

INHALE THERAPEUTIC SYSTEMS INC
Form 10-K/A
October 04, 2001

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A
(Amendment No. 2)**

**/x/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000**

OR

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

Commission File No. 0-23556

INHALE THERAPEUTIC SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3134940
(I.R.S. Employer Identification No.)

150 Industrial Road, San Carlos, CA 94070
(Address of principal executive offices and zip code)

(650) 631-3100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.0001 par value**

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 /x/ No //

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. //

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The approximate aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the last sale price of the Common Stock on February 1, 2001 as reported by Nasdaq National Market was approximately \$1,922,029,208. Determination of affiliate status for this purpose is not a determination of affiliate status for any other purpose.

54,892,522

(Number of shares of common stock outstanding as of September 26, 2001)

**INHALE THERAPEUTIC SYSTEMS, INC.
2000 AMENDED ANNUAL REPORT ON FORM 10-K/A
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PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Consolidated Financial Statements

The Consolidated Financial Statements required by this item, with the report of independent auditors, are submitted in a separate section beginning on page F-1 of this report.

(2)
Consolidated Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or notes thereto.

(3)
Exhibits

The following exhibits are filed herewith or incorporated by reference:

Exhibit Number	Exhibit Index
2.1	(1) Agreement and Plan of Merger between Inhale Therapeutic Systems, a California corporation, and Inhale Therapeutic Systems (Delaware), Inc., a Delaware corporation.
2.2	(16) Recommended Offer, dated December 21, 2000 by Cazenove & Co. on behalf of Inhale Therapeutic Systems, Inc. for Bradford Design plc.
3.1	(1) Certificate of Incorporation of Inhale.
3.2	(1) Bylaws of Inhale.
3.3	(14) Certificate of Amendment of the Amended Certificate of Incorporation.
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3.
4.2	(2)

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**Exhibit
Number**

Exhibit Index

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- Restated Investor Rights Agreement among Inhale and certain other persons named therein, dated April 29, 1993, as amended October 29, 1993.
 - 4.3 (3) Stock Purchase Agreement between Inhale and Pfizer Inc., dated January 18, 1995.
 - 4.4 (9) Form of Purchase Agreement between Inhale and the individual Purchasers, dated January 28, 1997.
 - 4.5 (10) Stock Purchase Agreement between Inhale and Capital Research and Management Company, dated December 8, 1998.
 - 4.6 (12) Purchase Agreement among Inhale and Lehman Brothers Inc., Deutsche Bank Securities Inc. and U.S. Bancorp Piper Jaffray Inc. dated October 6, 1999.
 - 4.7 (12) Registration Rights Agreement among Inhale and Lehman Brothers Inc., Deutsche Bank Securities Inc. and U.S. Bancorp Piper Jaffray Inc., dated October 13, 1999.
 - 4.8 (12) Indenture between Inhale as Issuer and Chase Manhattan Bank and Trust Company, National Association, as Trustee, dated October 13, 1999.
 - 4.9 (12) Form of Inhale Registration Rights Agreement, between Inhale and Selling Shareholder, dated January 25, 2000.
 - 4.10 (13) Purchase Agreement among Inhale and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Lehman Brothers Inc., and U.S. Bancorp Piper Jaffray Inc., dated February 2, 2000.
 - 4.11 (13) Resale Registration Rights Agreement among Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Lehman Brothers Inc., and U.S. Bancorp Piper Jaffray Inc., dated February 8, 2000.
 - 4.12 (13) Indenture between Registrant as Issuer and Chase Manhattan Bank and Trust Company, National Association, as Trustee, dated February 8, 2000.
 - 4.13 (14) Specimen common stock certificate.
 - 4.14 (15) Specimen warrants to purchase shares of common stock.

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- 4.15 (17) Purchase Agreement among Inhale and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., Lehman Brothers Inc., and U.S. Bancorp Piper Jaffray Inc., dated October 11, 2000.
 - 4.16 (17) Resale Registration Rights Agreement among Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities, Inc., Lehman Brothers Inc., and U.S. Bancorp Piper Jaffray Inc., dated October 17, 2000.
 - 4.17 (17) Indenture between Registrant, as Issuer, and Chase Manhattan Bank and Trust Company, National Association, as Trustee, dated October 17, 2000.
 - 5.1 (18) Opinion of Cooley Godward LLP.
 - 10.1 (4) Registrant's 1994 Equity Incentive Plan, as amended.
 - 10.2 (7) Registrant's 1994 Non-Employee Directors' Stock Option Plan, as amended.
 - 10.3 (2) Registrant's 1994 Employee Stock Purchase Plan, as amended.
 - 10.4 (2) Standard Industrial Lease between Inhale and W.F. Batton & Co., Inc., dated September 17, 1992, as amended September 18, 1992.
 - 10.5 (2) Addendum IV dated April 1, 1994 to Lease dated September 17, 1992, between Inhale and W.F. Batton and Marie A. Batton, dated September 17, 1992.
 - 10.6 (6) Amendment Agreement Number One, dated October 20, 1995, to Lease dated September 17, 1992, between Inhale and W.F. Batton & Co., Inc.
 - 10.7 (6) Amendment Agreement Number Two, dated November 15, 1995, to Lease, dated September 17, 1992, between Registrant and W.F. Batton and Marie A. Batton, Trustees of the W.F. Batton and Marie A. Batton Trust UTA dated January 12, 1998 ("Batton Trust").
 - 10.8 (11) Amendment Agreement Number Three, dated February 14, 1996, to Lease, dated September 17, 1992, between Registrant and Batton Trust.
 - 10.9 (11) Amendment Agreement Number Four, dated September 15, 1996, to Lease, dated September 17, 1992, between Registrant and Batton Trust.
 - 10.10 (2) Sublicense Agreement between Inhale and John S. Patton, dated September 13, 1991.
 - 10.11 (5) Stock Purchase Agreement between Inhale and Baxter World Trade Corporation, dated March 1, 1996.
 - 10.12 (8) Sublease and Lease Agreement, dated October 2, 1996, between Inhale and T.M.T. Associates L.L.C. ("Landlord").
 - 10.13 (11) First Amendment, dated October 30, 1996, to Sublease and Lease Agreement, dated October 2, 1996, between Registrant and Landlord.
 - 10.14 (11) Letter Agreement, dated April 9, 1997, amending Sublease and Lease Agreement, dated October 2, 1996, between Inhale and Landlord.
 - 10.15 (11) Third Amendment, dated April 16, 1997, to Sublease and Lease Agreement, dated October 2, 1996, between Registrant and Landlord.
 - 10.16 (11) Fourth Amendment, dated November 5, 1997, to Sublease and Lease Agreement, dated October 2, 1996, between Registrant and Landlord.
 - 10.17 (13) Sublease by and between Webvan Group, Inc., as sublessor and Registrant, as sublessee, dated November 3, 1999.

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- 10.18 (15) Registrant's 2000 Equity Incentive Plan
10.19 (15) Registrant's Stock Option Agreement issued in accordance with Inhale's 2000 Equity Incentive Plan.

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- 10.20 (15) Agreement for the Contribution of 201 Industrial Road Project made and entered into as of September 14, 2000 by and among Inhale, Inhale 201 Industrial Road, L.P., a California limited partnership and Bernardo Property Advisors, Inc., a California corporation.
10.21 (15) Agreement of Limited Partnership of Inhale 201 Industrial Road, L.P., a California limited partnership made and entered into September 14, 2000, by and among SCIMED PROP III, Inc., a California corporation, as general partner, 201 Industrial Partnership, a California general partnership, as limited partner, and Inhale, as limited partner.
10.22 (15) Build-To-Suit Lease made and entered into as of September 14, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and Inhale, as Tenant.
10.23 (15) Amendment to Lease dated October 3, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and Inhale, as Tenant.
10.24 (15) Parking Lease Agreement entered into as of September 14, 2000 by and between Inhale 201 Industrial Road, L.P., a California limited partnership, as Landlord, and Inhale, as Tenant.
10.25 (18) Registrant's 2000 Non-Officer Equity Incentive Plan
10.26 (18) Registrant's Stock Option Agreement issued in accordance with Inhale's 2000 Non-Officer Equity Incentive Plan
10.27 (19) Manufacturing and Supply Agreement among Inhale, Tech Group North America, Bepak Europe, LTD.
23.1 (20) Consent of Ernst & Young LLP, independent auditors.
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- (1) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
(2) Incorporated by reference to the indicated exhibit in Inhale's Registration Statement on Form S-1 (No. 33-75942), as amended.
(3) Incorporated by reference to the indicated exhibit in Inhale's Registration Statement on Form S-1 (No. 33-89502), as amended.
(4) Incorporated by reference to Inhale's Registration Statement on Form S-8 (No. 333-59735).
(5) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
(6) Incorporated by reference to the indicated exhibit in Inhale's Annual Report on Form 10-K for the year ended December 31, 1995.
(7) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
(8) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
(9) Incorporated by reference to Inhale's Registration Statement on Form S-3 (No. 333-20787).
(10) Incorporated by reference to the indicated exhibit in Inhale's Registration Statement on Form S-3 (No. 333-68897), as amended.
(11) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

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(12)

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Incorporated by reference to the indicated exhibit in Inhale's Registration Statement on Form S-3 (No. 333-94161), as amended.

- (13) Incorporated by reference to the indicated exhibit in Inhale's Annual Report on Form 10-K for the year ended December 31, 1999.
- (14) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (15) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- (16) Incorporated by reference to the indicated exhibit in Inhale's Current Report on Form 8-K, filed on January 11, 2001.
- (17) Incorporated by reference to Inhale's Registration Statement on Form S-3 (No. 333-53678), filed on January 12, 2001.
- (18) Incorporated by reference to Inhale's Registration Statement on Form S-8 (No. 333-54078), filed on January 19, 2001.
- (19) Previously filed.
- (20) Filed herewith.

(b) Reports on Form 8-K.

The following Reports on Form 8-K were filed during the quarter ended December 31, 2000:

- (i) A Report on Form 8-K dated December 21, 2000 pertaining to Inhale's offer to acquire all of the outstanding share capital of Bradford Particle Design, plc, a United Kingdom company.
 - (ii) A Report on Form 8-K dated October 27, 2000 pertaining to the initial purchasers' exercise of their \$30 million over-allotment option granted pursuant to a purchase agreement dated October 11, 2000 with respect to Inhale's 3.5% convertible subordinated notes due 2007.
 - (iii) A Report on Form 8-K dated October 12, 2000 pertaining to Inhale's entering into a purchase agreement providing for the sale to certain initial purchasers of \$200 million aggregate principal amount of convertible subordinated notes (\$250 million if the over-allotment option exercised in full.)
 - (iv) A Report on Form 8-K dated October 9, 2000 pertaining to Inhale's intention to issue \$150 million aggregate principal amount of convertible subordinated notes (\$172.5 million if an over-allotment option is exercised in full).
 - (v) A Report on Form 8-K dated October 6, 2000 pertaining to Inhale's entering into a build-to-suit lease transaction.
- (c) See Exhibits listed under Item 14(a)(3).
- (d) Not applicable. See Item 14(a)(2).

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Signature	Title	Date
<hr/> <hr/> Roy A. Whitfield		
*By: <hr/> /s/ AJIT S. GILL		
	Ajit S. Gill <i>Attorney-in-fact</i>	

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**INHALE THERAPEUTIC SYSTEMS, INC.
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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Inhale Therapeutic Systems, Inc.

We have audited the accompanying consolidated balance sheets of Inhale Therapeutic Systems, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inhale Therapeutic Systems, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Palo Alto, California
January 23, 2001

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INHALE THERAPEUTIC SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share information)

	December 31,	
	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,012	\$ 33,430
Short-term investments	348,829	104,755
Accounts receivable	7,234	1,756
Other current assets	968	7,377
	493,043	147,318
Property and equipment, net	110,457	63,852
Marketable equity securities	9,140	6,328
Other assets	16,900	9,308
	\$ 629,540	\$ 226,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,501	\$ 13,374
Accrued liabilities	12,861	5,244
Interest payable	4,910	1,605
Deferred revenue	4,913	4,811
Capital lease obligation - current portion	977	
Tenant improvement loan - current portion	41	45
	30,203	25,079
Capital lease obligation	15,269	
Tenant improvement loan	4,849	4,895
Convertible subordinated debentures and notes	299,149	108,450
Other long-term liabilities	2,187	1,753
Commitments		
Stockholders' equity:		
Preferred stock, 10,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.0001 par value; 300,000 shares authorized; 47,374 shares and 34,452 shares issued and outstanding at December 31, 2000 and 1999, respectively	5	3
Capital in excess of par value	465,593	181,153
Deferred compensation	(1,827)	(1,530)
Accumulated other comprehensive gain	5,981	1,469
Accumulated deficit	(191,869)	(94,466)
	277,883	86,629
	\$ 629,540	\$ 226,806

See accompanying notes

INHALE THERAPEUTIC SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share information)

	Years ended December 31,		
	2000	1999	1998
Contract research revenue	\$ 51,629	\$ 41,358	\$ 21,795
Operating costs and expenses:			
Research and development	101,544	64,083	35,398
General and administrative	13,932	7,869	8,387
Acquired in-process research and development	2,292	9,890	
Total operating costs and expenses	117,768	81,842	43,785
Loss from operations	(66,139)	(40,484)	(21,990)
Other income	995		
Debt conversion premium, net	(40,687)		
Interest income	20,566	4,111	3,904
Interest expense	(12,138)	(2,075)	(270)
Net loss	\$ (97,403)	\$ (38,448)	\$ (18,356)
Basic and diluted net loss per share	\$ (2.32)	\$ (1.13)	\$ (0.58)
Shares used in computing basic and diluted net loss per share	41,998	34,016	31,438

See accompanying notes

INHALE THERAPEUTIC SYSTEMS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Capital in Excess of Par Value	Deferred Compensation	Accumulated Other Comprehensive Gain	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value					
Balance at December 31, 1997	31,084	\$3	\$135,270	\$(538)	\$20	\$(37,662)	\$97,093
Issuance of common stock in private placement, net of issuance costs of \$1,997	2,400		35,202				35,202
Issuance of common stock and stock options in connection with licensing agreement	12		284				284
	352		1,514				1,514

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	<u>Common Stock</u>				<u>Accumulated Other Comprehensive Gain</u>		
Common stock issued upon exercise of stock options							
Deferred compensation			576	(576)			
Amortization of deferred compensation				183			183
Unrealized loss on available-for-sale securities					(39)		(39)
Net loss						(18,356)	(18,356)
Comprehensive loss							(18,395)
Balance at December 31, 1998	33,848	3	172,846	(931)	(19)	(56,018)	115,881
Issuance of common stock for technology acquisition	360		5,000				5,000
Common stock issued upon exercise of stock options, net of costs	244		1,545				1,545
Compensation in connection with stock options granted to consultants			798				798
Deferred compensation			964	(964)			
Amortization of deferred compensation				365			365
Unrealized gain on available-for-sale securities					1,488		1,488
Net loss						(38,448)	(38,448)
Comprehensive loss							(36,960)
Balance at December 31, 1999	34,452	3	181,153	(1,530)	1,469	(94,466)	86,629
Common stock issued upon exercise of stock options, net of costs	2,177	2	17,320				17,322
Compensation in connection with stock granted to employees	57		1,900				1,900
Compensation in connection with stock options granted to consultants			3,196				3,196
Conversion of convertible subordinated debt into common shares, net of costs	10,688		260,862				260,862
Deferred compensation			1,162	(1,162)			
Amortization of deferred compensation				865			865
Unrealized gain on available-for-sale securities					4,512		4,512
Net loss						(97,403)	(97,403)
Comprehensive loss							(92,891)
Balance at December 31, 2000	47,374 \$	5 \$	465,593 \$	(1,827) \$	5,981 \$	(191,869) \$	277,883

See accompanying notes

INHALE THERAPEUTIC SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

**Increase/(Decrease) in Cash and Cash Equivalents
(In thousands)**

	Years ended December 31,		
	2000	1999	1998
Cash flows used in operating activities			
Net loss	\$ (97,403)	\$ (38,448)	\$ (18,356)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	9,259	6,828	3,415