HALOZYME THERAPEUTICS INC
Form 10QSB
May 14, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2004**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________to ___________

Commission file number 000-49616

HALOZYME THERAPEUTICS, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	**88-0488686**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11588 Sorrento Valley Road, Suite 17, San Diego, California 92121
(Address of principal executive offices)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer&#146s classes of common equity, as of the latest practicable date: 39,421,906 shares issued and outstanding as of May 14, 2004.

Transitional Small Business Disclosure Format (Check one):

Yes [ ] No [X]

PART I &#150 FINANCIAL INFORMATION

Item 1. Financial Statements.

HALOZYME THERAPEUTICS, INC. (Formerly GLOBAL YACHT SERVICES, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEET - UNAUDITED
AS OF MARCH 31, 2004

	2004
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 7,452,812
Prepaid expenses and other current assets	116,031
Total current assets	7,568,843
PROPERTY AND EQUIPMENT, net	151,422
OTHER ASSETS	12,508
Total Assets	$ 7,732,773
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 637,312
Accrued expenses	135,930
Total current liabilities	773,242
COMMITMENTS AND CONTINGENCIES	&#151
STOCKHOLDERS' EQUITY:	
Common stock, $0.001 par value; 100,000,000 shares authorized;	
39,421,906 shares issued and outstanding	39,422
Additional paid-in-capital	12,185,036
Deficit accumulated during the development stage	(5,264,927)
Total Stockholders' Equity	6,959,531
Total Liabilities and Stockholders' Equity	$ 7,732,773

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

HALOZYME THERAPEUTICS, INC. (Formerly GLOBAL YACHT SERVICES, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003 AND FROM INCEPTION TO MARCH 31, 2004

	2004	**2003**	**Cumulative from inception (February 26, 1998) to 2004**
EXPENSES:			
Research and development	$ 696,581	$ 205,703	$ 3,106,625
General and administrative	510,971	45,647	1,712,116
	(76,870)	(20,161)	(446,186)
LOSS BEFORE INCOME TAXES	(1,284,422)	(271,511)	(5,264,927)
Income Tax Expense	&#151	&#151	&#151
NET LOSS	$ (1,284,422)	$ (271,511)	$ (5,264,927)
Net loss per share, basic and diluted	$ (0.08)	$ (0.03)	
Shares used in computing net loss per share, basic and diluted	15,441,244	8,196,362	

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

HALOZYME THERAPEUTICS, INC. (Formerly GLOBAL YACHT SERVICES, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003 AND FROM INCEPTION TO MARCH 31, 2004

	2004	2003	Cumulative from inception (February 26, 1998) to 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,284,422)	$ (271,511)	$ (5,264,927)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	21,497	17,063	230,387
Issuance of common stock for goods and services	&#151	2,500	102,245
Issuance of common stock for license	&#151	&#151	2,330
Issuance of common stock for accrued interest on notes	&#151	&#151	99,764
Beneficial conversion feature on 2003 notes	&#151	&#151	306,754
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(116,031)	(22,083)	(128,794)
Accounts payable and accrued expenses	500,057	(83,855	773,497
Net cash provided by operating activities	(878,899)	(357,886)	(3,878,744)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(42,015)	7,870,146	(358,710)
Net cash used in investing activities	(42,015)	&#151	(358,710)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes	&#151	434,437	1,272,000
Contributed capital - net	7,870,146	&#151	10,418,266
Net cash provided by financing activities	7,870,146	434,437	11,690,266
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,949,232	76,551	7,452,812
CASH AND CASH EQUIVALENTS, beginning of period	503,580	88,910	&#151
CASH AND CASH EQUIVALENTS, end of period	$ 7,452,812	$ 165,461	$ 7,452,812
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for income taxes	$ &#151	$ &#151	$ &#151
Interest paid	$ &#151	$ &#151	$ &#151
Non cash investing and financing activities:			
Conversion of contributed capital to common stock	$ 7,870,146	$ &#151	$ 10,418,266
Conversion of notes payable to common stock	$ &#151	$ &#151	$ 1,272,000

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

Halozyme Therapeutics, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Description of Business

Effective March 11, 2004, pursuant to the Agreement and Plan of Merger (the &#147Merger Agreement&#148), dated January 28, 2004, among privately held DeliaTroph Pharmaceuticals, Inc. dba Hyalozyme Therapeutics, Inc. (&#147Halozyme&#148), Global Yacht Services, Inc. (&#147Global&#148), a publicly traded Nevada corporation and Hyalozyme Acquisition Corporation (&#147Merger Sub&#148), a wholly owned subsidiary of Global, the Merger Sub merged with and into Halozyme, with Halozyme the survivor for accounting purposes.

Although Global acquired Halozyme as a result of the Merger, the shareholders of Halozyme hold a majority of the voting interest in the combined enterprise. Additionally, the Merger resulted in Halozyme&#146s management and Board of Directors assuming operational control of Global.

The following summary lists the structure of the Merger and matters completed in connection therewith:

- On January 28, 2004, pursuant to an investment round completed simultaneously with the signing of the Merger Agreement, Halozyme raised equity capital of approximately $8.1 million.
- The shareholders of Global amended and restated Global&#146s Articles of Incorporation to change Global&#146s corporate name to Halozyme Therapeutics, Inc., increased the authorized number of shares of common stock to 100 million, and authorized 20 million shares of preferred stock.
- Global issued 35,521,906 shares of its restricted common stock, 6,380,397 options and 11,742,665 warrants to purchase shares of its common stock to the shareholders of Halozyme in exchange for 100% of their issued and outstanding common stock, options and warrants to purchase Halozyme&#146s common stock.
- A total of 4,296,362 shares of Global&#146s outstanding common stock were redeemed by Global from three shareholders in exchange for $42,303, or approximately $0.01 per share.
- Global&#146s shareholders own approximately 10% of the issued and outstanding shares of Halozyme&#146s common stock, based on 39,421,906 shares outstanding after the Merger.

The full text of the Merger Agreement may be found at Exhibit A to Global Yacht&#146s definitive Schedule 14C Information Statement, as filed with the Securities and Exchange Commission on February 17, 2004.

The Merger has been treated as a re-capitalization of Halozyme. Accordingly, the financial statements reflect the historical activity of Haloyzme with the capital structure of Global. Prior to the Merger, Global had limited operations. On March 11, 2004, Global changed its name to Halozyme Therapeutics, Inc.

Halozyme Therapeutics, Inc. (&#147We&#148, &#147Halozyme&#148 or the &#147Company&#148) was founded on February 26, 1998. Halozyme is a product-focused biotechnology company dedicated to the development and commercialization of recombinant therapeutic enzymes and drug enhancement systems, based on intellectual property covering the family of human enzymes known as hyaluronidases. Our first products are human synthetic formulations of a hyaluronidase enzyme that replace current animal slaughterhouse-derived enzymes that carry risks of animal pathogen contamination and immunogenicity. These products are based on a highly versatile enzyme technology that has a wide range of therapeutic applications, and will enable our company to help patients across multiple disease states.

Basis of Presentation

The information contained in this report is unaudited, but in our opinion reflects all adjustments necessary to make the financial position and results of operations for the interim periods a fair presentation of our operations and cash flows. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

These statements should be read along with the Financial Statements and Notes that go along with the Company&#146s audited financial statements, as well as other financial information for the fiscal year ended December 31, 2003 as presented in the Company&#146s Annual Report on Form 10-KSB. Financial presentations for prior periods have been reclassified to conform to current period presentation. The results of operations and cash flows for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2004.

Stock-Based Compensation

The Company has elected to adopt the disclosure only provisions of SFAS No. 148 and will continue to follow APB Opinion No. 25 and related interpretations in accounting for stock options granted to its employees and directors. Accordingly, employee and director compensation expense is recognized only for those options whose price is less than the market value at the measurement date. When the exercise price of the employee or director stock options is less than the estimated fair value of the underlying stock on the grant date, the Company records deferred compensation for the difference and amortizes this amount to expense in accordance with FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans*, over the vesting period of the options.

Stock options issued to non-employees are recorded at their fair value as determined in accordance with SFAS No. 123 and Emerging Issues Task Force (&#147EITF&#148) No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction With Selling Goods or Services*, and recognized over the related service period. Deferred charges for options granted to non-employees are periodically re-measured as the options vest. The Company&#146s calculations were made using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected life of 48 months; 100% stock volatility; risk-free interest rate of 3.0%; no dividends during the expected term; and forfeitures recognized as they occur.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the estimated life of the related options. The Company&#146s pro forma information follows (in thousands, except per share data):

	Three Months Ended	
	2004	2003
Net loss, as reported	$ (1,284)	$ (272)
Deduct: Total stock-based employee Compensation expense determined under Fair value based method for all awards	$ (249)	$&#151
Pro forma net loss	$ (1,533)	$ (272)
Net loss per share, basic and diluted, as reported	$ (0.08)	$ (0.03)

Pro forma net loss per share, basic and diluted	$ (0.10)	$ (0.03)

2. Property and Equipment

	2004	2003
Research equipment	$ 217,323	$ 195,534
Office equipment and furniture	67,820	59,687
Leasehold improvements	96,666	84,573
	381,809	339,794
Less accumulated depreciation and amortization	(230,387)	(208,890)
	$ 151,422	$ 130,904

3. Net Loss Per Common Share

In accordance with SFAS No. 128, *Earnings Per Share*, and SEC Staff Accounting Bulletin (&#147SAB&#148) No. 98, basic net loss per common share is computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Under SFAS No. 128, diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares, such as stock options and warrants, outstanding during the period. Such common equivalent shares have not been included in the Company&#146s computation of net loss per share as their effect would have been anti-dilutive.

	2004	2003
Numerator - Net loss	$ (1,284,422)	$ (271,511)
Denominator - Weighted average shares outstanding	15,441,244	8,196,362
Net loss per share	$ (0.08)	$ (0.03)
Incremental common shares (not included in denominator of diluted earnings per share because of their anti-dilutive nature)		
Employee stock options	6,530,397	-
Warrants to outside parties	51,334	-
Warrants on notes	867,419	-
Series B warrants	361,969	-
Series C warrants	10,461,943	-
Potential common equivalents	18,273,062	-

Item 2. Management&#146s Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD LOOKING STATEMENTS: NO ASSURANCES INTENDED

This Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. This filing includes statements regarding our plans, goals, strategies, intent, beliefs or current expectations. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished. Sentences in this document containing verbs such as &#147believe,&#148 &#147plan,&#148 &#147intend,&#148 &#147anticipate,&#148 &#147target,&#148 &#147estimate,&#148 &#147expect,&#148 and the like, and/or future-tense or conditional constructions (&#147will,&#148 &#147may,&#148 &#147could,&#148 &#147should,&#148 etc.) constitute forward-looking statements that involve risks and uncertainties. Items contemplating, or making assumptions about, actual or potential future sales, market size, collaborations, trends or operating results also constitute such forward-looking statements.

Although forward-looking statements in this Report on Form 10-QSB reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by management. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in, or anticipated by, the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes, include without limitation, those discussed in our Annual Report on Form 10-KSB for the year ended December 31, 2003. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Report. Readers are urged to carefully review and consider the various disclosures made by us in our Annual Report on Form 10-KSB for the year ended December 31, 2003, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows.

The following discussion should be read along with the Financial Statements and Notes to our audited financial statements for the fiscal year ended December 31, 2003, as well as the other interim unaudited financial information for the current fiscal year.

Results of Operations

Overview - Halozyme Therapeutics, Inc. (&#147We&#148, &#147Halozyme&#148 or the &#147Company&#148) was founded on February 26, 1998 and recapitalized on March 11, 2004 through the Merger with Global. We are a product-focused biotechnology company dedicated to the development and commercialization of recombinant therapeutic enzymes and drug enhancement systems, based on intellectual property covering the family of human enzymes known as hyaluronidases. Our first products are human synthetic formulations of a hyaluronidase enzyme that replace current animal slaughterhouse-derived enzymes that carry risks of animal pathogen contamination and immunogenicity. These products are based on a highly versatile enzyme technology that has a wide range of therapeutic applications, and will enable our company to help patients across multiple disease states.

Our technology is based on recombinant human PH20 (rHuPH20), a human synthetic hyaluronidase that degrades hyaluronic acid (HA), a space-filling &#147gel&#148-like substance that is a major component of tissues throughout the body, such as skin and cartilage. The PH20 enzyme is a naturally occurring enzyme that digests HA to break down the gel, thereby facilitating the penetration and diffusion of other drugs that are injected in the skin or in the muscle.

The successes of replacing animal product derived drugs with human recombinant biologics are well documented, as in the case of insulin and human growth hormone. Halozyme is executing this recombinant human enzyme replacement strategy by leveraging the safety and efficacy of its products to access key markets in multiple therapeutic areas, beginning with in vitro fertilization (IVF) and ophthalmology.

Our proprietary technology will both expand existing markets and create new ones. Gaps in existing hyaluronidase offerings create demand for our solution, and provide opportunities to capture market share. Despite the many potential therapeutic applications for hyaluronidase, there are many problems with existing and potential non-human product offerings, creating the need for alternative solutions.

- *Prion disease:* All such commercial enzyme preparations are cru