

AVEO PHARMACEUTICALS INC

Form 10-Q

August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 001-34655

AVEO PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

04-3581650
(I.R.S. Employer
Identification No.)

75 Sidney Street, Cambridge, Massachusetts 02139
(Address of principal executive offices) (zip code)

(617) 299-5000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 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 the definitions 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 ☒ (Do not check if a smaller reporting company) 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 ☒

Number of shares of the registrant's Common Stock, \$0.001 par value, outstanding on August 1, 2011: 43,100,459

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AVEO PHARMACEUTICALS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2011

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****AVEO PHARMACEUTICALS, INC.****Condensed Consolidated Balance Sheets****(in thousands, except par value amounts)***(unaudited)*

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,013	\$ 45,791
Marketable securities	183,295	94,407
Accounts receivable	28,770	391
Prepaid expenses and other current assets	9,294	4,864
Total current assets	302,372	145,453
Marketable securities	32,476	
Property and equipment, net	5,008	4,532
Other assets	230	456
Restricted cash	705	607
Total assets	\$ 340,791	\$ 151,048
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 12,938	\$ 9,247
Accrued expenses	10,277	10,121
Loans payable, net of discount	6,039	5,766
Deferred revenue	2,230	16,693
Other liabilities	1,249	
Deferred rent	268	266
Total current liabilities	33,001	42,093
Loans payable, net of current portion and discount	17,815	17,636
Deferred revenue, net of current portion	20,331	16,509
Deferred rent, net of current portion	446	553
Other liabilities	1,238	2,487
Stockholders' equity:		
Preferred stock, \$.001 par value: 5,000 shares authorized at June 30, 2011 and December 31, 2010, respectively; no shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		
Common stock, \$.001 par value: 100,000 shares authorized at June 30, 2011 and December 31, 2010, respectively; 42,901 and 35,604 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	43	36
Additional paid-in capital	424,732	308,268
Accumulated other comprehensive income (loss)	64	(20)
Accumulated deficit	(156,879)	(236,514)

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Total stockholders' equity	267,960	71,770
Total liabilities and stockholders' equity	\$ 340,791	\$ 151,048

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

Table of Contents**AVEO PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Operations****(in thousands, except per share amounts)***(unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Collaboration revenue	\$ 26,554	\$ 15,622	\$ 160,168	\$ 26,503
Operating expenses:				
Research and development	25,078	25,997	63,095	48,615
General and administrative	6,371	3,835	15,599	6,588
	31,449	29,832	78,694	55,203
Income (loss) from operations	(4,895)	(14,210)	81,474	(28,700)
Other income and expense:				
Other income (expense), net	11	(582)	(45)	130
Interest expense	(946)	(725)	(1,958)	(1,332)
Interest income	99	28	164	35
Other (expense) income, net	(836)	(1,279)	(1,839)	(1,167)
Net income (loss)	\$ (5,731)	\$ (15,489)	\$ 79,635	\$ (29,867)
Basic net income (loss) per share				
Net income (loss)	\$ (0.16)	\$ (0.50)	\$ 2.19	\$ (1.60)
Weighted average number of common shares outstanding	36,849	30,822	36,318	18,649
Diluted net income (loss) per share				
Net income (loss)	\$ (0.16)	\$ (0.50)	\$ 2.09	\$ (1.60)
Weighted average number of common shares and dilutive common share equivalents outstanding	36,849	30,822	38,120	18,649

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

Table of Contents**AVEO PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

	Six Months Ended June 30,	
	2011	2010
Operating activities		
Net income (loss)	\$ 79,635	\$ (29,867)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	765	643
Stock-based compensation	2,593	1,914
Non-cash interest expense	462	893
Deferred rent	(105)	(73)
Loss on disposal of property and equipment		1
Remeasurement of warrants to purchase convertible preferred stock		(713)
Amortization of premium on investments	1,633	22
Changes in operating assets and liabilities:		
Accounts receivable	(28,379)	280
Prepaid expenses and other current assets	(4,441)	(4,637)
Other noncurrent assets	226	1,320
Restricted cash	(98)	
Accounts payable	3,691	3,477
Accrued expenses	156	316
Deferred revenue	(10,641)	(2,508)
Net cash provided by (used in) operating activities	45,497	(28,932)
Investing activities		
Purchases of property and equipment	(1,241)	(408)
Purchases of marketable securities	(200,749)	(77,021)
Proceeds from maturities and sales of marketable securities	77,836	6,000
Net cash used in investing activities	(124,154)	(71,429)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	112,165	80,309
Proceeds from exercise of stock options and issuance of common stock	1,714	502
Proceeds from refinancing of loans payable		7,555
Principal payments on loans payable		(3,278)
Net cash provided by financing activities	113,879	85,088
Net increase (decrease) in cash and cash equivalents	35,222	(15,273)
Cash and cash equivalents at beginning of period	45,791	45,290
Cash and cash equivalents at end of period	\$ 81,013	\$ 30,017
Supplemental cash flow and noncash investing and financing		
Issuance of warrants in conjunction with loan	\$	\$ 780
Cash paid for interest	\$ 1,504	\$ 914

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Cash paid for income taxes	\$	\$
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The accompanying notes are an integral part of these unaudited, condensed consolidated financial statements.

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AVEO Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Organization

AVEO Pharmaceuticals, Inc. (the "Company") is a cancer therapeutics company committed to discovering, developing and commercializing targeted cancer therapies to impact patients' lives. The Company's product candidates are directed against important mechanisms, or targets, known or believed to be involved in cancer. Tivozanib, the Company's lead product candidate currently in phase 3 clinical development, which the Company recently partnered with Astellas Pharma Inc. and its wholly-owned direct subsidiaries ("Astellas"), is designed to provide an optimal blockade of the vascular endothelial growth factor, or VEGF, pathway by inhibiting all three VEGF receptors: VEGF receptors 1, 2 and 3. The Company also has a pipeline of monoclonal antibodies, including ficlatuzumab, a product candidate that is currently in phase 2 clinical development, derived from its Human Response Platform, a novel method of building preclinical models of human cancer. As used throughout these unaudited, condensed consolidated financial statements, the terms "AVEO," "we," "us," and "our" refer to the business of AVEO Pharmaceuticals Inc. and its subsidiary.

(2) Basis of Presentation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. The Company has eliminated all significant intercompany accounts and transactions in consolidation.

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals and revisions of estimates, considered necessary for a fair presentation of the accompanying condensed consolidated financial statements have been included. Interim results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011 or any other future period.

The information presented in the condensed consolidated financial statements and related footnotes at June 30, 2011, and for the three and six months ended June 30, 2011 and 2010, is unaudited and the condensed consolidated balance sheet amounts and related footnotes at December 31, 2010 have been derived from the Company's audited financial statements. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010, which was filed with the U.S. Securities and Exchange Commission on March 11, 2011.

(3) Significant Accounting Policies

Basic and Diluted Income (Loss) per Common Share

The Company reports earnings per share in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, *Earnings Per Share* (ASC 260), which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Preferred shares are not included in the calculation of net income (loss) per share until their conversion to common shares. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares and dilutive common share equivalents then outstanding. Potential common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and warrants. Under the treasury stock method, unexercised in-the-money stock options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common shares at the average market price during the period. Share-based payment awards that entitle their holders to receive non-forfeitable dividends before vesting are considered participating securities and are included in the calculation of basic and diluted earnings per share. Common share equivalents have not been included in the net loss per share computation in the three months ended June 30, 2011 and 2010 and the six months ended June 30, 2010 because their effect is anti-dilutive.

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Basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30, 2011 (in thousands, except per share data)		Six Months Ended June 30, 2010 (in thousands, except per share data)	
Basic earnings per share				
Net income (loss)	\$	(5,731)	\$	(15,489)
Income allocated to participating securities				(113)
Income (loss) available to common stockholders		(5,731)		(15,489)
Basic weighted average common shares outstanding		36,849		30,822
Basic earnings (loss) per share	\$	(0.16)	\$	(0.50)
Diluted earnings per share				
Net income (loss)	\$	(5,731)	\$	(15,489)
Income allocated to participating securities				(103)
Income (loss) available to common stockholders		(5,731)		(15,489)
Weighted average common shares outstanding		36,849		30,822
Diluted potential common shares				1,802
Diluted weighted average common shares and potential common shares		36,849		30,822
Diluted earnings (loss) per share	\$	(0.16)	\$	(0.50)

Stock-Based Compensation

The fair value of all stock-based awards is recognized in the Company's statements of operations on a straight-line basis over their requisite service periods based on their grant date fair values as calculated using the measurement and recognition provisions of FASB ASC Topic 718, *Stock Compensation*. During the three and six months ended June 30, 2011 and 2010, respectively, the Company recorded the following stock-based compensation expense:

	Three Months Ended June 30, 2011 (in thousands)		Six Months Ended June 30, 2011 (in thousands)	
Research and development	\$	583	\$	421
General and administrative		828		677
		\$ 1,411		\$ 1,098
		\$ 2,593		\$ 1,914

Allocations to research and development expenses and general and administrative expenses are based upon the department to which the associated employee reported. No related tax benefits of the stock-based compensation expense have been recognized. Stock-based awards issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period.

Revenue Recognition

The Company's revenues are generated primarily through collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) licenses, or options to obtain licenses, to the

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Company's technology, (ii) research and development activities to be performed on behalf of the collaborative partner and (iii) in certain cases, services in connection with the manufacturing of pre-clinical and clinical material. Payments to the Company under these arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; milestone payments; and royalties on future product sales.

Effective January 1, 2011, the Company adopted Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends ASC Topic 605-25, *Revenue Recognition - Multiple Element Arrangements*. In addition, effective January 1, 2011, the Company adopted ASU No. 2010-17, *Revenue Recognition - Milestone Method*. Refer to New Accounting Pronouncements below for additional discussion of these standards and their impact on the Company's accounting for collaborative research, development and commercialization agreements.

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When evaluating multiple element arrangements, the Company considers whether the deliverables under the arrangement represent separate units of accounting. This evaluation requires subjective determinations and requires management to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. In determining the units of accounting, management evaluates certain criteria, including whether the deliverables have standalone value, based on the consideration of the relevant facts and circumstances for each arrangement. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

The Company typically receives up-front, non-refundable payments when licensing its intellectual property in conjunction with a research and development agreement. When management believes the license to its intellectual property does not have stand-alone value from the other deliverables to be provided in the arrangement, the Company generally recognizes revenue attributed to the license on a straight-line basis over the Company's contractual or estimated performance period, which is typically the term of the Company's research and development obligations. If management cannot reasonably estimate when the Company's performance obligation ends, then revenue is deferred until management can reasonably estimate when the performance obligation ends. When management believes the license to its intellectual property has stand-alone value, the Company generally recognizes revenue attributed to the license upon delivery. The periods over which revenue should be recognized are subject to estimates by management and may change over the course of the research and development agreement. Such a change could have a material impact on the amount of revenue the Company records in future periods.

Payments or reimbursements resulting from the Company's research and development efforts for those arrangements where such efforts are considered as deliverables are recognized as the services are performed and are presented on a gross basis so long as there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the related receivable is reasonably assured. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets.

At the inception of each agreement that includes milestone payments, the Company evaluates whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone, specifically reviewing factors such as the scientific and other risks that must be overcome to achieve the milestone, as well as the level of effort and investment required. Revenues from milestones, if they are nonrefundable and deemed substantive, are recognized upon successful accomplishment of the milestones. Milestones that are not considered substantive are accounted for as license payments and recognized on a straight-line basis over the remaining period of performance.

Principles of Consolidation

The Company's condensed consolidated financial statements include the Company's accounts and the accounts of the Company's wholly-owned subsidiary, AVEO Pharma Limited. All intercompany transactions have been eliminated.

Research and Development Expenses

Research and development expenses are charged to expense as incurred. Research and development expenses consist of costs incurred in performing research and development activities, including personnel-related costs, stock-based compensation, facilities, research-related overhead, clinical trial costs, manufacturing costs and other contracted services, license fees, and other external costs.

Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made in accordance with the provisions of ASC Topic 730, *Research and Development*.

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents at June 30, 2011 and December 31, 2010 consist of money market funds, commercial paper, corporate bonds and U.S. government agency securities.

Marketable Securities

Marketable securities at June 30, 2011 and December 31, 2010 primarily consist of U.S. treasuries, U.S. government agency securities, a foreign government agency security, commercial paper and corporate debt maintained by an investment manager. Credit risk is reduced as a result of the Company's policy to limit the amount invested in any one issue. Marketable securities consist

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primarily of investments which have original maturities at the date of purchase in excess of three months, but not longer than 24 months. The Company classifies these investments as available-for-sale. Unrealized gains and losses are included in other comprehensive income as a component of stockholders' equity until realized. The cost of securities sold is based on the specific identification method. There were no realized gains or losses recognized on the sale or maturity of securities during the three and six months ended June 30, 2011 and 2010.

Available-for-sale securities at June 30, 2011 and December 31, 2010 consist of the following:

	Amortized Cost	Unrealized Gains (in thousands)	Unrealized Losses	Fair Value
June 30, 2011:				
Corporate debt securities (Due within 1 year)	\$ 138,623	\$ 125	\$ (42)	\$ 138,706
Corporate debt security (Due after 1 year through 2 years)	5,119		(25)	5,094
U.S. Treasuries (Due within 1 year)	7,101	5		7,106
Government agency securities (Due within 1 year)	33,437	3	(1)	33,439
Government agency securities (Due after 1 year through 2 years)	27,384	9	(11)	27,382
Foreign government agency security (Due within 1 year)	4,043	1		4,044
	\$ 215,707	\$ 143	\$ (79)	\$ 215,771
December 31, 2010:				
Corporate debt securities (Due within 1 year)	\$ 71,615	\$ 19	\$ (27)	\$ 71,607
U.S. Treasury (Due within 1 year)	5,178		(1)	5,177
Government agency securities (Due within 1 year)	13,503		(6)	13,497
Foreign government agency security (Due within 1 year)	4,131		(5)	4,126
	\$ 94,427	\$ 19	\$ (39)	\$ 94,407

The aggregate fair value of securities in an unrealized loss position for less than 12 months at June 30, 2011 was \$65.4 million, representing twenty nine securities. The aggregate fair value of securities in an unrealized loss position for greater than 12 months at June 30, 2011 was \$21.5 million, representing four securities. The unrealized loss was caused by a temporary change in the market for those securities. There was no change in the credit risk of the securities. To determine whether an other-than-temporary impairment exists, the Company performs an analysis to assess whether it intends to sell, or whether it would more likely than not be required to sell, the security before the expected recovery of the amortized cost basis. Where the Company intends to sell a security, or may be required to do so, the security's decline in fair value is deemed to be other-than-temporary and the full amount of the unrealized loss is recorded in the statement of operations as an other-than-temporary impairment charge. When this is not the case, the Company performs additional analysis on all securities with unrealized losses to evaluate losses associated with the creditworthiness of the security. Credit losses are identified where the Company does not expect to receive cash flows, based on using a single best estimate, sufficient to recover the amortized cost basis of a security and these are recognized in other income (expense), net.

Marketable securities in an unrealized loss position at June 30, 2011 and December 31, 2010 consists of the following:

	Aggregate Fair Value (in thousands)	Unrealized Losses
June 30, 2011:		
Corporate debt securities (Due within 1 year)	\$ 55,666	\$ (42)
Corporate debt security (Due after 1 year through 2 years)	5,094	(25)
Government agency securities (Due within 1 year)	9,754	(1)
Government agency securities (Due after 1 year through 2 years)	16,372	(11)
	\$ 86,886	\$ (79)

	Aggregate Fair Value (in thousands)	Unrealized Losses
December 31, 2010:		
Corporate debt securities (Due in less than 1 year)	\$ 27,536	\$ (27)
U.S. Treasury (Due in less than 1 year)	5,177	(1)
Government agency securities (Due in less than 1 year)	13,497	(6)
Foreign government agency security (Due in less than 1 year)	4,126	(5)
	\$ 50,336	\$ (39)

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Based on consideration of those factors described in the previous paragraph, the Company does not believe an other-than temporary impairment exists with respect to those securities in an unrealized loss position at June 30, 2011.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk primarily consist of cash and cash equivalents and available-for-sale marketable securities. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits.

Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

The Company's credit risk related to marketable securities is reduced as a result of the Company's policy to limit the amount invested in any one issue.

Fair Value Measurements

The carrying amounts of the Company's financial instruments not required to be measured at fair value, which include accounts receivable, accounts payable, and loans payable, approximate their fair values at June 30, 2011 and December 31, 2010.

The Company records cash equivalents, marketable securities and warrants to purchase preferred stock at fair value. ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between fair value measurements based on market data (observable inputs) and those based on the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 Quoted market prices in active markets for identical assets or liabilities. Assets utilizing Level 1 inputs include U.S. government securities.

Level 2 Inputs other than Level 1 inputs that are either directly or indirectly observable, such as quoted market prices, interest rates and yield curves. Assets utilizing Level 2 inputs include government agency securities, including direct issuance bonds, and corporate bonds. These assets are valued using third party pricing sources which generally use interest rates and yield curves observable at commonly quoted intervals of similar assets as observable inputs for pricing.

Level 3 Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use. The Company currently has no assets or liabilities valued with Level 3 inputs.

The following tables summarize the cash equivalents and marketable securities measured at fair value on a recurring basis in the accompanying condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010.

	Fair Value Measurements of Cash Equivalents and Marketable Securities as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	\$ 71,622	\$ 6,206	\$	\$ 77,828
Marketable securities	7,105	208,666		215,771
	\$ 78,727	\$ 214,872	\$	\$ 293,599

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	Fair Value Measurements of Cash Equivalents and Marketable Securities as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents	\$ 28,767	\$ 14,015	\$	\$ 42,782
Marketable securities	5,177	89,230		94,407
	\$ 33,944	\$ 103,245	\$	\$ 137,189

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Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Maintenance and repair costs are charged to expense as incurred.

Long-lived Assets

The Company reviews long-lived assets, including property and equipment, for impairment whenever changes in business circumstances indicate that the carrying amount of the asset may not be fully recoverable. The Company has not recognized any impairment losses through June 30, 2011.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Accumulated other comprehensive income (loss) as of June 30, 2011 and 2010 consists entirely of unrealized gains/(losses) on available-for-sale securities.

	Six months Ended June 30,	
	2011	2010
	(in thousands)	
Net income (loss)	\$ 79,635	\$ (29,867)
Net unrealized gains on marketable securities	84	16
Comprehensive income (loss)	\$ 79,719	\$ (29,851)

Income Taxes

The Company provides for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Segment and Geographic Information

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment and the Company operates in only one geographic segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

Effective January 1, 2011, the Company adopted ASU 2009-13, which amends ASC Topic 605-25 to eliminate the residual method of allocation for multiple-deliverable revenue arrangements and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. ASU 2009-13 also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence (VSOE) if available; (2) third-party evidence (TPE) if VSOE is not available; and (3) estimated selling price if neither VSOE nor TPE is available.

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Prior to the adoption of ASU 2009-13, ASC Topic 605-25 required that the fair value of an undelivered item be determined by reference to VSOE or TPE. This was difficult to determine when a deliverable was not individually sold because of its unique features. Prior to the adoption of ASU 2009-13, if the fair value of the undelivered elements in the arrangement was not determinable, then revenue was generally deferred and recognized over the delivery period of the longest deliverable or when fair value was determined for the undelivered elements. The Company has elected to prospectively apply the provisions of ASU 2009-13 to all multiple-deliverable revenue arrangements entered into or materially modified after January 1, 2011. The adoption of ASU 2009-13 had a material impact on the Company's financial position and results of operations for the three and six months ended June 30, 2011 as discussed in Note 4, Collaborations and License Agreements.

On January 1, 2011, the Company adopted ASU 2010-17, which codified a method of revenue recognition that has been common practice. This guidance concludes that the milestone method is a valid application of the proportional performance model when applied to research or development arrangements. Accordingly, an entity can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. Because the Company's revenue recognition policy for milestone payments is generally consistent with ASU 2010-17, the adoption of this standard did not have a material effect on the Company's condensed consolidated financial position, results of operations or cash flows for the three and six months ended June 30, 2011. This standard may impact the Company's accounting for any milestone payments received in future periods.

Subsequent Events

The Company has evaluated all events or transactions that occurred after June 30, 2011 up through the date the Company issued these financial statements.

(4) Collaborations and License Agreements

Astellas Pharma Inc.

On February 16, 2011, the Company, together with its wholly owned subsidiary, entered into a Collaboration and License Agreement with Astellas (the "Astellas Agreement"), pursuant to which the Company and Astellas will develop and commercialize tivozanib, AVEO's product candidate currently in phase 3 clinical development, for the treatment of a broad range of cancers, including renal cell carcinoma ("RCC") and breast and colorectal cancers. Under the terms of the Astellas Agreement, AVEO and Astellas will share responsibility for continued development and commercialization of tivozanib in North America and in Europe under a joint development plan and a joint commercialization plan, respectively. Throughout the rest of the world (the "Royalty Territory"), excluding Asia, where Kyowa Hakko Kirin ("KHK") has retained all development and commercialization rights, Astellas has an exclusive, royalty-bearing license to develop and commercialize tivozanib. The terms of the Astellas Agreement are subject to the Company's obligations to KHK under a license agreement entered into with KHK in 2006 pursuant to which AVEO acquired exclusive rights to develop and commercialize tivozanib worldwide outside of Asia.

The Company will have lead responsibility for formulating the commercialization strategy for North America under the joint commercialization plan, with each of the Company and Astellas responsible for conducting fifty percent (50%) of the sales efforts and medical affairs activities in North America. Astellas will have lead responsibility for commercialization activities in Europe under the joint commercialization plan, with each of the Company and Astellas responsible for conducting fifty percent (50%) of the medical affairs activities in the major European countries. All costs associated with each party's conduct of development and commercialization activities (including clinical manufacturing and commercial manufacturing costs, if any) in North America and Europe, and any resulting profits or losses, will be shared equally between the parties.

Under the Astellas Agreement, the Company received an initial cash payment of \$125 million, comprised of a \$75 million license fee and \$50 million in research and development funding. The Company retained net proceeds of approximately \$97.6 million of the initial cash payment from Astellas, after payments to KHK and strategic, legal and financial advisors. The Company is also eligible to receive from Astellas an aggregate of approximately \$1.3 billion in potential milestone payments, comprised of (i) up to \$575 million in milestone payments upon achievement of specified clinical development and regulatory milestone events, including up to \$90 million in milestone payments in connection with specified regulatory filings, and receipt of marketing approvals, for tivozanib to treat RCC in the United States and Europe, and (ii) up to approximately \$780 million in milestone payments upon the achievement of specified sales events. In addition, if tivozanib is successfully developed and launched in the Royalty Territory, Astellas will be required to pay to AVEO tiered, double digit royalties on net sales of tivozanib in the Royalty Territory, if any, subject to offsets under certain circumstances. The Company is required to pay KHK low to mid teen royalties on its net sales in North America, and 30% of certain amounts the Company may receive from Astellas in connection with Astellas' development and commercialization activities in Europe and the Royalty Territory, including up-front license fees, milestone payments and royalties.

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Unless terminated earlier in accordance with its terms, the Astellas Agreement expires (a) with respect to the Royalty Territory, on a country by-country basis, upon the latest to occur of: (i) the expiration of the last-to-expire valid claim of an AVEO patent or joint patent covering the composition of tivozanib, (ii) the expiration of the last-to-expire valid claim of an AVEO patent or joint

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patent covering the use of tivozanib, but only for so long as no generic competition exists in such country, and (iii) twelve years from first commercial sale of tivozanib in such country, and (b) with respect to North America and Europe as a whole, upon the expiration of all payment obligations between the parties related to development and commercialization of tivozanib in North America and Europe. After the second anniversary of the effective date of the Astellas Agreement, Astellas has the right to terminate the Astellas Agreement, in its entirety or solely with respect to the Royalty Territory, at any time upon 180 days prior written notice to the Company. Either party may terminate the Astellas Agreement with respect to a specified territory or country as set forth in the Astellas Agreement, if the other party fails to cure a material breach related to such territory or country, as applicable. The Company may also terminate the Astellas Agreement in its entirety upon a patent-related challenge by Astellas, its affiliates or sublicensees, if such patent-related challenge is not withdrawn within 30 days following the Company's notice to Astellas of such termination. There are no refund provisions in the Astellas Agreement that have financial consequences that impact the Company.

The Company is accounting for the joint development and commercialization activities in North America and Europe as a joint risk sharing collaboration in accordance with ASC Topic 808, *Collaborative Arrangements*. Accordingly, the joint development and commercialization activities in North America and Europe were separated from the other deliverables included in the Astellas Agreement. In addition, these activities were not deemed to be separate deliverables under the Astellas Agreement, and accordingly, none of the up-front consideration was attributed to the joint development and commercialization activities in North America and Europe.

Payments from Astellas with respect to Astellas' share of tivozanib development and commercialization costs incurred by the Company pursuant to the joint development plan are recorded as a reduction to research and development expense and general and administrative expense in the accompanying condensed consolidated financial statements due to the joint risk sharing nature of the activities in North America and Europe. As a result of the cost-sharing provisions in the Astellas Agreement, the Company reduced research and development expense by \$6.1 million and \$12.3 million during the three and six months ended June 30, 2011, respectively, and general and administrative expense by \$0.2 million and \$0.4 million during the three and six months ended June 30, 2011, respectively. Included in the Company's accounts receivable balance on the consolidated balance sheet at June 30, 2011 is \$12.5 million for amounts due from Astellas pursuant to the cost-sharing provisions. The Company has received \$6.2 million of this amount subsequent to June 30, 2011.

Activities under the Astellas Agreement outside of the joint development and commercialization activities in North America and Europe, including the co-exclusive license to develop and commercialize tivozanib in North America and Europe that was delivered prior to the initiation of the collaborative activities in North America and Europe, were evaluated under ASC Topic 605-25 (as amended by ASU 2009-13) to determine if they represented a multiple element revenue arrangement. The Astellas Agreement includes the following deliverables: (1) a co-exclusive license to develop and commercialize tivozanib in North America and Europe (the "License Deliverable"); (2) a combined deliverable comprised of an exclusive royalty-bearing license to develop and commercialize tivozanib in the Royalty Territory and the Company's obligation to provide access to clinical and regulatory information resulting from the activities in North America and Europe to Astellas for its development and commercialization of tivozanib in the Royalty Territory (the "Royalty Territory Deliverable"); and (3) the Company's obligation to supply clinical material to Astellas for development of tivozanib in the Royalty Territory (the "Clinical Material Deliverable"). All of these deliverables were deemed to have stand-alone value and to meet the criteria to be accounted for as separate units of accounting under ASC Topic 605-25. Factors considered in this determination included, among other things, the subject of the licenses and the research and development and commercial capabilities of Astellas.

The Company allocated the up-front consideration of \$125 million to the deliverables based on management's best estimate of selling price of each deliverable using the relative selling price method as the Company did not have VSOE or TPE of selling price for such deliverables. The Company's best estimate of selling price considered discounted cash flow models, the key assumptions of which included the market opportunity for commercialization of tivozanib in North America and Europe and the Royalty Territory, the development costs and market opportunity for the expansion of tivozanib into other solid tumor types, and the time to commercialization of tivozanib for all potential oncology indications. The Company allocated up-front consideration of \$120.2 million to the License Deliverable and up-front consideration of \$4.8 million to the Royalty Territory Deliverable. The relative selling price of the Company's obligation under the Clinical Material Deliverable had *de minimus* value.

The Company recorded the \$120.2 million relative selling price of the License Deliverable as collaboration revenue during the three months ended March 31, 2011 upon delivery of the license, and deferred approximately \$4.8 million of revenue representing the relative selling price of the Royalty Territory Deliverable. The Company is recording the \$4.8 million of revenue attributed to the Royalty Territory Deliverable ratably over the Company's period of performance through April 2022, the remaining patent life of tivozanib. The Company recorded approximately \$107,000 and \$161,000 of revenue during the three and six months ended June 30, 2011, respectively, associated with the Royalty Territory Deliverable.

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The Company believes the development and approval milestones that may be received under the Astellas Agreement are consistent with the definition of a milestone included in ASU 2010-17 and, accordingly, the Company will recognize payments related to the achievement of such milestones, if any, as revenue upon receipt. Factors considered in this determination included scientific and regulatory risks that must be overcome to achieve each milestone, the level of effort and investment required to achieve each milestone, and the monetary value attributed to each milestone.

The adoption of ASU 2009-13 on January 1, 2011 materially affected the Company's accounting for the Astellas Agreement. Prior to the adoption of ASU 2009-13, the Royalty Territory Deliverable would not have met the criteria to be considered a separate unit of accounting because neither VSOE nor TPE of fair value exists for this deliverable. Accordingly, the entire arrangement consideration of \$125 million would have been deferred at the inception of the arrangement and recognized ratably over the Company's period of performance through April 2022, the remaining patent life of tivozanib. If the Astellas Agreement had been accounted for prior to the adoption of ASU 2009-13, the Company would have recognized revenue of \$2.8 million and \$4.2 million during the three and six months ended June 30, 2011, respectively.

Centocor Ortho Biotech Inc. (Centocor)

In May 2011, the Company entered into an exclusive license agreement (the "Centocor License Agreement") with Centocor Ortho Biotech Inc. ("Centocor"), for the worldwide development and commercialization of the Company's internally-discovered antibodies targeting the RON receptor (Recepteur d'Origine Nantais), including the grant to Centocor of an exclusive, worldwide license to the Company's proprietary RON-driven tumor models. The Company also granted Centocor a nonexclusive, non-sublicensable, worldwide license to the Company's proprietary list of human genes intended to predict correlation of response to RON-targeted antibodies, (the "RON index"). Centocor is responsible for all clinical development, manufacturing and commercialization activities and costs. Subject to an agreed-upon research plan and budget, Centocor will also fund certain research for a three-year term to be conducted by the Company, including translational research studies using the Company's proprietary Human Response Platform to identify biomarkers for patients most likely to benefit from treatment with RON targeted antibodies.

In connection with the Centocor License Agreement, the Company received a one-time cash payment in the amount of \$7.5 million and a separate equity investment in the amount of approximately \$7.5 million through the purchase by Johnson & Johnson Development Corporation, an affiliate of Centocor, of 438,340 newly issued shares of the Company's common stock at a purchase price of \$17.11 per share. Milestone payments for the successful development and commercialization of a RON-targeted antibody, if all approvals in multiple indications and all sales milestones are achieved, could total, in the aggregate, \$540 million. Upon commercialization, the Company is eligible to receive tiered double-digit royalty payments on Centocor's net sales of any RON-targeted antibody, as a percentage of net sales. Centocor's royalty obligations in a particular country begin on the date of first commercial sale of a product in that country, and end on the later of 10 years after the date of first commercial sale of the product in that country or the date of the last to expire of the issued patents covering the product in that country. All milestone payments and royalties will be reduced by a certain percentage if Centocor develops or commercializes a RON-targeted antibody which has incorporated significant, meaningful improvements made after a specified period by Centocor to the antibodies delivered by the Company. The royalties will also be reduced by a certain percentage on a country-by-country basis upon the entry of a generic competitor.

The Centocor License Agreement will remain in effect until the expiration of all of Centocor's royalty obligations to the Company, determined on a product-by-product and country-by-country basis. Prior to the filing of an investigational new drug application with the FDA or a similar application filed with another regulatory authority outside of the United States ("IND Submission"), Centocor has the right to terminate the Centocor License Agreement at will upon 90 days written notice to the Company. After IND Submission, Centocor may terminate the Centocor License Agreement at will upon 180 days written notice to the Company. Either party has the right to terminate the Centocor License Agreement in connection with an insolvency event involving the other party or a material breach of the Centocor License Agreement by the other party that remains uncured for a specified cure period. In the event that Centocor terminates the Centocor License Agreement at will, or if the Company terminates the Centocor License Agreement due to Centocor's material breach or insolvency, worldwide rights to the development, manufacture, and commercialization RON-targeted antibodies revert back to the Company. There are no refund provisions in the Centocor License Agreement that have financial consequences that impact the Company.

As noted above, Johnson & Johnson Development Corporation paid \$7.5 million for 438,340 shares of the Company's common stock at a purchase price of \$17.11 per share, which reflected the average of the daily volume weighted average prices for the Company's common stock for the 30 consecutive trading days ending on May 26, 2011. This weighted average sales price of \$17.11 per share resulted in a \$1.22 per share discount from the May 31, 2011 closing price of \$18.33 per share, or a discount of \$534,775 from the fair market value of the common stock on the effective date of the Centocor License Agreement. The Company determined this transaction was not within the scope of ASC 605-25 and, accordingly, the Company recorded the sale of common stock to Johnson & Johnson Development Corporation at fair value based on the closing price of the Company's stock on May 31, 2011 of \$18.33 per share.

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The remaining activities under the Centocor License Agreement were evaluated under ASC Topic 605-25 (as amended by ASU 2009-13) to determine if they represented a multiple element revenue arrangement. The Company determined that the Centocor License Agreement included the following deliverables:

Exclusive, sublicensable commercialization and development license related to RON antibodies (the RON license);

Non-exclusive license to use the Company's RON index (the RON Index license); and

The Company's obligation to provide research services.

The Company determined that each deliverable had stand-alone value upon delivery and therefore represents a separate unit of accounting. Factors considered in this determination included, among other things, the subject of the licenses and the research and development and commercial capabilities of Centocor.

The Company excluded the fair value of the common stock purchased by Johnson & Johnson Development Corporation from the arrangement consideration to be allocated to the identified deliverables and allocated the remaining \$7.0 million of up-front consideration attributable to the deliverables based on the relative selling price method. The Company determined the estimated selling price for the RON license and the RON Index license based on management's best estimate of selling price as the Company did not have VSOE or TPE of selling price for those deliverables. The Company's best estimate of selling price for the RON license and RON Index license considered discounted cash flow models, the key assumptions of which included the market opportunity for commercialization of a potential product candidate using the RON receptor worldwide, an estimate of costs related to phase 1, 2 and 3 clinical studies with certain multiplication factors related to the probability of success, and the time to commercialization of a potential product candidate. This analysis used various assumptions that are typical for similarly staged monoclonal antibodies and other reasonable cost assumptions in determining research and development, and sales, general & administrative costs. As the relative selling price of the RON license and RON Index license (the delivered items) exceeds the up-front consideration attributable to the deliverables of \$7.0 million, the entire up-front payment was recognized as revenue upon delivery of the licenses during the three months ended June 30, 2011.

The Company will record revenue related to research and development services as the services are delivered at the contractual rate, which approximates fair value for those services.

The Company may be entitled to receive future milestone payments totaling \$540 million. The Company has elected to recognize all milestone payments as revenue once the milestones have been triggered if the milestone is deemed to be substantive. The Company believes the development, approval and sales milestones that may be received under the Centocor License Agreement are consistent with the definition of a milestone included in ASU 2010-17 and, accordingly, the Company will recognize payments related to the achievement of such milestones, if any, as revenue upon receipt. Factors considered in this determination included scientific and regulatory risks that must be overcome to achieve each milestone, the level of effort and investment required to achieve each milestone, and the monetary value attributed to each milestone.

The adoption of ASU 2009-13 did not materially affect the Company's accounting for the Centocor License Agreement.

Schering-Plough (now Merck)

In March 2007, the Company entered into an agreement with Schering-Plough Corporation, or Schering-Plough (now Merck & Co., Inc., or Merck), through its subsidiary Schering Corporation, acting through its Schering-Plough Research Institute division, under which the Company granted Merck exclusive, worldwide rights to develop and commercialize all of the Company's monoclonal antibody antagonists of hepatocyte growth factor, or HGF, including ficlatuzumab, for therapeutic and prophylactic use in humans and for veterinary use. The Company also granted Merck an exclusive, worldwide license to related biomarkers for diagnostic use. The Company also conducted translational research using its Human Response Platform to guide the clinical development of ficlatuzumab. Merck was responsible for all costs related to the clinical development of ficlatuzumab and clinical and commercial manufacturing. On September 28, 2010, the Company received notice from Merck of termination of the collaboration agreement effective as of December 27, 2010, at which point the Company became responsible for the performance and funding of all future research, development, manufacturing and commercialization activities for ficlatuzumab.

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Under the agreement, Merck paid the Company an up-front payment of \$7.5 million in May 2007, which was being amortized over the Company's period of substantial involvement, which was initially estimated to be through completion of the first phase 2 proof-of-concept trial for ficlatuzumab (which was expected to be the first half of 2012), but was adjusted to reflect the termination of the agreement effective on December 27, 2010. In June 2010, the Company earned and received an \$8.5 million milestone payment in connection with the enrollment of patients in the Company's phase 2 clinical trial of ficlatuzumab under the agreement. Since the \$8.5 million milestone payment earned in June 2010 was considered substantive and at risk, it was included in revenue for the year ended December 31, 2010.

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In March 2011, in connection with the transition of responsibility for the ficlatuzumab program from Merck back to the Company, the Company made a \$10.2 million payment to Merck for the purchase of a supply of ficlatuzumab to support ongoing clinical studies. The Company has taken title to all of this material as of June 30, 2011 and, pursuant to the provisions of ASC Topic 730, has recognized \$1.1 million as a research and development expense during the three months ended March 31, 2011, and \$9.1 million as research and development expense during the three months ended June 30, 2011, when title passed to the Company.

OSI Pharmaceuticals (OSI)

In September 2007, the Company entered into a collaboration and license agreement with OSI Pharmaceuticals, Inc., (a wholly-owned subsidiary of Astellas US Holding Inc., a holding company owned by Astellas Pharma Inc.) or OSI, which provided for the use of the Company's proprietary *in vivo* models by the Company's scientists at its facilities, use of the Company's bioinformatics tools and other target validation and biomarker research to further develop and advance OSI's small molecule drug discovery and translational research related to cancer and other diseases. In July 2009, the Company and OSI expanded the strategic partnership, and the Company granted OSI a non-exclusive license to use the Company's proprietary bioinformatics platform, and non-exclusive perpetual licenses to use bioinformatics data and the Company's proprietary gene index related to a specific target pathway. Further, as part of the expanded strategic partnership, the Company granted OSI an option, exercisable upon payment of an option fee, to receive non-exclusive perpetual rights to certain elements of the Company's Human Response Platform and to use the Company's bioinformatics platform, and the Company granted OSI the right to obtain certain of its tumor models and tumor archives.

The Company accounts for the OSI arrangement pursuant to ASC Topic 605-25. The deliverables under the arrangement include use of the Company's proprietary *in vivo* models, research and development services provided using the Company's proprietary *in vivo* models by the Company's scientists at its facilities, use of the Company's bioinformatics tools and other target validation and biomarker research to further develop and advance OSI's small molecule drug discovery, translational research related to cancer and other diseases and a non-exclusive license to use the Company's proprietary bioinformatics platform, and non-exclusive perpetual licenses to use bioinformatics data and a Company's proprietary gene index related to a specific target pathway. Since these services were provided using the Company's proprietary technology, management concluded the arrangement should be accounted for as a single unit of accounting.

Under the agreement, OSI paid the Company an up-front payment of \$7.5 million, which was recorded in deferred revenue and was amortized over the Company's period of substantial involvement, which ended in July 2011 (the date the Company satisfied its performance obligations under the OSI arrangement). OSI also paid the Company \$2.5 million for the first year of research program funding, which was recorded in deferred revenue and was recognized as revenue over the performance period and, thereafter, OSI made research payments of \$625,000 per quarter through July 2009. In addition, OSI purchased 1,833,334 shares of Series C Convertible Preferred Stock, at a per share price of \$3.00, resulting in gross proceeds to the Company of \$5.5 million. The Company determined that the price paid of \$3.00 per share by OSI included a premium of \$0.50 over the price per share of the Company's Series D Convertible Preferred Stock sold in April 2007; accordingly, the Company is recognizing the premium of \$917,000 as additional license revenue on a straight-line basis over the period of substantial involvement. In connection with the initial public offering consummated by the Company in March 2010 and the related 1:4 reverse stock split of the common stock, each four shares of outstanding Series C Convertible Preferred Stock were converted into one share of common stock.

In consideration for the additional rights provided for pursuant to the July 2009 expanded agreement, OSI paid the Company an up-front payment of \$5.0 million, which was recorded in deferred revenue was being amortized over the Company's remaining period of substantial involvement, which ended in July 2011. OSI also agreed to fund research costs through June 30, 2011. In addition, OSI purchased 3,750,000 shares of Series E Convertible Preferred Stock, at a per share price of \$4.00, resulting in gross proceeds to the Company of \$15.0 million. In connection with the initial public offering consummated by the Company in March 2010 and the related 1:4 reverse stock split of the common stock, each four shares of outstanding Series E Convertible Preferred Stock were converted into one share of common stock. The Company determined that the price of \$4.00 per share paid by OSI included a premium of \$1.04 per share over the fair value of the Series E Convertible Preferred Stock of \$2.96 as calculated by the Company in its retrospective stock valuation. The valuation used the Market Approach to estimate the Company's enterprise value and the Probability Weighted Expected Return Method (PWERM) to allocate the enterprise value to each class of the Company's equity securities; accordingly, the Company recognized the premium of \$3,900,000 as additional license revenue on a straight-line basis over the period of substantial involvement, which ended in July 2011.

Under the July 2009 expanded agreement, if all applicable milestones are achieved, payments for the successful achievement of discovery, development and commercialization milestones could total, in the aggregate, over \$94.0 million for each target and its associated products. In addition, the Company is eligible to receive up to \$3.0 million for certain research milestones, and up to \$24.0 million in biomarker related milestones. In March 2011, the Company earned \$1.5 million related to achieving certain of these

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research milestones under the agreement. These research milestones are not considered to be at risk and substantive, therefore, the \$1.5 million in payments are being deferred and will be recognized on a straight-line basis over the remaining estimated period of substantial involvement, which ended in July 2011. Upon commercialization of products under the agreement, the Company is eligible to receive tiered royalty payments on sales of products by OSI, its affiliates and sublicensees. All milestones earned to date are for selection of targets, delivery of models, delivery of tumor archives or delivery of cell lines.

In November 2010, OSI exercised its option under the July 2009 expanded agreement providing the right for OSI to license certain elements of the Company's proprietary technology platform, including components of the Human Response Platform for the identification/characterization of novel epithelial-mesenchymal transition agents and proprietary patient selection biomarkers, in support of OSI's clinical development programs. The Company did not consider the option granted to OSI in July 2009 as a deliverable as there was significant uncertainty that this option would ultimately be exercised. The Company received \$12.5 million upon delivery of the notice of option exercise, and completed the transfer of the relevant technology to OSI in July 2011. The remaining \$12.5 million was paid in July 2011 following the successful transfer of the applicable technology. The Company has deferred the initial \$12.5 million payment, and is recognizing the full \$25.0 million relating to the option exercise by OSI over the technology transfer period. The Company recorded a corresponding receivable of \$11.0 million for amounts due from OSI pursuant to the July 2009 expanded agreement that is included in accounts receivable on the condensed consolidated balance sheet at June 30, 2011. This amount was paid in July 2011.

The Company believes the application of the provisions of ASU 2009-13 to this arrangement would not change the units of accounting under the arrangement or the manner in which the Company recognizes revenue for the arrangement.

Biogen Idec International GmbH (Biogen Idec)

In March 2009, the Company entered into an exclusive option and license agreement with Biogen Idec International GmbH, a subsidiary of Biogen Idec Inc., collectively referred to herein as "Biogen Idec", regarding the development and commercialization of the Company's discovery-stage ErbB3-targeted antibodies for the potential treatment and diagnosis of cancer and other diseases outside of the United States, Canada and Mexico.

The Company accounts for the Biogen Idec arrangement pursuant to ASC Topic 605-25. The deliverables under the arrangement include an option for a co-exclusive, world-wide license to develop and manufacture ErbB3 antibody products and an option for an exclusive license to commercialize ErbB3 antibody products in all countries in the world other than the United States, Canada and Mexico. The Company determined that these deliverables did not have standalone value due to the fact that the program was still in preclinical development and required the Company's experience to advance development of the product. As such, the Company determined that the agreement should be accounted for as one unit of accounting.

Under the terms of the agreement, Biogen Idec paid the Company an upfront cash payment of \$5.0 million in March 2009, which is being amortized over the Company's period of substantial involvement, defined as the twenty-year patent life of the development candidate. In addition, Biogen Idec purchased 7,500,000 shares of Series E Convertible Preferred Stock at a per share price of \$4.00, resulting in gross proceeds to the Company of \$30.0 million. In connection with the initial public offering consummated by the Company in March 2010 and the related 1:4 reverse stock split of the common stock, each four shares of outstanding Series E Convertible Preferred Stock were converted into one share of common stock. The Company determined that the price of \$4.00 paid by Biogen Idec included a premium of \$1.09 per share over the fair value of the Series E Convertible Preferred Stock of \$2.91 as calculated by the Company in its retrospective stock valuation. The valuation used the Market Approach to estimate the Company's enterprise value and the PWERM to allocate the enterprise value to each class of the Company's equity securities; accordingly, the Company is recognizing the premium of \$8,175,000 as revenue on a straight-line basis over the period of substantial involvement. The Company received a \$5.0 million milestone payment for achievement of the first pre-clinical discovery milestone under the agreement in June 2009 which was not considered at risk and was therefore deferred and is being recognized over the period of substantial involvement. The Company earned a second \$5.0 million milestone payment upon selection of a development candidate in March 2010. This milestone was considered substantive and at risk and was included in revenue for the quarter ended March 31, 2010. The Company earned a third \$5.0 million milestone payment based on achieving the GLP toxicology initiation milestone in June 2011. This milestone was considered substantive and at risk and was included in revenue for the quarter ended June 30, 2011. The Company could also receive an option exercise fee and regulatory milestone payments of \$50.0 million in the aggregate if Biogen Idec exercises its option to obtain exclusive rights to commercialize ErbB3 antibody products in its territory. The Company considers these milestone payments to be consistent with the definition of a milestone included in ASU 2010-17 and, accordingly, will recognize payments related to the achievement of such milestones, if any, as revenue upon receipt. Factors considered in this determination included scientific and regulatory risks that must be overcome to achieve each milestone, the level of effort and investment required to achieve each milestone, and the monetary value attributed to each milestone.

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If Biogen Idec exercises its exclusive option under the agreement, Biogen Idec will pay the Company royalties on Biogen Idec's sales of ErbB3 antibody products in its territory, and the Company will pay Biogen Idec royalties on the Company's sale of ErbB3 antibody products in the United States, Canada and Mexico.

The Company believes the application of the provisions of ASU 2009-13 would not change the units of accounting under the arrangement or the manner in which the Company recognizes revenue for the arrangement.

Kirin Brewery Co. Ltd. (KHK)

In December 2006, the Company entered into an exclusive license agreement with Kirin Brewery Co. Ltd. (now Kyowa Hakko Kirin) (KHK) to research, develop, manufacture and commercialize tivozanib (f/k/a KRN951), pharmaceutical compositions thereof and associated biomarkers in all territories in the world except for Asia (the KHK Agreement). Upon entering into the KHK Agreement, the Company made a cash payment in the amount of \$5.0 million. In March 2010, the Company made a \$10.0 million milestone payment to KHK in connection with the dosing of the first patient in the Company's phase 3 clinical trial of tivozanib. In addition, the Company may be required to make up to an aggregate of \$50.0 million in additional milestone payments upon the achievement of specified regulatory milestones. The Company is also required to pay tiered royalty payments on net sales it makes of tivozanib in its territory. The royalty rates under the KHK Agreement range from the low to mid teens as a percentage of the Company's net sales of tivozanib.

The Company also has the right to grant sublicenses under the KHK Agreement, subject to certain restrictions, and, as previously described, on February 16, 2011, the Company entered into the Astellas Agreement. Pursuant to the KHK Agreement, the Company is required to pay KHK 30% of certain amounts the Company receives under the Astellas Agreement in connection with Astellas' development and commercialization activities in Europe and the Royalty Territory, including up-front license fees, milestone payments and royalties the Company may receive from Astellas. The Company is not obligated to make any payments to KHK in respect of research and development funding or equity investments, subject to certain limitations.

The Company recorded \$22.5 million of research and development expense in the six months ended June 30, 2011 associated with a \$22.5 million payment due to KHK related to the up-front license payment received under the Astellas Agreement.

(5) Prepaid Expenses

Prepaid expenses and other current assets consisted of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Prepaid clinical expenses	\$ 5,886	\$ 2,741
Interest receivable	1,646	1,092
Prepaid insurance	674	311
Prepaid maintenance costs	573	495
Other prepaid expenses and current assets	515	225
	\$ 9,294	\$ 4,864

(6) Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Clinical expenses	\$ 6,164	\$ 5,676

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Salaries and benefits	2,837	3,696
Accrued interest	248	256
Professional fees	144	204
Other	884	289
	\$ 10,277	\$ 10,121

Table of Contents**(7) Loans Payable**

On May 15, 2008, the Company entered into a \$21.0 million financing agreement with Hercules Technology Growth Capital Inc., or Hercules Technology Growth, and Comerica Bank, referred to as the prior loan agreement. On May 28, 2010, the Company entered into a new loan and security agreement with Hercules Technology II, L.P. and Hercules Technology III, L.P., affiliates of Hercules Technology Growth, referred to as the new loan agreement, pursuant to which the Company received a loan in the aggregate principal amount of \$25.0 million and repaid the remaining outstanding principal and interest under the prior loan agreement of \$17.4 million. The Company was initially required to repay the aggregate principal balance of the loan that is outstanding under the new loan agreement in 30 equal monthly installments of principal starting on April 1, 2011. However, the new loan agreement provides that such date will be extended under certain circumstances. On April 1, 2011, the Company triggered the first of two possible extensions to the date from which principal payments will be made. The Company is now required to repay the aggregate principal balance of the loan that is outstanding under the new loan agreement in 30 equal monthly installments of principal starting on October 1, 2011. The current portion of loans payable as of June 30, 2011 considers this extension. Per annum interest is payable at the greater of 11.9% and an amount equal to 11.9% plus the prime rate of interest minus 4.75%, provided however, that the per annum interest shall not exceed 15.0%. The Company must make interest payments on the loan each month following the date of borrowing under the new loan agreement. The entire principal balance and all accrued but unpaid interest will be due and payable on March 1, 2014, provided, however, that, as noted above, the repayment commencement date, and therefore the due date for the loan, is subject to extension under certain circumstances specified in the new loan agreement. The loan is secured by a lien on all of the Company's personal property as of, or acquired after, the date of the new loan agreement, except for intellectual property.

The new loan agreement requires a deferred charge of \$1.25 million to be paid in May 2012 related to the termination of the prior loan agreement. This amount is included in current liabilities as other liabilities. The new loan also includes an additional deferred charge of \$1.24 million due upon the maturity of the new loan which has been recorded as a loan discount and is being amortized to interest expense over the term of the new loan agreement using the effective interest rate method. The Company recorded a long-term liability for the full amount of the charge since the payment of such amount is not contingent on any future event. The Company incurred approximately \$193,000 in loan issuance costs related to the new loan agreement paid directly to the lenders, which have been offset against the loan proceeds as a loan discount. As part of the new loan agreement, the Company issued warrants to the lenders on June 2, 2010 to purchase up to 156,641 shares of the Company's common stock at an exercise price equal to \$7.98 per share. These warrants expire seven years from issuance. The Company recorded the relative fair value of the warrants of approximately \$780,000 as equity and as a discount to the related loan outstanding and will amortize the value of the discount to interest expense over the term of the loan using the effective interest method. The relative fair value of the warrant was calculated using the Black-Scholes option-pricing model with the following assumptions: volatility of 64.12%, an expected term equal to the contractual life of the warrant (seven years), a risk-free interest rate of 2.81% and no dividend yield. The resulting effective interest rate including the fair value of the warrant, the new loan issuance costs and the deferred charge approximates 16.1%.

The new loan agreement defines events of default, including the occurrence of an event that results in a material adverse effect upon the Company's business operations, properties, assets or condition (financial or otherwise), its ability to perform its obligations under and in accordance with the terms of the new loan agreement, or upon the ability of the lenders to enforce any of their rights or remedies with respect to such obligations, or upon the collateral under the new loan agreement or upon the liens of the lenders on such collateral or upon the priority of such liens. Hercules Technology Growth Capital also received an option, subject to the Company's written consent, not to be unreasonably withheld, to purchase, either with cash or through conversion of outstanding principal under the loan, up to \$2.0 million of equity of the Company sold in any sale by the Company to third parties of equity securities resulting in at least \$10.0 million in net cash proceeds to the Company, subject to certain exceptions. The Company has evaluated the embedded conversion option, and has concluded that it does not need to be bifurcated and separately accounted for. No amount will be recognized for the conversion feature until such time as the conversion feature is exercised and it can be determined whether a beneficial conversion feature exists. As of June 30, 2011, there have been no events of default under the loan. As of June 30, 2011, the principal balance outstanding was \$25.0 million.

Future minimum payments under the loans payable outstanding as of June 30, 2011 are as follows:

Years Ending December 31:

2011(6 months remaining)	\$ 3,662
2012	12,860
2013	11,610
2014	4,213
	32,345
Less amount representing interest	(4,858)

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Less discount	(1,146)
Less deferred charges	(2,487)
Less current portion	(6,039)
Loans payable, net of current portion and discount	\$ 17,815

Table of Contents**(8) Stock-based Compensation****Stock Plans**

The Company issued stock options and restricted stock awards during the six months ended June 30, 2011.

A summary of the status of the Company's stock option activity at June 30, 2011 and changes during the six months then ended is presented in the table and narrative below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2010	3,605,718	\$ 6.44		
Granted	696,291	\$ 15.09		
Exercised	(409,160)	\$ 3.31		
Cancelled	(51,158)	\$ 9.43		
Outstanding at June 30, 2011	3,841,691	\$ 8.30	7.02	\$ 47,300,085
Vested or expected to vest at June 30, 2011	3,702,857	\$ 8.09	6.93	\$ 46,345,172
Exercisable at June 30, 2011	2,364,276	\$ 5.44	5.75	\$ 35,876,765

The aggregate intrinsic value in the table above represents the value (the difference between the Company's closing common stock price on the last trading day of the six months ended June 30, 2011 and the exercise price of the options, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. As of June 30, 2011, there was \$9.2 million of total unrecognized stock-based compensation expense related to stock options granted under the Company's 2002 Stock Incentive Plan and 2010 Stock Incentive Plan (the "plans"). The expense is expected to be recognized over a weighted-average period of 2.6 years.

Stock-based awards to employees are required to be measured at fair value. The Company uses the Black-Scholes pricing model in order to calculate the estimated fair value of its stock option grants. This model requires the Company to make assumptions with respect to factors such as volatility, interest rate, dividend yield and term. Since the Company completed its initial public offering in March 2010, it did not have sufficient history as a publicly traded company to evaluate its volatility. As such, the Company has used an average of several peer companies' volatilities to determine a reasonable estimate of its volatility. For purposes of identifying similar entities, the Company considered characteristics such as industry, length of trading history, market capitalization and similar product pipelines. The Company utilized a weighted average method of using its own data for the quarters that it has been public, along with data it obtained from its peer companies. Due to the lack of available quarterly data for these peer companies and insufficient history as a public company, the Company elected to use the simplified method for plain vanilla options to estimate the expected term of the stock option grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

During the three and six months ended June 30, 2011 and 2010, respectively, the assumptions used in the Black-Scholes pricing model for new grants were as follows:

	Three Months Ended June 30,	
	2011	2010
Volatility factor	64.37%	64.12-64.43%
Risk-free interest rate	2.13%	2.11%
Dividend yield		
Expected term (in years)	5.50-6.25	5.50-6.25

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	Six Months Ended June 30,	
	2011	2010
Volatility factor	64.37%-65.01%	63.92-64.43%
Risk-free interest rate	2.13%-2.57%	2.11%-2.92%
Dividend yield		
Expected term (in years)	5.50-6.25	5.50-6.25

The restricted stock activity for the three months ended June 30, 2011 is as follows:

	Number of Shares	Weighted-Average Exercise Price
Unvested at December 31, 2010		
Granted	69,000	\$ 14.16
Cancelled		
Expired		
Vested/Released		
Unvested at June 30, 2011	69,000	\$ 14.16

As of June 30, 2011, there was \$0.5 million of total unrecognized stock-based compensation expense related to restricted stock awards granted under the plans. The expense is expected to be recognized over a weighted-average period of 0.9 years.

On February 15, 2011, the Company's Board of Directors adopted, subject to stockholder approval, amendment no. 1 to the Company's 2010 Stock Incentive Plan to increase the amount of options granted to newly elected Board members, and amendment no. 2 to the Company's 2010 Stock Incentive Plan to increase the number of shares of common stock reserved for issuance under the Company's 2010 Stock Incentive Plan by 3,000,000. Pursuant to amendment no. 2, the number of shares of the Company's common stock reserved for issuance under the 2010 Stock Incentive Plan is the sum of (i) 4,875,000 shares of common stock plus (ii) the number of shares of common stock subject to awards granted under the 2002 Stock Incentive Plan which expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right, up to a maximum of 5,500,000 shares.

On April 12, 2011, the Company's board of directors approved an amendment no. 3 to the Company's 2010 Stock Incentive Plan which became effective upon its approval, to include the following provisions:

restrictions on repricing, within the meaning of the rules of the NASDAQ Stock Market, any stock option or stock appreciation rights, or SARs, award unless such action is approved by the Company's stockholders;

minimum vesting provisions with respect to certain awards granted under the plan;

a maximum limit on the aggregate number of shares that may be granted as awards other than options; and

revised share counting rules that prohibit the recycling of shares that are tendered or withheld to pay the exercise price of an award or to satisfy tax withholding obligations.

(9) Income Taxes

The Company calculates its provision for income taxes on ordinary income based on its projected annual tax rate for the year. As of June 30, 2011, the Company is projecting an ordinary loss for the year ended December 31, 2011 and, since it maintains a full valuation allowance on all of its deferred tax assets, the Company has recorded no income tax provision or benefit in the current quarter and year to date period.

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As a result of the initial public offering of the Company's common stock in March 2010, the Company underwent a change in ownership for purposes of Internal Revenue Code Section 382. As a result, the Company believes the utilization of federal net operating loss carryforwards and research credit carryforwards as of the date of the initial public offering will be subject to an annual limitation based on the value of the Company immediately before the stock offering. The annual limitation will be increased in the first five years after the change in ownership as a result of the Company's built-in-gains. This limitation is not expected to result in the loss of any of these tax attributes during the carryforward period.

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(10) Common Stock

Reverse Stock Split

On February 2, 2010, the Company's Board of Directors, and on February 11, 2010, the Company's stockholders, approved a 1-for-4 reverse stock split of the Company's common stock. The reverse stock split was effected on February 18, 2010. All share and per share amounts in the condensed consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split, including reclassifying an amount equal to the reduction in par value to additional paid-in capital.

Initial Public Offering

In March 2010, the Company raised \$81.0 million in gross proceeds from the sale of 9,000,000 shares of its common stock in an initial public offering at \$9.00 per share. The net offering proceeds after deducting approximately \$3.1 million in offering related expenses and underwriters discounts were approximately \$72.2 million. In March 2010, the underwriters of the initial public offering exercised their option to purchase, and in April 2010, the Company closed the sale to such underwriters of, an additional 968,539 shares of common stock at \$9.00 per share resulting in additional net proceeds to the Company of approximately \$8.1 million. All outstanding shares of the Company's convertible preferred stock were converted into 18,979,155 shares of common stock upon the completion of the initial public offering.

In connection with the initial public offering, the Company reclassified its liability related to preferred stock warrants into additional paid-in capital as a result of the conversion of warrants to purchase convertible preferred stock into warrants to purchase common stock.

Private Placement

On October 28, 2010, the Company entered into a definitive agreement with respect to the private placement of 4.5 million shares of its unregistered common stock at \$13.50 per share to a group of institutional and accredited investors. The Company completed the private placement on November 3, 2010, resulting in approximately \$56.6 million in net proceeds to the Company.

On May 31, 2011, the Company entered into a definitive agreement with respect to the sale of 438,340 shares of its unregistered common stock at \$17.11 per share to Johnson & Johnson Development Corporation. The Company completed the private placement on May 31, 2011, resulting in approximately \$7.5 million in net proceeds to the Company.

Follow-on Offering

In June 2011, the Company raised \$100.6 million in gross proceeds from the sale of 5,750,000 shares of its common stock in a follow-on public offering at \$17.50 per share. In June 2011, the underwriters of the public offering exercised their option to purchase an additional 602,119 shares of common stock at \$17.50 per share resulting in additional gross proceeds to the Company of approximately \$10.5 million. The combined net offering proceeds after deducting approximately \$6.9 million in offering related expenses and underwriters' discounts and commissions were approximately \$104.2 million.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Forward-Looking Information**

The following discussion of our financial condition and results of operations should be read with our unaudited condensed consolidated financial statements and notes included in Item 1 of this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2011, as well as the audited consolidated financial statements and notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission, or SEC, on March 11, 2011. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management including, without limitation, our expectations regarding our research, development and commercialization plans and prospects, results of operations, general and administrative expenses, research and development expenses, and the sufficiency of our cash for future operations. Words such as anticipate, target, project, believe, goals, estimate, potential, predict, may, will, expect, might, could, intend, variations of these terms or the negative of those terms and similar expressions are intended to identify these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.