MARRONE BIO INNOVATIONS INC
Form 10-Q
May 16, 2016
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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 March 31, 2016

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: 001-36030

Marrone Bio Innovations, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-5137161**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1540 Drew Avenue, Davis, CA 95618

(Address of principal executive offices and zip code)

(530) 750-2800

(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 x 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 x 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.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	Shares Outstanding at May 11, 2016
Common Stock, $0.00001 par value	24,583,831

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

MARRONE BIO INNOVATIONS, INC.

Condensed Consolidated Balance Sheets

(In Thousands, Except Par Value)

	MARCH 31, 2016 (Unaudited)	DECEMBER 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 9,824	$ 19,838
Restricted cash, current portion	1,856	1,856
Accounts receivable	4,694	2,347
Inventories, net	8,560	9,064
Deferred cost of product revenues, including deferred cost of product revenues to related parties of $0 and $79 as of March 31, 2016 and December 31, 2015, respectively	2,232	1,596
Prepaid expenses and other current assets	930	1,211
Total current assets	28,096	35,912
Property, plant and equipment, net	19,077	18,445
Restricted cash, less current portion	16,560	16,560
Other assets	284	284
Total assets	$ 64,017	$ 71,201
Liabilities and stockholders deficit		
Current liabilities:		
Accounts payable	$ 2,604	$ 2,007
Accrued liabilities	4,634	5,689
Accrued interest due to related parties	804	1,175
Deferred revenue, current portion	4,396	2,919
Deferred revenue from related parties		168
Capital lease obligations, current portion	763	647
Debt, current portion	242	244
Total current liabilities	13,443	12,849
Deferred revenue, less current portion	1,929	2,021
Capital lease obligations, less current portion	694	18
Debt, less current portion	21,458	21,509
Debt due to related parties	35,799	35,512

Other liabilities	1,359	1,314
Total liabilities	74,682	73,223
Commitments and contingencies *(Note 8)*		
Stockholders deficit:		
Common stock: $0.00001 par value; 250,000 shares authorized, 24,584 shares issued and outstanding as of March 31, 2016 and 24,536 as of December 31, 2015		
Additional paid in capital	202,187	201,554
Accumulated deficit	(212,852)	(203,576)
Total stockholders deficit	(10,665)	(2,022)
Total liabilities and stockholders deficit	$ 64,017	$ 71,201

See accompanying notes.

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MARRONE BIO INNOVATIONS, INC.

Condensed Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2016	**2015**
Revenues:		
Product	$ 2,577	$ 1,774
License	92	83
Related party		199
Total revenues	2,669	2,056
Cost of product revenues, including cost of product revenues to related parties of $0 and $82 for the three months ended March 31, 2016 and 2015, respectively	2,269	1,998
Gross profit	400	58
Operating Expenses:		
Research, development and patent	2,322	3,422
Selling, general and administrative	5,530	7,887
Total operating expenses	7,852	11,309
Loss from operations	(7,452)	(11,251)
Other income (expense):		
Interest income	15	9
Interest expense	(1,037)	(669)
Interest expense to related parties	(796)	
Other income (expense), net	(6)	(3)
Total other expense, net	(1,824)	(663)
Loss before income taxes	(9,276)	(11,914)
Income taxes		
Net loss	$ (9,276)	$ (11,914)
Basic and diluted net loss per common share	$ (0.38)	$ (0.49)
Weighted-average shares outstanding used in computing net loss per common share	24,569	24,465

See accompanying notes.

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MARRONE BIO INNOVATIONS, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In Thousands)

(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2016	**2015**
Net loss	$ (9,276)	$ (11,914)
Other comprehensive loss		
Comprehensive loss	$ (9,276)	$ (11,914)

See accompanying notes.

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MARRONE BIO INNOVATIONS, INC.

Condensed Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	THREE MONTHS ENDED MARCH 31, 2016	2015
Cash flows from operating activities		
Net loss	$ (9,276)	$ (11,914)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	594	833
Loss on disposal of equipment	5	4
Share-based compensation	617	1,090
Non-cash interest expense	329	133
Net changes in operating assets and liabilities:		
Accounts receivable	(2,347)	(383)
Inventories	504	869
Prepaid Expenses and other assets	109	277
Deferred cost of product revenues	(636)	(142)
Accounts payable	583	(1,638)
Accrued and other liabilities	(1,040)	(605)
Accrued interest due to related parties	(371)	
Deferred revenue	1,385	315
Deferred revenue from related parties	(168)	(199)
Net cash used in operating activities	(9,712)	(11,360)
Cash flows from investing activities		
Purchases of property, plant and equipment	(49)	(1,030)
Proceeds from the sale of equipment		7
Net cash used in investing activities	(49)	(1,023)
Cash flows from financing activities		
Repayment of debt	(65)	(97)
Repayment of capital leases	(204)	(492)
Exercise of stock options	16	
Net cash provided by financing activities	(253)	(589)
Net decrease in cash and cash equivalents	(10,014)	(12,972)
Cash and cash equivalents, beginning of period	19,838	35,324
Cash and cash equivalents, end of period	$ 9,824	$ 22,352

Supplemental disclosure of cash flow information:				
Cash paid for interest, net of capitalized interest of $0 and $4 for the three months ended March 31, 2016 and 2015, respectively	$	1,882	$	536
Supplemental disclosure of non-cash investing and financing activities:				
Property, plant and equipment included in accounts payable and accrued liabilities	$	14	$	132
Equipment acquired under capital leases	$	1,586	$	

See accompanying notes.

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MARRONE BIO INNOVATIONS, INC.

Notes to Condensed Consolidated Financial Statements

March 31, 2016

(Unaudited)

1. Summary of Business, Basis of Presentation and Liquidity

Marrone Bio Innovations, Inc. (Company), formerly Marrone Organic Innovations, Inc., was incorporated under the laws of the State of Delaware on June 15, 2006, and is located in Davis, California. In July 2012, the Company formed a wholly-owned subsidiary, Marrone Michigan Manufacturing LLC (MMM LLC), which holds the assets of a manufacturing plant the Company purchased in July 2012. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company makes bio-based pest management and plant health products. The Company targets the major markets that use conventional chemical pesticides, including certain agricultural and water markets where its bio-based products are used as alternatives for, or mixed with, conventional chemical pesticides. The Company also targets new markets for which (i) there are no available conventional chemical pesticides or (ii) the use of conventional chemical pesticides may not be desirable or permissible either because of health and environmental concerns (including for organically certified crops) or because the development of pest resistance has reduced the efficacy of conventional chemical pesticides. The Company delivers EPA-approved and registered biopesticide products and other bio-based products that address the global demand for effective, safe and environmentally responsible products.

The Company is an early stage company with a limited operating history and has a limited number of commercialized products. As of March 31, 2016, the Company had an accumulated deficit of $212,852,000, has incurred significant losses since inception and expects to continue to incur losses for the foreseeable future. The Company has funded operations primarily with net proceeds from public offerings of common stock, private placements of convertible preferred stock, convertible notes, and promissory notes and term loans, as well as with the proceeds from the sale of its products and payments under strategic collaboration and distribution agreements and government grants. The Company will need to generate significant revenue growth to achieve and maintain profitability. As of March 31, 2016, the Company had working capital of $14,653,000, including cash and cash equivalents of $9,824,000. In addition, as of March 31, 2016, the Company had debt and debt due to related parties of $21,700,000 and $35,799,000, respectively, for which the underlying debt agreements contain various financial and non-financial covenants, as well as certain material adverse change clauses. If the Company breaches any of the covenants contained within the debt agreements or if the material adverse change clauses are triggered, the entire unpaid principal and interest balances would be due and payable upon demand. In addition, as of March 31, 2016, the Company had a total of $18,416,000 of restricted cash relating to these debt agreements (see Notes 6 and 9).

The Company participates in a heavily regulated and highly competitive crop protection industry and believes that adverse changes in any of the following areas could have a material effect on the Company s future financial position, results of operations or cash flows: inability to obtain regulatory approvals, increased competition in the pesticide market, market acceptance of the Company s products, weather and other seasonal factors beyond the Company s control, litigation or claims against the Company related to intellectual property, patents, products or governmental regulation, and the Company s ability to support increased growth.

Although the Company recognizes that it will likely need to raise additional funds in the future, there can be no assurance that such efforts will be successful or that, in the event that they are successful, the terms and conditions of such financing will not be unfavorable. Any future equity financing may result in dilution to existing shareholders and any debt financing may include additional restrictive covenants. Any failure to obtain additional financing or to achieve the revenue growth necessary to fund the Company with cash flows from operations will have a material adverse effect upon the Company and will likely result in a substantial reduction in the scope of the Company s operations and impact the Company s ability to achieve its planned business objectives.

Without obtaining a waiver, entering into strategic agreements that include significant cash payments upfront, significantly increasing revenues from sales or raising additional capital through the issuance of equity or debt, the Company currently estimates it may be below the $15,000,000 minimum cash balance requirement in the promissory notes with affiliates of Waddell & Reed by the fourth quarter of 2016. Further, without entering into a continuation of its current waiver due to expire December 31, 2016, the Company expects it will exceed its maximum debt-to-worth requirement under a promissory note with Five Star Bank. A violation of a covenant in one debt agreement will cause the Company to be in violation of certain covenants under each of its other debt agreements. Breach of covenants included in the Company s debt agreements, which could result in the lenders demanding payment of the unpaid principal and interest balances, will have a material adverse effect upon the Company and would likely require the Company to seek to renegotiate these debt arrangements with the lenders. If such negotiations are unsuccessful, the Company may be required to seek protection from creditors through bankruptcy proceedings. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management is focused on efforts to increase liquidity in the near-term and plans to request relief of the minimum cash balance requirement and an extension of the waiver on the debt-to-worth ratio. Such strategic collaborations and relief under the debt agreements may not be available or may be on terms that are not favorable to the Company. The Company s inability to maintain compliance with its debt covenants could have a negative impact on the Company s financial condition and ability to continue as a going concern. If the Company becomes unable to continue as a going concern, the Company may have to liquidate its assets, and might realize significantly less than the values at which they are carried on its financial statements, and stockholders may lose all or part of their investment in the Company s common stock.

The accompanying financial statements have been prepared under the assumption that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to the Company s ability to continue as a going concern.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial information as of March 31, 2016, and for the three months ended March 31, 2016 and 2015, has been prepared by the Company, without audit, in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The information included in this Quarterly Report on Form 10-Q should be read in connection with the consolidated financial statements and accompanying notes included in the Company s Annual Report filed on Form 10-K for the fiscal year ended December 31, 2015.

In the opinion of management, the condensed consolidated financial statements as of March 31, 2016, and for the three months ended March 31, 2016 and 2015, reflect all adjustments, which are normal recurring adjustments, necessary to present a fair statement of financial position, results of operations, comprehensive loss and cash flows. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consists of cash on deposit, money market funds and certificates of deposit accounts with United States (U.S.) financial institutions. The Company is exposed to credit risk in the event of default by financial institutions to the extent that cash and cash equivalents balances with financial institutions are in excess of amounts that are insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses on these deposits.

Restricted Cash

The Company s restricted cash consists of cash that the Company is contractually obligated to maintain in accordance with the terms of its June 2014 Secured Promissory Note and the terms of its August 2015 Senior Secured Promissory Notes. See Notes 6 and 9, respectively, for further discussion.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, accounts receivable and debt. The Company deposits its cash and cash equivalents with high credit quality domestic financial institutions with locations in the U.S. Such deposits may exceed federal deposit insurance limits. The Company believes the financial risks associated with these financial instruments are minimal.

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The Company s customer base is dispersed across many different geographic areas, and currently most customers are pest management distributors in the U.S. Generally, receivables are due up to 120 days from the invoice date and are considered past due after this date, although the Company may offer extended terms from time to time.

For the three months ended March 31, 2016 and 2015, 9% and 2%, respectively, of the Company s revenues were generated from international customers.

The Company s principal sources of revenues are its Regalia and Grandevo product lines. These two product lines accounted for 80% and 97% of the Company s total revenues for the three months ended March 31, 2016 and 2015, respectively.

Customers to which 10% or more of the Company s total revenues are attributable for any one of the periods presented consist of the following:

	CUSTOMER A	CUSTOMER B	CUSTOMER C	CUSTOMER D	CUSTOMER E	CUSTOMER F (1)
For the three months ended March 31,						
2016	24%	13%	13%	3%	5%	
2015	17%	4%	4%	24%	14%	10%

(1) Represents revenues from related parties. See Note 9 for further discussion.

Customers to which 10% or more of the Company s outstanding accounts receivable are attributable as of either March 31, 2016 or December 31, 2015 consist of the following:

	CUSTOMER A	CUSTOMER B	CUSTOMER C
March 31, 2016	31%	10%	4%
December 31, 2015	32%	29%	12%

Concentrations of Supplier Dependence

The active ingredient in the Company s Regalia product line is derived from the giant knotweed plant, which the Company obtains from China. The Company s single supplier acquires raw knotweed from numerous regional sources and performs an extraction process on this plant, creating a dried extract that is shipped to the Company s manufacturing plant. A disruption at this supplier s manufacturing site or a disruption in trade between the U.S. and China could negatively impact sales of Regalia. The Company currently uses one supplier and does not have a long-term supply contract with this supplier. Although the Company has identified additional sources of raw knotweed, there can be no assurance that the Company will continue to be able to obtain dried extract from China at a competitive price.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value or replacement cost) and include the cost of material and external and internal labor and manufacturing costs. Cost is determined on the first-in, first-out basis. The Company provides for inventory reserves when conditions indicate that the selling price may be less than cost due to physical deterioration, obsolescence, changes in price levels or other factors. Additionally, the Company provides reserves for excess and slow-moving inventory on hand that is not expected to be sold to reduce the carrying amount of excess and slow-moving inventory to its estimated net realizable value. The reserves are based upon estimates about future demand from the Company s customers and distributors and market conditions.

Deferred Cost of Product Revenues

Deferred cost of product revenues are stated at the lower of cost or net realizable value and include product sold where title has transferred but the criteria for revenue recognition have not been met. As of March 31, 2016 and December 31, 2015, the Company recorded deferred cost of product revenues of $2,232,000 and $1,596,000, respectively, including deferred cost of product revenues to related parties of $79,000 as of December 31, 2015. As of March 31, 2016, there were no deferred cost of product revenues to related parties.

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Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, transfer of title has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. If contractual obligations, acceptance provisions or other contingencies exist which indicate that the price is not fixed or determinable, revenue is recognized after such obligations or provisions are fulfilled or expire.

Product revenues consist of revenues generated from sales of the Company s products to distributors and direct customers, net of rebates and cash discounts. For sales of products made to distributors, the Company recognizes revenue either on a sell-in or sell-through basis depending on the specific facts and circumstances of the transaction(s) with the distributor. Factors considered include, but are not limited to, whether the payment terms offered to the distributor are structured to correspond to when product is resold, the distributor history of adhering to the terms of its contractual arrangements with the Company, whether the Company has a pattern of granting concessions for the benefit of the distributor and whether there are other conditions that may indicate that the sale to the distributor is not substantive.