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Emergent BioSolutions Inc.

Form 10-Q

August 08, 2014

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, 2014

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: 001-33137

EMERGENT BIOSOLUTIONS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

14-1902018

(I.R.S. Employer  
Identification No.)

2273 Research Boulevard, Suite 400

Rockville, Maryland

20850

(Address of Principal Executive Offices) (Zip Code)

(301) 795-1800

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant Rule 405 of Regulation S-T 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. (Check one):

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

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

As of July 31, 2014, the registrant had 37,477,213 shares of common stock outstanding.

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BioThrax® (Anthrax Vaccine Adsorbed), RSDL® (KBDO individual use skin decontamination packet), BAT™ [Botulism Antitoxin Heptavalent (A,B,C,D,E,F,G)-Equine], HepaGam B® (Hepatitis B Immune Globulin Intravenous (Human)), VARIZIG® (Varicella Zoster Immune Globulin (Human)), WinRho® SDF [Rh<sub>0</sub> (D) Immune Globulin Intravenous (Human)], NuThrax™ (anthrax vaccine adsorbed with CPG 7909 adjuvant), PreviThrax™ (recombinant protective antigen anthrax vaccine, purified) and any and all Emergent BioSolutions Inc. brands, products, services and feature names, logos and slogans are trademarks or registered trademarks of Emergent BioSolutions Inc. or its subsidiaries in the United States or other countries. episil® (oral liquid) is a trademark of Camurus AB. All rights reserved. All other brands, products, services and feature names or trademarks are the property of their respective owners.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. We generally identify forward-looking statements by using words like "believes," "expects," "anticipates," "intends," "plans," "forecasts," "estimates" and similar expressions in conjunction with, among other things, discussions of financial performance or financial condition, growth strategy, product sales, manufacturing capabilities, product development, regulatory approvals or expenditures. These forward-looking statements are based on our current intentions, beliefs and expectations regarding future events. We cannot guarantee that any forward-looking statement will be accurate. You should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could differ materially from our expectations. You are, therefore, cautioned not to place undue reliance on any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we do not undertake to update any forward-looking statement to reflect new information, events or circumstances.

There are a number of important factors that could cause our actual results to differ materially from those indicated by such forward-looking statements, including, among others:

- § appropriations for the procurement of BioThrax® (Anthrax Vaccine Adsorbed), our FDA-approved anthrax vaccine;
- § our ability to successfully integrate our acquisitions of Cangene Corporation and the Healthcare Protective Products Division of Bracco Diagnostics Inc., which we recently acquired, and realize the benefits of these acquisitions;
- § our ability to perform under our contracts with the U.S. government related to BioThrax, including the timing of deliveries;
- § our ability to obtain new BioThrax sales contracts or modifications to existing contracts;
- § the availability of funding for our U.S. government grants and contracts;
- § our ability to successfully execute our growth strategy and achieve our financial and operational goals;
- § our ability to successfully integrate and develop the products or product candidates, programs, operations and personnel of any entities or businesses that we acquire;
- § our ability to perform under our contract with the U.S. government to develop and obtain regulatory approval for large-scale manufacturing of BioThrax in Building 55, our large-scale vaccine manufacturing facility in Lansing, Michigan;
- § our ability to identify and acquire companies or in-license products or late-stage product candidates that satisfy our selection criteria;
- § whether anticipated synergies and benefits from an acquisition or in-license are realized within expected time periods or at all;
- § our ability to selectively enter into collaboration arrangements;
- § our ability to obtain and maintain intellectual property protection for our products and product candidates;
- § our ability and plans to expand our manufacturing facilities and capabilities;
- § our ability to meet operating and financial restrictions placed on us and our subsidiaries under our senior secured credit facility;
- § the rate and degree of market acceptance and clinical utility of our products;
- § the success of our ongoing and planned development programs, non-clinical activities and clinical trials of our product candidates;
- § the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- § our commercialization, marketing and manufacturing capabilities and strategy; and
- § our estimates regarding expenses, future revenues, capital requirements and needs for additional financing.

The foregoing sets forth many, but not all, of the factors that could cause actual results to differ from our expectations in any forward-looking statement. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. You should consider this cautionary statement, the risk factors identified in the section entitled "Risk Factors" in this quarterly report on Form 10-Q and the risk factors identified in our other periodic reports filed with the Securities and Exchange Commission when evaluating our forward-looking statements.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

Emergent BioSolutions Inc. and Subsidiaries  
Consolidated Balance Sheets  
(in thousands, except share and per share data)

	June 30, 2014	December 31, 2013
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 168,130	\$ 179,338
Accounts receivable	78,270	60,587
Inventories	66,030	14,643
Income tax receivable, net	16,674	5,651
Prepaid expenses and other current assets	16,345	12,896
Total current assets	345,449	273,115
Property, plant and equipment, net	302,455	264,240
In-process research and development	50,300	41,800
Intangible assets, net	66,678	30,148
Goodwill	47,188	13,954
Deferred tax assets- long-term, net	16,411	-
Other assets	8,768	3,373
Total assets	\$ 837,249	\$ 626,630
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 36,968	\$ 27,521
Accrued expenses and other current liabilities	2,957	1,252
Accrued compensation	23,044	24,615
Contingent purchase consideration, current portion	3,813	1,341
Provisions for chargebacks	4,224	-
Deferred tax liability-current portion, net	88	88
Deferred revenue, current portion	5,333	1,834
Total current liabilities	76,427	56,651
Contingent purchase consideration, net of current portion	19,193	15,278
Long-term indebtedness, net of current portion	251,000	62,000
Deferred tax liability long-term, net	-	1,419
Deferred revenue, net of current portion	1,632	-
Other liabilities	1,230	2,117
Total liabilities	349,482	137,465
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock, \$0.001 par value; 15,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized, 37,885,227 shares issued and 37,472,274 shares outstanding at June 30, 2014; 37,036,996 shares issued and 36,624,043 shares outstanding at December 31, 2013	38	37
Treasury stock, at cost, 412,953 common shares at both June 30, 2014 and December 31, 2013	(6,119 )	(6,119 )
Additional paid-in capital	260,778	247,637
Accumulated other comprehensive loss	(3,251 )	(3,465 )
Retained earnings	236,321	251,528
Total Emergent BioSolutions Inc. stockholders' equity	487,767	489,618
Noncontrolling interest in subsidiaries	-	(453 )
Total stockholders' equity	487,767	489,165
Total liabilities and stockholders' equity	\$837,249	\$626,630

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

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Emergent BioSolutions Inc. and Subsidiaries  
 Consolidated Statements of Operations  
 (in thousands, except share and per share  
 data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Product sales	\$78,269	\$65,596	\$114,036	\$95,955
Contract manufacturing	9,187	-	11,913	-
Contracts and grants	22,869	16,840	38,260	29,581
Total revenues	110,325	82,436	164,209	125,536