

DOR BIOPHARMA INC  
Form 10QSB  
May 17, 2004

SEC SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-14778

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

DELAWARE 41-1505029  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) Number)

1691 Michigan Ave., Suite 435, Miami, FL 33139  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code (305) 534-3383  
(Former name, former address and former fiscal year, if changed since last  
report)

Check whether the issuer: (1) filed all reports required to be filed by Section  
13 or 15 (d) of the Securities 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 [ ]

At May 1, 2004, 42,042,943 shares of the registrant's common stock  
(par value, \$.001 per share) were outstanding.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

## PART I. - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

**DOR BioPharma, Inc.**  
**(A Development Stage Company)**  
**Consolidated Balance Sheets**  
**(unaudited)**

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,959,546	\$ 4,117,539
Receivable	87,050	20,954
Prepaid expenses	65,950	155,844
Total current assets	6,112,546	4,294,337
Equipment, net of accumulated depreciation of \$147,203 and \$141,650	56,486	60,795
Licenses and patent costs, net of accumulated amortization of \$508,619 and \$384,333	1,893,275	1,896,934
Total assets	\$ 8,062,307	\$ 6,252,066
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 233,807	\$ 211,587
Accrued royalties	200,000	320,000
Accrued compensation and other expenses	94,389	116,638
Debt	347,845	359,067
Total current liabilities	876,041	1,007,292
Stockholders equity:		
Series B convertible preferred stock, \$.05 par value. Authorized 200,000 shares; 126,488 issued and outstanding in 2003, at liquidation value	-	12,648,768
Common stock, \$.001 par value. Authorized 100,000,000 shares;	42,044	34,894

42,042,943 and 34,893,765 issued, 41,870,601 and 34,721,423 outstanding		
Additional paid-in capital	82,754,365	67,005,276
Deficit accumulated during the development stage	(75,141,876)	(73,975,897)
	<u>7,654,533</u>	<u>5,713,041</u>
Less: Cost of 172,342 shares of common stock in treasury	(468,267)	(468,267)
Total stockholders equity	<u>7,186,266</u>	<u>5,244,774</u>
Total liabilities and stockholders equity	<u>\$ 8,062,307</u>	<u>\$ 6,252,066</u>

See accompanying notes to consolidated financial statements.

**DOR BioPharma, Inc.**  
**(A Development Stage Company)**  
**Consolidated Statement of Operations**  
**(unaudited)**

	<b>Three Months Ended March 31,</b>		<b>Cumulative Period February 15, 1985 (inception) to March 15, 2004</b>
	<b>2004</b>	<b>2003</b>	
Grant revenue	\$ 66,095	\$ -	\$ 249,912
Expenses:			
Cost of revenue	59,486	-	221,851
Proprietary research and development	702,677	387,901	23,679,401
General and administrative	478,578	2,033,877	21,017,168
Write-off of acquired in-process research and development	-	-	10,181,000

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Total expenses	1,240,741	2,421,778	55,099,420
Loss from operations	(1,174,646)	(2,421,778)	(54,849,508)
Other income (expense):			
Interest income	16,712	6,672	3,616,715
Interest expense	(8,272)	(3,012)	(430,493)
Other income	565	-	237,065
Equity in joint ventures	-	-	(22,179,091)
Total other income (expense)	9,005	3,660	(18,755,804)
Net loss	(1,165,641)	(2,418,118)	(73,605,312)
Preferred stock dividends and charge for induced conversion	(503,195)	(231,028)	(7,763,826)
Net loss applicable to common stockholders	\$ (1,669,176)	\$ (2,649,146)	\$ (81,369,138)
Basic and diluted net loss per share applicable to common stockholders	\$ (0.05)	\$ (0.10)	
Basic and diluted weighted average common shares outstanding	36,796,223	27,261,478	

See accompanying notes to consolidated financial statements.

**DOR BioPharma, Inc.**  
**(A Development Stage Company)**  
**Consolidated Statement of Cash Flows**  
**(unaudited)**

**Cumulative Period**

**Three Months**

**February 15, 1985**

**Ended March 31,**

**(inception) to**

**2004**

**2003**

**March 31, 2004**

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**Operating activities:**

Net loss

\$

(1,165,641

)

\$

(2,418,118

)  
 \$ (73,605,312  
 )

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Adjustments to reconcile net loss to cash used in operating activities:

Depreciation and amortization

137,738

70,960

2,272,482

Gain on sale of marketable securities

-

-

(110,244)

)  
 Non-cash stock compensation

-

1,479,385

2,123,554

Equity in (earnings) losses of joint ventures

-

-

22,179,091

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Amortization of fair value of warrants

-  
-  
3,307,546

Gain on sale of assets

225  
-  
22,084

Write-off patent issuance cost

-  
-  
499,065

Write-off of acquired research and development

-  
-  
10,181,000

Change in operating assets and liabilities:

Receivable

(66,096

)

-

(87,050

)

Prepaid expenses

	89,927
	33,871
)	(65,950
Accounts payable and accrued expenses	
)	(120,062
)	(33,011
	499,196
Accrued compensation	
	-
	15,508
	29,000
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Total adjustments	
	373,392
	1,566,713
	40,849,434
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Net cash used by operating activities	
)	(1,124,249
	(851,405



)

(32,755,878

)

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**Investing activities:**

Cash received in acquisition of CTD, net

-

-

1,392,108

Patent issuance costs

(128,750

)

(70,077

)

(1,954,301

)

Investment in joint ventures

-

-

	(5,274,391
)	
Purchases of leasehold improvements and equipment	(1,245
)	
	-
	(1,889,297
)	
Proceeds from assets sold	-
	-
	108,197
Purchases of marketable securities	-
	-
	(11,004,080
)	
Proceeds from sale of marketable securities	-
	-
	11,114,324
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Net Cash used by Investing Activities	(129,995
)	
	(70,077
)	

(7,507,440

)

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**Financing activities:**

Net proceeds from issuance (costs incurred related to issuance) of common stock

3,045,500

(68,451

)

46,521,531

Proceeds from exercise of options

61,972

32,643

666,281

Proceeds from borrowings under line of credit

-

-

1,150,913

Repayment of amounts due under line of credit, notes payable and capital lease obligations

(11,222

)

(37,928

)

	(1,445,626
)	
Repayment of note payable issued in exchange for legal services	-
	-
	(71,968
)	
Purchase and retirement of common stock	-
	-
	(130,000
)	
Purchase of common stock for treasury	-
	-
	(468,267
)	
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Net cash provided by (used in) financing activities	3,096,250
	(73,736
)	
	46,222,864
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Net increase (decrease) in cash and cash equivalents	

	1,842,006
)	(995,218
	5,959,546

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Cash and cash equivalents at beginning of period

4,117,540
4,147,164
-

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Cash and cash equivalents at end of period

\$	5,959,546
\$	3,151,946
\$	5,959,546

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**Supplemental disclosure of cash flow:**

Cash paid for interest

\$ 1,521

\$ 3,012

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Preferred stock dividends and charges

\$ 503,195

\$ 231,028

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See accompanying notes to consolidated financial statements.

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DOR BioPharma, Inc.  
(A Development Stage Company)  
Notes to Consolidated  
Financial Statements

These unaudited interim consolidated financial statements of DOR BioPharma, Inc. ("we" or "us") were prepared under the rules and regulations for reporting on Form 10-QSB. Accordingly, we omitted some information and footnote disclosures normally accompanying the annual financial statements. You should read these interim financial statements and notes in conjunction with our audited consolidated financial statements and their notes included in our annual report on Form 10-KSB as amended for the year ended December 31, 2003, as amended. In our opinion, the consolidated financial statements include all adjustments necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods. All adjustments were of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results for the full fiscal year. Certain prior year amounts have been reclassified to conform to the current period presentation, specifically the severance expense as presented as a separate line item in the statement of operations for the three months ended March 31, 2003, rather than as components of proprietary research and development and general and administrative costs.

#### NET LOSS PER SHARE

Net loss per share is presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 for the current and prior periods. We had a net loss for all periods presented, which resulted in diluted and basic earnings per share being the same for all of those periods presented. The potential impact of warrants and stock options outstanding was not included in the calculation because their inclusion would have been anti-dilutive.

#### STOCK BASED COMPENSATION

We have stock-based employee compensation plans. SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. We have chosen to continue using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for our stock option plans.

We have potential common stock equivalents related to our outstanding stock options. These potential common stock equivalents were not included in diluted loss per share because the effect would have been anti-dilutive. Accordingly, basic and diluted loss per common share and the weighted average number of shares used in the computations are the same for each of the periods presented. There were options to purchase 7.5 million and 3.7 million shares of our common stock outstanding at March 31 2004, and 2003, respectively.

Had compensation cost been determined based upon the fair value at the grant date for awards under the stock option plans based on the provisions of SFAS No. 123, our pro forma net loss and net loss per share would have been as follows for the three months ended March 31:

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	2004	2003
	<u>          </u>	<u>          </u>
Net loss applicable to common stockholders as reported	\$ (1,669,176)	\$ (2,649,146)
Stock-based compensation as reported	-	1,479,385
Stock-based employee compensation expense determined under fair value method	(575,817)	(233,535)
	<u>          </u>	<u>          </u>
Pro forma net loss	\$ (2,244,993)	\$ (1,403,296)
	<u>          </u>	<u>          </u>
Net loss per share:		
as reported, basic and diluted	\$ (0.05)	\$ (0.10)
	<u>          </u>	<u>          </u>
pro forma, basic and diluted	\$ (0.06)	\$ (0.05)
	<u>          </u>	<u>          </u>

The fair value of options in accordance with SFAS 123 was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions: dividend yield 0%, expected life of four years, volatility of 105% and 105% in 2004 and 2003, respectively, and average risk-free interest rates of 4.5% and 4.5% in 2004 and 2003, respectively.

In 2003, we granted options to employees and directors that were conditional upon stockholder approval of an amendment to our 1995 omnibus option plan, which occurred September 15, 2003. Accordingly, a measurement date did not exist until that approval occurred, and on a quarterly basis through the measurement date, we recorded expense or reversal of expense based on the difference between the exercise price and the current market price. This resulted in a charge of \$1,479,385 being recorded in the first quarter of 2003.