

PALIGENT INC  
Form 10-Q  
November 14, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**



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

For the quarterly period ended **September 30, 2005**

**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: **0-21134**

## **Paligent Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-2893483**  
(I.R.S. Employer  
Identification No.)

**10 East 53rd Street, New York, New York**  
(Address of principal executive offices)

**10022**  
(zip code)

**(212) 755-5461**  
(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 4, 2005
Common Stock, \$0.01 par value	32,490,948

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**PALIGENT INC.**

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## PALIGENT INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2005 (unaudited)	December 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,087	\$ 21,388
Note receivable	75,000	
Current portion of subtenant receivable, including accrued interest		30,000
Prepaid expenses and other current assets	10,882	
Total current assets	100,969	51,388
Property and equipment, net		941
Total assets	\$ 100,969	\$ 52,329
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 59,539	\$ 54,639
Accrued professional services	26,100	21,900
Due to related party	441,713	203,290
Total current liabilities	527,352	279,829
Stockholders' deficit:		
Common stock, \$.01 par value; 75,000,000 shares authorized; 32,490,948 shares issued and outstanding at September 30, 2005 and December 31, 2004	324,910	324,910
Additional paid-in capital	154,634,974	154,634,974
Accumulated deficit	(155,386,267)	(155,187,384)
Total stockholders' deficit	(426,383)	(227,500)
Total liabilities and stockholders' deficit	\$ 100,969	\$ 52,329

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

PALIGENT INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Revenue:</b>				
Interest income	\$	\$	\$	\$ 2,250
<b>Costs and expenses:</b>				
General and administrative		122,667	214,137	340,133
				537,882
Loss from operations		(122,667)	(214,137)	(340,133)
				(535,632)
Other income			500,000	141,250
				500,000
Net (loss) income	\$	(122,667)	\$ 285,863	\$ (198,883)
				\$ (35,632)
Basic and diluted net (loss) income per common share	\$	(0.00)	\$ 0.01	\$ (0.01)
				\$ (0.00)
Weighted average number of common shares outstanding Basic and diluted		32,490,948	32,490,948	32,490,948
				32,490,948

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

## PALIGENT INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine months ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net loss	\$ (198,883)	\$ (35,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	941	1,404
Write-off of security deposits		9,543
Write-down of accrued rent		(81,185)
Deferred rent		(22,262)
Reserve for subtenant receivable		77,250
Changes in operating assets and liabilities:		
Note receivable	(75,000)	
Prepaid expenses and other current assets	(10,882)	(29,996)
Subtenant receivable	30,000	50,000
Accounts payable and accrued expenses	9,100	(107,689)
Interest payable to related party	18,423	(1,189)
Accrued rent		114,600
Net cash used in operating activities	(226,301)	(25,156)
Cash flows from investing activities:		
Proceeds from sale of assets		10,000
Net cash provided by investing activities		10,000
Cash flows from financing activities:		
Proceeds from related party loan	220,000	405,000
Repayment of related party loan		(375,000)
Principal payments on capital lease obligations		(10,000)
Net cash provided by financing activities	220,000	20,000
Net (decrease) increase in cash and cash equivalents	(6,301)	4,844
Cash and cash equivalents at beginning of period	21,388	41,321
Cash and cash equivalents at end of period	\$ 15,087	\$ 46,165

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

**PALIGENT INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

**Interim Financial Statements**



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The condensed consolidated financial statements included herein have been prepared by Paligent Inc. ( Paligent or the Company ) pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position of the Company at September 30, 2005 and the results of its operations and its cash flows for the interim periods ended September 30, 2005 and 2004. The condensed consolidated balance sheet as of December 31, 2004 was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting standards for interim financial statements and should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2004. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year or any other interim period.

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has incurred losses from operations since inception, has working capital and stockholders' deficits and has limited cash to fund operations in 2005. The Company is presently relying on borrowings from its principal stockholder to fund continuing operations. The principal stockholder has made no commitment to continue to make loans to the Company.

While the Company evaluates strategic alternatives, including potential business investments and related financing, the Company's rate of spending could vary from its current estimate. No assurance can be given that the Company will be able to complete a business investment or that such financing will be available to the Company. If the Company is unable to generate significant revenue from acquired operations, obtain financing from its principal stockholder or secure sufficient financing for operations resulting from acquisition or merger, the Company will experience a cash shortage in 2005, the effect of which could result in the discontinuance of operations. If additional funds are raised by issuing equity securities, further dilution to existing stockholders will result and future investors may be granted rights superior to those of existing stockholders.

These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Reclassification**

Certain prior period amounts have been reclassified to conform to the current period presentation.

**NOTE 2 BASIC AND DILUTED NET INCOME (LOSS) PER SHARE**

Basic earnings per share ( EPS ) excludes dilution and is computed by dividing income (loss) applicable to common stockholders by the weighted average number of common shares outstanding for the period.

Diluted EPS is based upon the weighted average number of common shares outstanding during the period plus the additional weighted average common equivalent shares during the period. Common equivalent shares result from the assumed exercises of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding shares of common stock (the treasury stock method). Common equivalent shares are not included in the per share calculations where the effect of their inclusion would be anti-dilutive. Inherently, stock options and warrants are deemed to be anti-dilutive when the average market price of the common stock during the period exceeds the exercise price of the stock options or warrants.

For the three and nine months ended September 30, 2005 and 2004, the Company had stock options and warrants outstanding that were anti-dilutive. These securities could potentially dilute basic EPS in the future but were not included in the computation of diluted EPS for the periods presented because to do so would have been anti-dilutive. Consequently, there were no differences between basic and diluted EPS for these periods.

### **NOTE 3 SIGNIFICANT EVENT**

In February 2005, the Company's subsidiary, Procept, Inc. (Procept), and the United States Public Health Service (PHS), represented by the National Institutes of Health, executed a third amendment (the Third Amendment) to the Exclusive Patent License Agreement (the License Agreement). The License Agreement affirmed and acknowledged Procept's worldwide patent rights to O6-Benzylguanine and acknowledges Procept's sublicensing of such rights to AOI Pharmaceuticals Inc. (AOI). The Third Amendment revised the provision for payment of an additional royalty to PHS upon the occurrence of an assignment by Procept of the License Agreement, decreasing such additional royalty to \$17,500 from \$20,000.

Subsequently, in March 2005, pursuant to an agreement by and between Procept, Keryx Biopharmaceuticals, Inc., the parent of AOI (Keryx) and PHS (the Assignment Agreement), Procept assigned all of its rights, interests and obligations under the License Agreement to Keryx; in exchange, Keryx agreed to pay Procept a total of \$158,750, in two installments. The first installment of \$83,750 was paid on March 30, 2005. The second installment of \$75,000 is payable on December 31, 2005 and is evidenced by a promissory note from Keryx payable to Procept, which bears no interest until after the maturity date. In connection with the Assignment Agreement, Procept paid to PHS the additional royalty of \$17,500, as provided for under the License Agreement, as amended in February 2005.

### **NOTE 4 SUBTENANT RECEIVABLE**

On December 31, 2003, the Company executed a Surrender Agreement and Promissory Note with its former subtenant (the Subtenant) pursuant to which the Company received cash and a promissory note in exchange for the termination of a sublease. The Promissory Note, in the face amount of \$75,000, bore interest at the rate of 6% per annum and was to be payable in three installments of \$25,000, plus accrued interest, on June 30, 2004, December 31, 2004 and June 30, 2005. The cash portion of the settlement, in the amount of \$50,000, was received by the Company in January 2004. The Company did not receive from the Subtenant the installment payment that was due on June 30, 2004. On September 14, 2004, the Company filed an action in the Supreme Court of the State of New York, New York County, alleging that the Subtenant had defaulted on its obligations under the Promissory Note dated December 31, 2003 and, accordingly, discontinued accruing interest income as of June 30, 2004. In February 2005, the Company and the Subtenant reached a settlement of the Company's claim pursuant to which the Company received a one-time payment of \$30,000 in exchange for withdrawing its action.



**NOTE 5 RELATED PARTIES**

On October 8, 2003, in anticipation of completing a business combination with Digital Products of Delaware, Inc. ( Digital ) or another entity, the Company executed a promissory note (the Promissory Note ) with Richard J. Kurtz, the principal stockholder of the Company and of Digital. Under the Promissory Note, the Company received, and expects to continue to receive, loans that will enable it to meet its anticipated cash operating needs. The Promissory Note bears interest at 8% per annum and contemplated repayment upon the occurrence of the earlier of (i) the first anniversary of the making of the first loan; and (ii) the first funding of debt and/or equity capital subsequent to the completion of the proposed business combination between the Company and Digital that results in aggregate net proceeds to the Company of not less than \$1 million. As the first anniversary of the Promissory Note has occurred, the amount due under the Promissory Note is payable on demand. During the nine months ended September 30, 2005, Mr. Kurtz loaned the Company an aggregate of \$220,000 to fund its continuing operations, increasing the principal balance due under the Promissory Note to \$420,000 at September 30, 2005.

**NOTE 6 STOCK-BASED COMPENSATION**

The Company complies with Statement of Financial Accounting Standards No. ( FAS ) 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FAS 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

The Company applies Accounting Principles Board Opinion No. ( APB ) 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its stock option plan. Had compensation cost for the Company s stock-based compensation plan been determined based on the fair value at the grant dates for awards under those plans consistent with FAS 123, the Company s net (loss) income and net (loss) income per share would have been adjusted to the pro forma amounts indicated below:

**Three months ended September 30,**

**Nine months ended September 30,**