

MARRONE BIO INNOVATIONS INC

Form 10-Q

August 15, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>20-5137161</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>1540 Drew Avenue, Davis, CA 95618</b>	
<b>(Address of principal executive offices and zip code)</b>	
<b>(530) 750-2800</b>	
<b>(Registrant's telephone number, including area code)</b>	

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.

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 in Rule 12b-2 of the Exchange Act). Yes  No

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 August 11, 2016
Common Stock, \$0.00001 par value	24,619,621

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****MARRONE BIO INNOVATIONS, INC.****Condensed Consolidated Balance Sheets**

(In Thousands, Except Par Value)

	<b>JUNE 30, 2016 (Unaudited)</b>	<b>DECEMBER 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,159	\$ 19,838
Restricted cash, current portion	1,444	1,856
Accounts receivable	4,543	2,347
Inventories, net	7,996	9,064
Deferred cost of product revenues, including deferred cost of product revenues to related parties of \$0 and \$79 as of June 30, 2016 and December 31, 2015, respectively	2,026	1,596
Prepaid expenses and other current assets	641	1,211
<b>Total current assets</b>	<b>37,809</b>	<b>35,912</b>
Property, plant and equipment, net	18,522	18,445
Restricted cash, less current portion	1,560	16,560
Other assets	279	284
<b>Total assets</b>	<b>\$ 58,170</b>	<b>\$ 71,201</b>
<b>Liabilities and stockholders deficit</b>		
Current liabilities:		
Accounts payable	\$ 2,227	\$ 2,007
Accrued liabilities	4,302	5,689
Accrued interest due to related parties	1,600	1,175
Deferred revenue, current portion	4,551	2,919
Deferred revenue from related parties		168
Capital lease obligations, current portion	829	647
Debt, current portion	244	244
<b>Total current liabilities</b>	<b>13,753</b>	<b>12,849</b>
Deferred revenue, less current portion	1,838	2,021
Capital lease obligations, less current portion	486	18
Debt, less current portion	21,403	21,509
Debt due to related parties	36,086	35,512
Other liabilities	1,342	1,314

Total liabilities	74,908	73,223
Commitments and contingencies ( <i>Note 8</i> )		
Stockholders' deficit:		
Common stock: \$0.00001 par value; 250,000 shares authorized, 24,620 shares issued and outstanding as of June 30, 2016 and 24,536 as of December 31, 2015		
Additional paid in capital	202,897	201,554
Accumulated deficit	(219,635)	(203,576)
Total stockholders' deficit	(16,738)	(2,022)
Total liabilities and stockholders' deficit	\$ 58,170	\$ 71,201

See accompanying notes.

**Table of Contents****MARRONE BIO INNOVATIONS, INC.****Condensed Consolidated Statements of Operations**

(In Thousands, Except Per Share Amounts)

(Unaudited)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2016	2015	2016	2015
Revenues:				
Product	\$ 4,957	\$ 3,091	\$ 7,534	\$ 4,865
License	92	83	184	166
Related party		183		382
<b>Total revenues</b>	<b>5,049</b>	<b>3,357</b>	<b>7,718</b>	<b>5,413</b>
Cost of product revenues, including cost of product revenues to related parties of \$0 and \$113 for the three months ended June 30, 2016 and 2015, respectively and \$0 and \$195 for the six months ended June 30, 2016 and 2015, respectively	3,118	2,994	5,387	4,992
<b>Gross profit</b>	<b>1,931</b>	<b>363</b>	<b>2,331</b>	<b>421</b>
Operating Expenses:				
Research, development and patent	2,313	3,328	4,635	6,750
Selling, general and administrative	4,512	7,411	10,042	15,298
<b>Total operating expenses</b>	<b>6,825</b>	<b>10,739</b>	<b>14,677</b>	<b>22,048</b>
<b>Loss from operations</b>	<b>(4,894)</b>	<b>(10,376)</b>	<b>(12,346)</b>	<b>(21,627)</b>
Other income (expense):				
Interest income	10	6	25	15
Interest expense	(759)	(659)	(1,509)	(1,328)
Interest expense to related parties	(1,083)		(2,166)	
Other income (expense), net	(57)	44	(63)	41
<b>Total other expense, net</b>	<b>(1,889)</b>	<b>(609)</b>	<b>(3,713)</b>	<b>(1,272)</b>
<b>Loss before income taxes</b>	<b>(6,783)</b>	<b>(10,985)</b>	<b>(16,059)</b>	<b>(22,899)</b>
Income taxes				
<b>Net loss</b>	<b>\$ (6,783)</b>	<b>\$ (10,985)</b>	<b>\$ (16,059)</b>	<b>\$ (22,899)</b>
Basic and diluted net loss per common share	\$ (0.28)	\$ (0.45)	\$ (0.65)	\$ (0.94)
	24,598	24,465	24,584	24,465

Weighted-average shares outstanding used in computing net  
loss per common share

See accompanying notes.

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Table of Contents**MARRONE BIO INNOVATIONS, INC.****Condensed Consolidated Statements of Comprehensive Loss**

(In Thousands)

(Unaudited)

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS</b>	
	<b>JUNE 30,</b>		<b>ENDED</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ (6,783)	\$ (10,985)	\$ (16,059)	\$ (22,899)
Other comprehensive loss				
Comprehensive loss	\$ (6,783)	\$ (10,985)	\$ (16,059)	\$ (22,899)

See accompanying notes.

Table of Contents**MARRONE BIO INNOVATIONS, INC.****Condensed Consolidated Statements of Cash Flows**

(In Thousands)

(Unaudited)

	<b>SIX MONTHS ENDED JUNE 30, 2016      2015</b>	
Cash flows from operating activities		
Net loss	\$ (16,059)	\$ (22,899)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,150	1,707
Loss (gain) on disposal of equipment	58	(35)
Share-based compensation	1,327	2,185
Non-cash interest expense	657	265
Net changes in operating assets and liabilities:		
Accounts receivable	(2,196)	(1,164)
Inventories	1,068	2,037
Prepaid Expenses and other assets	403	130
Deferred cost of product revenues	(430)	200
Accounts payable	196	(2,263)
Accrued and other liabilities	(1,419)	223
Accrued interest due to related parties	425	
Deferred revenue	1,449	(375)
Deferred revenue from related parties	(168)	(382)
Customer refund liabilities		(25)
Net cash used in operating activities	(13,539)	(20,396)
Cash flows from investing activities		
Purchases of property, plant and equipment	(93)	(1,398)
Proceeds from the sale of equipment		7
Net cash used in investing activities	(93)	(1,391)
Cash flows from financing activities		
Repayment of debt	(129)	(192)
Repayment of capital leases	(346)	(1,149)
Change in restricted cash	15,412	
Exercise of stock options	16	
Net cash provided by (used) in financing activities	14,953	(1,341)
Net increase (decrease) in cash and cash equivalents	1,321	(23,128)
Cash and cash equivalents, beginning of period	19,838	35,324

Cash and cash equivalents, end of period	\$ 21,159	\$ 12,196
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest, net of capitalized interest of \$0 and \$4 for the six months ended June 30, 2016 and 2015, respectively	\$ 2,595	\$ 1,069
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property, plant and equipment included in accounts payable and accrued liabilities	\$ 24	\$ 12
Equipment acquired under capital leases	\$ 1,586	\$ 787

See accompanying notes.

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**MARRONE BIO INNOVATIONS, INC.**

**Notes to Condensed Consolidated Financial Statements**

June 30, 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 June 30, 2016, the Company had an accumulated deficit of \$219,635,000, 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 June 30, 2016, the Company had working capital of \$24,056,000, including cash and cash equivalents of \$21,159,000. As of June 30, 2016, the Company had debt and debt due to related parties of \$21,647,000 and \$36,086,000, 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 June 30, 2016, the Company had a total of \$3,004,000 of restricted cash relating to a debt agreement (see Note 6).

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 entering into a continuation of its current waiver due to expire December 31, 2016, entering into strategic agreements that include significant cash payments upfront, significantly increasing revenues from sales or raising additional capital through the issuance of equity, the Company expects it will exceed its maximum debt-to-worth requirement under a promissory note with Five Star Bank. Further, 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 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.

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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 June 30, 2016, and for the three and six months ended June 30, 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 June 30, 2016, and for the three and six months ended June 30, 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 and six months ended June 30, 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