

MAP Pharmaceuticals, Inc.
Form 10-Q
August 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

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 001-33719

MAP PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

20-0507047
(I.R.S. Employer
Identification No.)

2400 Bayshore Parkway, Suite 200

Mountain View, California
(Address of principal executive offices)

94043
(Zip code)

(650) 386-3100

(Registrant's telephone number, including area code)

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 by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2010, the registrant had outstanding 26,603,932 shares of Common Stock.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1 Financial Statements****MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,330	\$ 65,776
Prepaid expenses and other current assets	455	620
Total current assets	55,785	66,396
Property and equipment, net	4,536	4,164
Other assets	41	126
Restricted investment	310	310
Total assets	\$ 60,672	\$ 70,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,407	\$ 2,916
Accrued liabilities	8,432	11,568
Current portion of long-term debt	7,653	7,283
Total current liabilities	17,492	21,767
Long-term debt, net of current	3,558	7,337
Other liabilities	129	90
Total liabilities	21,179	29,194
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock	260	241
Additional paid-in capital	250,671	226,452
Deficit accumulated during the development stage	(211,438)	(184,891)
Total stockholders' equity	39,493	41,802
Total liabilities and stockholders' equity	\$ 60,672	\$ 70,996

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

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except share and per share amounts)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,		Period from July 3, 2003
	2010	2009	2010	2009	(Inception) to
					June 30, 2010
Collaboration revenue	\$	\$ 8,645	\$	\$ 16,129	\$ 54,166
Operating expenses:					
Research and development	8,242	9,628	18,028	23,703	197,722
Sales, general and administrative	3,910	3,437	7,791	6,245	54,992
Total operating expenses	12,152	13,065	25,819	29,948	252,714
Loss from operations	(12,152)	(4,420)	(25,819)	(13,819)	(198,548)
Interest income	2	26	6	111	6,374
Interest expense	(339)	(551)	(732)	(1,153)	(6,483)
Other expense, net		(24)	(2)	(28)	(764)
Net loss	(12,489)	(4,969)	(26,547)	(14,889)	(199,421)
Cumulative stock dividend attributed to preferred stockholders					(13,925)
Net loss attributed to common stockholders	\$ (12,489)	\$ (4,969)	\$ (26,547)	\$ (14,889)	\$ (213,346)
Net loss per share attributed to common stockholders basic and diluted	\$ (0.47)	\$ (0.24)	\$ (1.01)	\$ (0.72)	
Weighted average shares outstanding used in calculating net loss per share attributed to common stockholders basic and diluted	26,480,166	20,699,343	26,167,861	20,641,878	

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

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six Months Ended June 30,		Cumulative Period from July 3, 2003 (Date of Inception) to June 30, 2010
	2010	2009	
Cash flows from operating activities:			
Net loss	\$ (26,547)	\$ (14,889)	\$ (199,421)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	641	751	5,297
Accretion of investment discounts, net		(1)	(1,595)
Amortization of debt issuance costs			210
Accretion of debt payment premium	142	212	833
Change in carrying value of warrant liability			621
Issuance of common stock in exchange for services			51
Stock-based compensation	3,094	2,563	14,363
Loss on disposal of equipment and other non-cash items	306	79	1,373
Changes in operating assets and liabilities:			
Accounts receivable		(5,174)	
Prepaid expenses and other current assets	165	433	(680)
Other assets	85		99
Accounts payable	(1,509)	1,233	1,378
Accrued liabilities	(3,136)	(5,600)	8,354
Deferred revenue		33,104	
Other liabilities	39	14	129
Net cash provided by (used in) operating activities	(26,720)	12,725	(168,988)
Cash flows from investing activities:			
Purchase of intangible assets and in-process research and development			(412)
Purchase of property and equipment	(1,319)	(280)	(10,760)
Purchase of short-term investments			(169,497)
Sales and maturities of short-term investments		12,740	171,411
Purchase of restricted investment			(310)
Net cash provided by (used in) investing activities	(1,319)	12,460	(9,568)
Cash flows from financing activities:			
Proceeds from issuance of convertible notes payable			4,300
Proceeds from issuance of debt			31,006
Adjustment to issuance cost related to IPO			(9)
Proceeds from sales of shares through equity plans	1,479	516	3,428
Repayment of debt	(3,551)	(2,874)	(20,728)
Proceeds from issuance of common stock resulting from drawdown of equity line of credit, net of issuance costs	19,665		19,665
Proceeds from issuance of common stock in IPO, net of issuance costs			62,177

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Proceeds from issuance of common stock in follow-on public offering, net of issuance costs			31,619
Proceeds from issuance of convertible preferred stock, net of issuance costs			102,428
Net cash provided by (used in) financing activities	17,593	(2,358)	223,886
Net increase (decrease) in cash and cash equivalents	(10,446)	22,827	55,330
Cash and cash equivalents at beginning of period	65,776	31,927	
Cash and cash equivalents at end of period	\$ 55,330	\$ 54,754	\$ 55,330
Supplemental disclosures of cash flow information			
Cash paid for interest	\$ 590	\$ 937	\$ 5,339

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

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MAP PHARMACEUTICALS, INC.

(a development stage enterprise)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. THE COMPANY

MAP Pharmaceuticals, Inc., incorporated in the state of Delaware, originally was formed as a limited liability company on July 3, 2003 and converted to a corporation on December 11, 2003. Our goal is to use proprietary inhalation technologies to enhance the therapeutic benefits and commercial attractiveness of proven drugs while minimizing risk by capitalizing on their known safety, efficacy and commercialization history. Our current focus is to advance the development of our Phase 3 product candidate, LEVADEX, formerly known as MAP0004, a proprietary orally inhaled version of dihydroergotamine for the potential treatment of migraine. We are in the development stage and since inception have devoted substantially all of our efforts to research and development, raising capital and recruiting personnel.

We have incurred losses and negative cash flow since our inception in July 2003. We will continue to incur losses until we generate sufficient revenue to offset our expenses, and we anticipate that we will continue to incur net losses for the next several years. We believe that our existing cash and cash equivalents will be sufficient to fund our projected operating requirements for at least 12 months. We will need substantial additional capital in the future in order to complete the development and potential commercialization of LEVADEX and to fund the development and commercialization of any future product candidates. Prior to achieving profitable operations, we intend to continue to fund operations through public or private financings, strategic partnerships or other arrangements. Such funding, if needed, may not be available on favorable terms, if at all. In the event we are unable to obtain additional capital, we may delay or reduce the scope of our current research and development programs and other expenses.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We have prepared the accompanying interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements and accompanying notes do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. The financial statements include all adjustments (consisting of normal recurring adjustments) that management believes are necessary for the fair statement of the balances and results for the periods presented. These interim financial statement results are not necessarily indicative of the results to be expected for the full fiscal year or any future interim period.

The year-end condensed balance sheet at December 31, 2009 was derived from audited financial statements, but does not include all the disclosures required by accounting principles generally accepted in the United States. The financial statements and related disclosures have been prepared with the presumption that users of the interim financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2009.

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification, or ASC 605, *Revenue Recognition*, which requires that certain criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Collaboration revenue, which is earned under agreements with third parties for research and development activities, may include nonrefundable license fees, cost reimbursements and contingent milestones and royalties. Our revenue arrangements with multiple elements are evaluated in accordance with ASC 605-25 *Revenue Recognition - Multiple-Element Arrangements*, and are divided into separate units of accounting if certain

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criteria are met, including whether the delivered element has stand-alone value and whether there is verifiable objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units.

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MAP PHARMACEUTICALS, INC.

(a development stage enterprise)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Upfront payments received upon execution of collaborative agreements are recorded as deferred revenue and recognized as collaboration revenue over the research and development period pursuant to the agreement. Such period generally represents the research and development period set forth in the agreement between our third-party collaborator and us. The research and development period is estimated at the inception of the arrangement and is periodically reevaluated. Reevaluation of the research and development period may shorten or lengthen the period during which the deferred revenue is recognized. We evaluate the appropriate period based on research progress attained and reevaluate the period when significant changes occur. If the collaboration agreement is terminated, all the remaining unamortized deferred revenue will be recognized as collaboration revenue on the date of termination.

Cost reimbursements are based upon negotiated rates for our full time employee equivalents, or FTE, and actual out-of-pocket costs. They are recognized as collaboration revenue as the related research and development services are performed. The cost reimbursements are generally based on qualified expenses as defined in the collaborative agreement. FTE rates are intended to approximate our anticipated cost.

We recognize milestone payments as revenue upon achievement of the milestone provided the milestone payment is nonrefundable, substantive effort and risk is involved in achieving the milestone and the amount of the milestone is reasonable in relation to the effort expended or risk associated with the achievement of the milestone. If these conditions are not met, we defer the milestone payment and recognize it as revenue over the estimated period of performance under the contract as we complete our performance obligations.

Pre-clinical Study and Clinical Trial Accruals

We estimate our pre-clinical study and clinical trial expenses based on the services received pursuant to contracts with several research institutions and contract research organizations, or CROs, that conduct and manage pre-clinical studies and clinical trials on our behalf. The financial terms of these agreements vary from contract to contract and may result in uneven expenses and payment flows. Pre-clinical study and clinical trial expenses include the following:

fees paid to CROs in connection with pre-clinical studies;

fees paid to CROs and investigative sites in connection with clinical trials; and

fees paid to contract manufacturers and service providers in connection with the production and testing of active pharmaceutical ingredients and drug materials for use in pre-clinical studies and clinical trials.

Payments under some of these contracts depend on factors such as the milestones accomplished, successful enrollment of certain number of patients, site initiation and completion of clinical trial milestones. In accruing services fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. We monitor patient enrollment levels and related activities to the extent possible through internal reviews, correspondence and status meetings with CROs and review of contractual terms. Our estimates are dependent on the timeliness and accuracy of data provided by our CROs and other vendors.

Stock-Based Compensation

Effective January 1, 2006, we adopted ASC 718 *Compensation - Stock Compensation*, using the prospective transition method, which requires the measurement and recognition of compensation expense for all stock-based payment awards granted, modified and settled to our employees and directors after January 1, 2006. Our financial statements reflect the impact of ASC 718. We chose the straight-line attribution method for

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allocating compensation costs and recognized the fair value of each stock option on a straight-line basis over the requisite service period.

We account for equity instruments issued to non-employees in accordance with ASC 505-50 *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic adjustment as the underlying equity instruments vest.

Comprehensive Loss

We report comprehensive income (loss) in accordance with ASC 220 Reporting Comprehensive Income. Components of other comprehensive income (loss), including unrealized gains (losses) on our available-for-sale securities, are included in total comprehensive loss.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net loss	\$ (12,489)	\$ (4,969)	\$ (26,547)	\$ (14,889)
Net change in unrealized loss on available-for-sale investments				(44)
Comprehensive loss	\$ (12,489)	\$ (4,969)	\$ (26,547)	\$ (14,933)

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Net Loss per Share***

Basic net loss per share is computed by dividing net loss attributed to common stockholders by the weighted average number of common shares outstanding during the period. Our potential dilutive shares, which include outstanding common stock options, common stock issuable pursuant to the Employee Stock Purchase Plan, or ESPP, warrants to purchase common stock and performance-based restricted stock units, have not been included in the computation of diluted net loss per share for all the periods as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share.

The numerator and denominator used in the calculation of basic and diluted net loss per share were as follows (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator				
Net loss attributed to common stockholders	\$ (12,489)	\$ (4,969)	\$ (26,547)	\$ (14,889)
Denominator				
Weighted average common shares outstanding	26,480,166	20,699,343	26,167,861	20,641,878
Basic and diluted net loss per share	\$ (0.47)	\$ (0.24)	\$ (1.01)	\$ (0.72)

The following outstanding common stock options, common stock issuable pursuant to the ESPP, warrants to purchase common stock and performance-based restricted stock units were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an anti-dilutive effect:

	June 30,	
	2010	2009
Options to purchase common stock	4,081,932	3,911,830
Common stock issuable pursuant to the ESPP	9,080	30,971
Warrants to purchase common stock	26,903	73,989
Performance-based restricted stock units	98,000	

Recent Accounting Pronouncements

On April 29, 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2010-17, *Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition* (a consensus of the FASB Emerging Issues Task Force). It establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. The scope of the ASU is limited to research or development arrangements and requires an entity to record the milestone payment in its entirety in the period received if the milestone meets all the necessary criteria to be considered substantive. The ASU is effective for fiscal years (and interim periods within those fiscal years) beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is

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also permitted. As a result, it is effective for us in the first quarter of fiscal year 2011. We do not believe that the adoption of ASU 2010-17 will have a material impact on our condensed consolidated financial statements.

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MAP PHARMACEUTICALS, INC.

(a development stage enterprise)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In September 2009, the FASB ratified Revenue Arrangements with Multiple Deliverables issued as ASU 2009-13 in early October. ASU 2009-13 updates the existing multiple-element arrangements guidance currently included in ASC 605-25, *Revenue Recognition Multiple-Element Arrangements*. The revised guidance provides for two significant changes to the existing multiple-element arrangements guidance. The first relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. This change is significant as it will likely result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identifiable deliverables. These changes are likely to result in earlier recognition of revenue for multiple-element arrangements than under previous guidance. ASU 2009-13 also significantly expands the disclosures required for multiple-element revenue arrangements. The revised multiple-element arrangements guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or modified after the adoption date. Early adoption is permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. If the guidance is adopted prospectively, certain transitional disclosures are required for each reporting period in the initial year of adoption. As a result, it is effective for us in the first quarter of fiscal year 2011. We do not believe that the adoption of ASU 2009-13 will have a material impact on our condensed consolidated financial statements.

NOTE 3. LICENSE AND SUPPLY AGREEMENTS

Agreement with AstraZeneca

In December 2008, we entered into an agreement with AstraZeneca AB, or the AstraZeneca Agreement, which became effective in February 2009. Pursuant to the terms of the AstraZeneca Agreement, we licensed to AstraZeneca global rights to develop and commercialize our proprietary nebulized formulation of UDB, our next generation UDB therapy and certain combination nebulization therapies for the potential treatment of asthma in children.

In February 2009, under the terms of the AstraZeneca Agreement, AstraZeneca paid us a nonrefundable upfront cash payment of \$40.0 million. On February 23, 2009, we announced top-line results of our initial Phase 3 clinical trial of UDB for the potential treatment of children with asthma. We announced that the clinical trial did not meet its co-primary endpoints, asthma control as assessed by changes from baseline in nighttime and daytime composite symptom scores, in either of the doses evaluated when compared with placebo.

On July 8, 2009, we received notice from AstraZeneca of the termination of the AstraZeneca Agreement. Effective on the date of termination, all rights licensed to AstraZeneca in the AstraZeneca Agreement reverted back to us. We were jointly developing UDB with AstraZeneca, and were responsible for executing the development plan. In the third quarter of 2009 we suspended development of our UDB product candidate.

Total collaboration revenue recognized under the AstraZeneca Agreement was \$0 for the three and six months ended June 30, 2010, compared to \$8.6 million and \$16.1 million, respectively, for the same periods in 2009, and \$54.2 million for the cumulative period from July 3, 2003 (date of inception) to June 30, 2010. The revenue recognized in the three and six months ended June 30, 2009 was related to the amortization of a \$40.0 million upfront payment received in February 2009 and to reimbursements for UDB-related development expenses pursuant to the AstraZeneca Agreement.

Agreement with Nektar

Under our June 2004 agreement, as amended, with Nektar Therapeutics UK Limited, or the Nektar Agreement, we were granted a worldwide, exclusive license, with a right to sublicense, under Nektar patents and know-how, to develop and commercialize any formulation of a form of dihydroergotamine for administration by inhalation using a device. We also agreed to pay royalties at specified rates based on net sales. As of June 30, 2010, we are required to make future nonrefundable milestone payments of up to \$5.0 million related to products currently being developed under the Nektar Agreement, when and if certain regulatory and commercial milestones are met. We paid \$0 for both the three and

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six months ended June 30, 2010 and 2009. We paid \$2.6 million for the cumulative period from July 3, 2003 (date of inception) to June 30, 2010. Either party may terminate the Nektar Agreement upon a material, uncured default of the other party. We may terminate the Nektar Agreement, with or without cause, at any time upon six months' prior written notice.

Agreement with Elan

Under the April 2004 agreement, as amended, with Elan Pharma International Limited, or the Elan Agreement, Elan granted to us a worldwide, exclusive, sub-licensable license under certain of Elan's intellectual property rights related to our UDB product candidate. We also agreed to pay royalties at specified rates based on net sales. As of June 30, 2010, we may be required to make future nonrefundable milestone payments of up to \$16.5 million related to products developed under the Elan Agreement, when and if certain regulatory and commercial milestones under the Elan Agreement are met. We paid \$0 for both the three and six months ended June 30, 2010 and 2009. We paid \$4.0 million for the cumulative period from July 3, 2003 (date of inception) to June 30, 2010. Either party may terminate the Elan Agreement upon a material, uncured default of the other party. We may terminate the agreement, with or without cause, at any time upon 90 days' prior written notice. We also entered into a services agreement with Elan Drug Delivery International in February 2005, amended subsequently, which describes the terms and conditions for clinical and commercial supply of product intermediate for our UDB product candidate.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In August 2010, our agreement with Elan Pharma International Limited terminated. Please refer to Note 8 Subsequent Event for more information.

NOTE 4. FAIR VALUE MEASUREMENTS

On January 1, 2008, we adopted ASC 820, *Fair Value Measurements*, as it relates to financial assets and financial liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard is now the single source in GAAP for the definition of fair value, except for the fair value of leased property as defined in ASC 840 *Accounting for Leases*, which establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value.

The following was a summary of our cash, cash equivalents and restricted investment as of June 30, 2010 and December 31, 2009, respectively (in thousands):

Amortized Cost	As of June 30, 2010 Unrealized Gain	Estimated Fair
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		(Loss)	Value
Cash	\$ 2,172	\$	\$ 2,172
Certificates of deposit	310		310
Money market funds	53,158		53,158
	\$ 55,640	\$	\$ 55,640

Reported as:

Cash and cash equivalents	\$ 55,330
Restricted investment	310
	\$ 55,640

	As of December 31, 2009		
	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value
Cash	\$ 4,620	\$	\$ 4,620
Certificates of deposit	310		310
Money market funds	61,156		61,156
	\$ 66,086	\$	\$ 66,086

Reported as:

Cash and cash equivalents	\$ 65,776
Restricted investment	310
	\$ 66,086

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Our investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments that are generally classified within Level 1 of the fair value hierarchy include money market securities. The types of investments that are generally classified within Level 2 of the fair value hierarchy include U.S. government and agency securities, corporate debt securities and certificates of deposit.

As of June 30, 2010 and December 31, 2009, financial assets measured and recognized at fair value on a recurring basis and classified under the appropriate level of the fair value hierarchy as described above were as follows, respectively (in thousands):

As of June 30, 2010	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$	\$ 310	\$	\$ 310
Money Market Funds	53,158			53,158
Total	\$ 53,158	\$ 310	\$	\$ 53,468

As of December 31, 2009	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$	\$ 310	\$	\$ 310
Money market funds	61,156			61,156
Total	\$ 61,156	\$ 310	\$	\$ 61,466

Our investments in money market funds are measured at fair value on a recurring basis. Our money market funds comply with Rule 2a-7 of the Investment Company Act of 1940 and are required to be priced and have a fair value of \$1.00 net asset value per share. These money market funds are actively traded and reported daily through a variety of sources. Due to the structure and valuation required by the Investment Company Act of 1940 regarding Rule 2a-7 funds, the fair value of the money market fund investments is classified as Level 1.

The fair value of the certificates of deposit is classified as Level 2 due to the nature of a contractual restriction in our lease agreement which limits our ability to liquidate the investment.

The carrying amount for our debt reported in the condensed consolidated balance sheet as of June 30, 2010 was \$11.2 million. Using a discounted cash flow technique that incorporates a market interest rate, we have determined the fair value of our debt to be \$10.9 million at June 30, 2010.

NOTE 5. BALANCE SHEET COMPONENTS***Accrued liabilities***

Accrued liabilities consist of the following (in thousands):

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	June 30, 2010	December 31, 2009
Clinical trial related	\$ 5,214	\$ 7,573
Payroll and related expenses	2,482	2,932
Professional services	637	905
Other	99	158
	\$ 8,432	\$ 11,568

Table of Contents**MAP PHARMACEUTICALS, INC.****(a development stage enterprise)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Debt***

In September 2006, we entered into a \$3.0 million loan facility agreement for the purpose of financing equipment purchases, or the Equipment Loan, and borrowed \$1.0 million under this facility. The Equipment Loan bore interest at an annual interest rate of 9.5% and was fully paid as of September 30, 2009.

In May 2008, we entered into an additional loan agreement, or the 2008 Working Capital Loan, for \$20.0 million, in order to repay an earlier working capital loan and to support general corporate purposes. The 2008 Working Capital Loan bears interest at an annual rate of 9.95%, with an effective rate of approximately 12% after factoring in a \$1.0 million payment due at the termination of this agreement. The 2008 Working Capital Loan had interest-only payments up to and including January 2009, matures in October 2011, and includes customary loan covenants. As of June 30, 2010, we were in compliance with these loan covenants.

The 2008 Working Capital Loan amounts are collateralized by all of our assets, excluding intellectual property.

Our debt consisted of the following (in thousands):

	June 30, 2010	December 31, 2009
Principal amount	\$ 10,377	\$ 13,929
Plus: premium, based on imputed interest rate of 12%	834	691
	11,211	14,620
Less: current portion of debt	7,653	7,283
Long-term portion	\$ 3,558	\$ 7,337

As of June 30, 2010, debt payments, which include interest and principal, are as follows (in thousands):

Year ending December 31,	Amount
2010 (remaining six months)	\$ 4,172
2011	7,952
Total debt payments	\$ 12,124

NOTE 6. COMMITMENTS AND CONTINGENCIES***Operating Leases***

In June 2004, we entered into a lease agreement for laboratory and office facilities in Mountain View, California, or the Lease, and in August 2006 we amended the Lease to include additional square footage within the same building. The Lease was to expire in June 2008. In March 2008, we entered into another amendment to the Lease, or the March 2008 Amendment, to extend the term of the Lease until June 2012,

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and to include additional square footage and options to lease additional square footage. In September 2008, we amended and restated the Lease, providing for expanded square footage and certain renewal options. Under the Lease, we pay operating costs, including property taxes, insurance and maintenance, in addition to monthly rent. Rent is subject to an annual increase for the duration of the Lease, which we recognize on a straight-line basis. The annual lease payments for the space under the amended and restated Lease were effective on July 1, 2008.

Rent expense was approximately \$0.3 million and \$0.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$0.3 million and \$0.6 million, respectively, for the same periods in 2009. Rent expense was approximately \$5.2 million for the cumulative period from July 3, 2003 (date of inception) to June 30, 2010.

As of June 30, 2010, future minimum lease payments are as follows (in thousands):

Year ending December 31,	Amount
2010 (remaining six months)	\$ 657
2011	1,357
2012	700
Total minimum lease payments	\$ 2,714

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MAP PHARMACEUTICALS, INC.

(a development stage enterprise)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In accordance with the terms of the Lease, we are obligated to maintain an irrevocable letter of credit from a bank as a security deposit. As collateral for the letter of credit, we are required to maintain a bank deposit account of \$0.3 million, which is shown as a restricted investment on our condensed consolidated balance sheets at June 30, 2010 and December 31, 2009.

Contingencies

We are subject to claims and assessments from time to time in the ordinary course of business. We do not believe that any such matters, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operation.

Indemnification

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties and provide for indemnification. Our exposure under these agreements is unknown because it involves claims that may be made against us in the future, but have not yet been made. To date, we have not paid any claims or been required to defend any action related to our indemnification obligations. However, we may record charges