivalents and short-term investments will be sufficient to fund our planned operations into the second quarter of 2003. As of March 31, 2002, we estimate that we will need approximately \$17 million for the next twelve months to fund all our operations net of cash inflows from research grants, technology license fees, interest and stock option exercises. However, our cash requirements may vary materially from those now planned because of the results of research, development, clinical trials, product testing, relationships with strategic partners, changes in focus and direction of our research and development programs, competitive and technological advances, the regulatory process in the United States and abroad, and other factors. In the future, we will need to complete our product development and clinical trials, and raise substantial cash to fund operations; however, there is no assurance we will be able to raise additional capital or what the terms may be.

#### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding our exposure to certain market risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", in our Annual Report on Form 10-K for the year ended December 31, 2001. There have been no significant changes in our market risk exposure since the year-end.

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## PART II

### OTHER INFORMATION

#### ITEM 4. Submission of Matters to a Vote of Security Holders

None.

#### ITEM 5. Other Information

None.

#### ITEM 6. Exhibits and Reports on Form 8-K

- (a) Exhibits.  
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None.



(b) Reports on Form 8-K.

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The Registrant filed the following report on Form 8-K during the quarter ended March 31, 2002:

1. On February 2, 2002 under Item 5 and Item 7 to announce the Company's 2001 year-end and fourth quarter financial results.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: May 14, 2002

Vion Pharmaceuticals, Inc.

By: /s/ Howard B. Johnson

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Howard B. Johnson  
Vice President, Finance and  
Chief Financial Officer

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STATEMENT OF DIFFERENCES

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The registered trademark symbol shall be expressed as ..... 'r'