BIOVERIS CORP
Form 10-Q
August 09, 2006

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

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# FORM 10-Q

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

**For the quarterly period ended June 30, 2006**

OR

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

Commission File Number: 000-50583

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# BioVeris Corporation

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 80-0076765 |
| (State or other jurisdiction of incorporation) | (IRS Employer Identification No.) |

16020 INDUSTRIAL DRIVE, GAITHERSBURG, MD 20877

(Address of principal executive offices) (Zip Code)

301-869-9800

(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 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 o**

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)**

**Large accelerated filer o Accelerated filer x Non-accelerated filer o**

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

**Yes o No x**

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

27,238,969 shares of common stock, par value $0.001, issued and outstanding at July 28, 2006

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**BIOVERIS CORPORATION**

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As used herein, BioVeris , we , us and our refer to BioVeris Corporation and its subsidiaries. M-SERIES, TRICORDER, BIOVERIFY and BIOVERIS are our trademarks. This Form 10-Q also contains disclosure relating to brand names, trademarks or service marks of other companies, and these brand names, trademarks or service marks are the property of those other holders.

**PART 1 FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**BIOVERIS CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share data)**

**(Unaudited)**

| | | June 30, 2006 | | March 31, 2006 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ | **37,266** | $ | 29,693 |
| Short-term investments | | **24,226** | | 39,938 |
| Accounts receivable, net | | **2,920** | | 3,360 |
| Inventory, net | | **6,476** | | 5,429 |
| Other current assets | | **2,329** | | 2,508 |
| Total current assets | | **73,217** | | 80,928 |
| Equipment and leasehold improvements, net | | **3,340** | | 3,456 |
| OTHER NONCURRENT ASSETS: | | | | |
| Note receivable, net | | **5,857** | | 5,666 |
| Technology licenses | | **14,869** | | 15,356 |
| Other | | **447** | | 447 |
| TOTAL ASSETS | $ | **97,730** | $ | 105,853 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable and accrued expenses | $ | **5,055** | $ | 5,362 |
| Accrued wages and benefits | | **1,267** | | 1,862 |
| Other current liabilities | | **1,739** | | 1,520 |
| Total current liabilities | | **8,061** | | 8,744 |
| NONCURRENT DEFERRED LIABILITIES | | **135** | | 546 |
| Total liabilities | | **8,196** | | 9,290 |
| SERIES B PREFERRED STOCK, 1,000 shares designated, issued and outstanding | | **7,500** | | 7,500 |
| STOCKHOLDERS EQUITY: | | | | |
| Preferred stock, par value $0.01 per share, 15,000,000 shares authorized, issuable in series: | | | | |
| Series A, 600,000 shares designated, none issued | | **-** | | - |
| Common stock, par value $0.001 per share, 100,000,000 shares authorized, 27,239,000 and 27,238,000 shares issued and outstanding at June 30, 2006 and March 31, 2006, respectively | | **27** | | 27 |
| Additional paid-in capital | | **204,593** | | 205,997 |
| Deferred compensation | | **-** | | (1,688) |
| Accumulated other comprehensive loss | | **(47)** | | (128) |
| Accumulated deficit | | **(122,539)** | | (115,145) |
| Total stockholders' equity | | **82,034** | | 89,063 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ | **97,730** | $ | 105,853 |

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

**BIOVERIS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | | Three Months Ended | | |
|---|---|---|---|---|
| | | **June 30, 2006** | | June 30, 2005 |
| REVENUES: | | | | |
| Product sales | $ | **3,590** | $ | 4,580 |
| Royalty income | | **498** | | 309 |
| Total | | **4,088** | | 4,889 |
| OPERATING COSTS AND EXPENSES: | | | | |
| Product costs | | **2,384** | | 2,048 |
| Research and development | | **4,262** | | 4,765 |
| Selling, general, and administrative | | **6,202** | | 5,681 |
| Total | | **12,848** | | 12,494 |
| LOSS FROM OPERATIONS | | **(8,760)** | | (7,605) |
| INTEREST INCOME | | **1,201** | | 1,318 |
| OTHER, NET | | **187** | | (381) |
| NET LOSS | $ | **(7,372)** | $ | (6,668) |
| Net loss per common share (basic and diluted) | $ | **(0.27)** | $ | (0.25) |
| COMMON SHARES OUTSTANDING (basic and diluted) | | **26,880** | | 26,728 |

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

**BIOVERIS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | **June 30, 2006** | June 30, 2005 |
| OPERATING ACTIVITIES**:** | | |
| Net loss | $ **(7,372)** | $ (6,668) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amoritization | **935** | 1,632 |
| Loss on disposal of equipment | **18** | - |
| Accretion of interest on note receivable | **(549)** | (403) |
| Amortization of premium on short-term investments | **49** | - |
| Stock based compensation | **284** | - |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | **440** | (1,383) |
| (Increase) decrease in inventory | **(1,239)** | 220 |
| Decrease in other current assets | **179** | 294 |
| (Increase) in accounts payable and accrued expenses | **(312)** | (2,024) |
| (Decrease) increase in accrued wages and benefits | **(595)** | 309 |
| Increase (decrease) in other liabilities | **149** | (210) |
| Net cash used in operating activities | **(8,013)** | (8,233) |
| INVESTING ACTIVITIES: | | |
| Expenditures for equipment and leasehold improvements | **(158)** | (182) |
| Purchases of short term-investments | **(19,994)** | (9,998) |
| Sales and maturities of short-term investments | **35,738** | 8,000 |
| Net cash provided by (used in) investing activities | **15,586** | (2,180) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **7,573** | (10,413) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | **29,693** | 41,739 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ **37,266** | $ 31,326 |
| ***SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:*** | | |
| Transfer of inventory into fixed assets | $ **192** | $ **-** |

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

1. ORGANIZATION AND BASIS OF PRESENTATION

BioVeris Corporation (the Company) is a global integrated healthcare company developing proprietary technologies in diagnostics and vaccinology. The Company is dedicated to the commercialization of innovative products and services for healthcare providers, their patients and their communities.

The Company was organized as IGEN Integrated Healthcare, LLC, a Delaware limited liability company, on June 6, 2003, and converted into BioVeris Corporation, a newly formed Delaware corporation on September 22, 2003. On February 13, 2004, IGEN International, Inc. (IGEN or Parent) and Roche Holding Ltd (Roche) consummated a merger transaction pursuant to which Roche acquired IGEN and IGEN simultaneously distributed the common stock of the Company to its stockholders.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements have been condensed or omitted. In the opinion of the Company s management, the financial statements reflect all adjustments necessary for a fair presentation of the results of operations and cash flows for the three month periods ended June 30, 2006 and 2005, and the Company s financial position at June 30, 2006. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The results of operations for the interim periods are not necessarily indicative of the results for any future interim period or for the entire year. These financial statements should be read together with the audited financial statements and notes contained in the Company s Annual Report on Form 10-K for the year ended March 31, 2006 filed with the Securities and Exchange Commission (SEC).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Consolidation Accounting* The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

*Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash and Cash Equivalents* Cash and cash equivalents include cash in banks, money market funds, securities of the U.S. Treasury, and certificates of deposit with original maturities of three months or less.

*Short-Term Investments* Short-term investments consist primarily of corporate, federal and municipal debt-securities that are classified as available-for-sale. The Company invests its excess cash in accordance with a policy approved by the Company s Board of Directors. This policy is designed to provide both liquidity and safety of principal. The policy limits investments to certain types of instruments issued by institutions with strong investment grade credit ratings and places restrictions on the Company s investment by terms and concentrations by type and issuer. These available-for-sale securities are accounted for at their fair market value and unrealized gains and losses on these securities, if any, are included in accumulated other comprehensive gain or loss in stockholders equity. The Company uses the specific identification method in computing realized gains and losses on the sale of investments, which are included in results of operations as generated. For the three months ended June 30, 2006 and 2005, the Company did not have any realized gains or losses.



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The following is a summary of the Company s available-for-sale marketable securities as of June 30, 2006:

| | **June 30, 2006** *(in thousands)* | | | |
|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
| Certificates of deposit | $ 2,500 | $ - | $ - | $ 2,500 |
| U.S. government agencies | 5,000 | - | (49) | 4,951 |
| U.S. corporate debt | 4,504 | - | (4) | 4,500 |
| Asset-backed securities | 12,269 | 6 | - | 12,275 |
| Total | $ 24,273 | $ 6 | $ (53) | $ 24,226 |

| | March 31, 2006 *(in thousands)* | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Certificates of deposit | $ 5,000 | $ - | $ - | $ 5,000 |
| U.S. government agencies | 15,000 | - | (84) | 14,916 |
| U.S. corporate debt | 20,066 | - | (44) | 20,022 |
| Total | $ 40,066 | $ - | $ (128) | $ 39,938 |

*Concentration of Credit Risk* The Company places its cash and cash equivalents and short-term investments with highly rated financial institutions. At June 30, 2006 and March 31, 2006, the Company had $61.1 million and $69.2 million, respectively, of cash and cash equivalents and short-term investments in excess of federally insured limits. The Company has not experienced any losses on these accounts related to amounts in excess of insured limits. During the three months ended June 30, 2006 and 2005, agencies of the U.S. government accounted for 30% and 32% of total revenues, respectively. As of June 30, 2006 and March 31, 2006, agencies of the U.S. government accounted for 42% and 43% of total consolidated accounts receivable, respectively.

*Allowance for Doubtful Accounts* The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of accounts receivable balances and historical loss rates. Amounts later determined and specifically identified to be uncollectible are charged or written-off against the reserve. Historically, the Company has not experienced significant credit losses related to an individual customer or group of customers and estimated losses have been within the Company s expectation. Allowance for doubtful accounts was $101,000 and $253,000 at June 30, 2006 and March 31, 2006, respectively.

*Inventory* Inventory is recorded at the lower of cost or market using the first-in, first-out method and consists of the following:

| | June 30, 2006 | March 31, 2006 |
|---|---|---|
| | *(in thousands)* | |
| Finished Goods | **$ 1,910** | $ 2,058 |
| Work in process | **1,152** | 865 |
| Raw materials | **3,414** | 2,506 |
| Total | **$ 6,476** | $ 5,429 |

*Equipment and Leasehold Improvements* Equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Depreciation on equipment, which includes lab instruments and furniture, is computed over the estimated useful lives of the assets, generally three to five years, using the straight-line method of depreciation. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life or the term of the lease. Equipment and leasehold improvements consist of the following:

| | June 30, 2006 | March 31, 2006 |
|---|---|---|
| | *(in thousands)* | |
| Lab instruments and equipment | **$ 7,781** | $ 7,579 |
| Office furniture and equipment | **4,683** | 4,659 |
| Leasehold improvements | **4,202** | 4,194 |
| | **16,666** | 16,432 |
| Accumulated depreciation and amortization | **(13,326)** | (12,976) |
| Total | **$ 3,340** | $ 3,456 |

*Technology Licenses* Simultaneous with the execution of the merger transaction with Roche (see Note 1), the Company entered into worldwide, non-exclusive polymerase chain reaction (PCR) license agreements with certain affiliates of Roche. One agreement grants the Company rights to make, import, use and sell certain PCR products within specified fields, while the other agreement grants the Company rights to perform certain PCR services within specified fields.

The Company paid Roche a license fee of $50 million in fiscal 2004 and will also pay royalties on sales of the licensed products in the licensed fields and on any instrument, accessory, device or system sold for use with the licensed products in the licensed fields depending on the field, the year, the country of sale and the patents covering such products. During fiscal 2004, the Company performed a valuation of the PCR technology licenses and recorded a value of $19.5 million and reflected a $30.5 million adjustment reducing the amount recorded for consideration paid by Roche with respect to the merger and related transactions with IGEN.

These PCR licenses are being amortized over an estimated useful life of ten years, which is based upon a consideration of the range of patent lives and the weighted average remaining life of the most important underlying patents, as well as a consideration of technological obsolescence and product life cycles. Amortization expense was $488,000 for each of the three months ended June 30, 2006 and 2005. Accumulated amortization was $4.6 million and $4.1 million at June 30, 2006 and March 31, 2006, respectively. Amortization expense is expected to approximate $2.0 million for each year through March 31, 2014.

*Evaluation of Long-lived Assets* The Company evaluates the potential impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. In evaluating the recoverability of an asset, management s policy is to compare the carrying amount of an asset with the projected undiscounted future cash flow. An impairment loss is measured and recorded based on discounted estimated future cash flows. Management believes that no impairment of these assets exists as of June 30, 2006.

*Warranty Reserve* - The Company warrants its products against defects in material and workmanship for one year after sale and records estimated future warranty costs at the time revenue is recognized. A reserve for future warranty claims is recorded based upon management s review of historical claims, supplemented by expectations of future costs. The Company also offers extended warranty arrangements to customers, under which revenue recognition for the payment is initially deferred and amortized over the contract period, and related costs are recorded as incurred.

The following is a reconciliation of the Company s general product warranty reserve (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **June 30, 2006** | June 30, 2005 |
| Balance, beginning of period | **$ 390** | $ 366 |
| Provisions recorded | **87** | 11 |
| Actual costs incurred | **(147)** | (90) |
| Balance, end of period | **$ 330** | $ 287 |

The following is a reconciliation of the Company s deferred revenue related to extended warranty contracts and includes a summary of the revenue and cost components associated with extended warranties (in thousands):

| | Three Months Ended | |
|---|---|---|
| | **June 30, 2006** | June 30, 2005 |
| Deferred revenue, beginning of period | **$ 670** | $ 621 |
| Extended warranties issued | **358** | 322 |
| Amortization of extended warranties | **(281)** | (293) |
| Costs incurred during the period | **376** | 238 |
| Settlement during the period of costs incurred | **(376)** | (238) |
| Balance, end of period | **$ 747** | $ 650 |

*Fair Value of Financial Instruments* - The carrying amounts of the Company s financial instruments, which include cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, approximate their fair value due to their short maturities.

*Comprehensive Loss*- Comprehensive loss is comprised of net loss and other items of comprehensive loss. The Company s comprehensive loss for the three months ended June 30, 2006 and 2005 was $7.3 million and $6.8 million, respectively. For the three months ended June 30, 2006, other comprehensive income was $81,000 and for the three months ended June 30, 2005, other comprehensive loss was $123,000. Other comprehensive income or loss includes unrealized gains and losses on available-for-sale securities that are excluded from net loss.

*Revenue Recognition*- The Company derives revenue principally from three sources: product sales, royalty income and contract fees.

Product sales revenue is recognized when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectibility is reasonably assured and the product is shipped to the customer thereby transferring title and risk of loss. For instrument sales, the instrument and the related installation are considered to be separate elements under Emerging Issues Task Force (EITF) Issue No. 00-21 (EITF 00-21) Accounting for Revenue Arrangements with Multiple Deliverables. Revenue is recognized for the instrument upon shipment or delivery, depending on the terms of each order, and is recognized for the installation when complete using the residual value method. For instrument and reagent sales, there is no option of return and refund and instead there is only the option to repair or replace the product.

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