

IMMUCELL CORP /DE/
Form 10-Q
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2018

001-12934

(Commission file number)

ImmuCell Corporation

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	01-0382980 (I.R.S. Employer Identification No.)
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56 Evergreen Drive, Portland, ME (Address of principal executive office)	04103 (Zip Code)
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(207) 878-2770

(Registrant's telephone number)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant’s common stock outstanding at November 5, 2018 was 5,484,728.

ImmuCell Corporation

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ImmuCell Corporation**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****(Unaudited Condensed)****BALANCE SHEETS**

	As of September 30, 2018	As of December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,393,263	\$ 3,798,811
Trade accounts receivable, net	853,972	1,344,022
Inventory	2,249,942	2,049,732
Prepaid expenses and other current assets	720,851	314,667
Total current assets	6,218,028	7,507,232
PROPERTY, PLANT AND EQUIPMENT, net	26,472,454	26,069,689
DEFERRED TAX ASSETS, net	-	472,726
INTANGIBLE ASSETS, net	138,504	152,832
GOODWILL	95,557	95,557
INTEREST RATE SWAPS	98,390	-
OTHER ASSETS	212,467	920
TOTAL ASSETS	\$ 33,235,400	\$ 34,298,956
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,060,684	\$ 1,723,270
Current portion of bank debt	842,637	316,629
Deferred revenue	24,100	24,100
Total current liabilities	1,927,421	2,063,999
LONG-TERM LIABILITIES:		
Bank debt, net of current portion	8,634,854	8,639,021
Interest rate swaps	-	996
Total long-term liabilities	8,634,854	8,640,017
TOTAL LIABILITIES	10,562,275	10,704,016
CONTINGENT LIABILITIES AND COMMITMENTS (Note 16)		

STOCKHOLDERS' EQUITY:

Common stock, \$0.10 par value per share, 11,000,000 and 8,000,000 shares authorized, 5,662,645 and 5,662,645 shares issued and 5,484,728 and 5,476,197 shares outstanding, as of September 30, 2018 and December 31, 2017, respectively	566,265	566,265
Additional paid-in capital	22,712,753	22,458,219
(Accumulated deficit) retained earnings	(290,469)	978,973
Treasury stock, at cost, 177,917 and 186,448 shares as of September 30, 2018 and December 31, 2017, respectively	(389,217)	(407,879)
Accumulated other comprehensive income (loss)	73,793	(638)
Total stockholders' equity	22,673,125	23,594,940
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 33,235,400	\$ 34,298,956

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

ImmuCell Corporation**(Unaudited Condensed)****STATEMENTS OF OPERATIONS**

	During the Three-Month Periods Ended		During the Nine-Month Periods Ended	
	September 30, 2018	2017	September 30, 2018	2017
Product sales	\$2,153,750	\$2,004,961	\$8,049,481	\$7,298,496
Costs of goods sold	1,202,783	1,069,110	4,251,863	3,289,361
Gross margin	950,967	935,851	3,797,618	4,009,135
OPERATING EXPENSES (INCOME):				
Product development expenses	908,793	585,834	2,253,620	1,312,456
Sales and marketing expenses	494,703	446,733	1,501,833	1,361,653
Administrative expenses	396,611	385,695	1,262,868	1,164,533
Gain on sale of assets	(700,000)	-	(700,000)	-
Operating activities, net	1,100,107	1,418,262	4,318,321	3,838,642
NET OPERATING (LOSS) INCOME	(149,140)	(482,411)	(520,703)	170,493
Other expenses, net	106,414	49,238	301,664	115,877
(LOSS) INCOME BEFORE INCOME TAXES	(255,554)	(531,649)	(822,367)	54,616
Income tax (benefit) expense	(5,598)	(192,303)	447,075	28,108
NET (LOSS) INCOME	\$(249,956)	\$(339,346)	\$(1,269,442)	\$26,508
Basic weighted average common shares outstanding	5,483,880	4,992,803	5,481,095	4,896,782
Basic (loss) income per share	\$(0.05)	\$(0.07)	\$(0.23)	\$0.01
Diluted weighted average common shares outstanding	5,483,880	4,992,803	5,481,095	4,999,245
Diluted (loss) income per share	\$(0.05)	\$(0.07)	\$(0.23)	\$0.01

STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	During the Three-Month Periods Ended		During the Nine-Month Periods Ended	
	September 30, 2018	2017	September 30, 2018	2017
Net (loss) income	\$(249,956)	\$(339,346)	\$(1,269,442)	\$26,508
Other comprehensive income:				
Interest rate swaps, before taxes	19,107	2,850	99,386	5,342

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Income tax applicable to interest rate swaps	(4,777)	(1,026)	(24,956)	(1,923)
Other comprehensive income, net of taxes	14,330	1,824	74,430	3,419
Total comprehensive (loss) income	\$(235,626)	\$(337,522)	\$(1,195,012)	\$29,927

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

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ImmuCell Corporation**(Unaudited Condensed)****STATEMENTS OF CASH FLOWS**

	During the Nine-Month Periods Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(1,269,442)	\$26,508
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Depreciation	938,416	627,141
Amortization	14,328	14,328
Non-cash interest expense	12,612	11,120
Deferred income taxes	447,770	9,112
Stock-based compensation	257,697	148,035
Gain on sale of assets	(700,000)	-
Gain on disposal of fixed assets	-	(3,663)
Recovery of uncollectible accounts, net	-	(17,643)
Changes in:		
Trade accounts receivable, gross	490,050	141,114
Accrued interest income	-	24,013
Inventory	(200,210)	(605,126)
Prepaid expenses and other current assets	(156,185)	242,683
Other assets	(11,547)	(920)
Accounts payable and accrued expenses	(58,545)	262,270
Deferred revenue	-	(33,856)
Net cash (used for) provided by operating activities	(235,056)	845,116
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(1,931,146)	(13,079,386)
Payment of contingent royalties related to 2016 acquisition	(14,077)	(8,661)
Maturities of investments	-	5,699,000
Purchases of investments	-	(249,000)
Proceeds from sale of assets	250,000	-
Proceeds from sale of fixed assets	-	45,000
Net cash used for investing activities	(1,695,223)	(7,593,047)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from private placement, net	-	1,037,164
Proceeds from debt issuance	693,640	3,024,343
Debt principal repayments	(183,887)	(111,981)
Debt issuance costs	(522)	(63,358)
Proceeds from exercise of stock options	15,500	16,500

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Tax benefits related to stock options	-	183
Net cash provided by financing activities	524,731	3,902,851
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,405,548)	(2,845,080)
BEGINNING CASH AND CASH EQUIVALENTS	3,798,811	5,150,344
ENDING CASH AND CASH EQUIVALENTS	\$2,393,263	\$2,305,264

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

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ImmuCell Corporation

(Unaudited Condensed)

STATEMENTS OF CASH FLOWS

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	During the Nine-Month Periods Ended September 30,	
	2018	2017
CASH PAID FOR:		
Income taxes	\$4,222	\$4,000
Interest	\$294,728	\$123,034
NON-CASH ACTIVITIES:		
Change in capital expenditures included in accounts payable and accrued expenses	\$(589,964)	\$1,286,289
Net change in fair value of interest rate swaps	\$(74,430)	\$(3,419)
Fixed asset disposals, gross	\$18,554	\$1,500

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

ImmuCell Corporation

Notes to Unaudited Condensed Financial Statements

1. BUSINESS OPERATIONS

ImmuCell Corporation (the “Company”, “we”, “us”, “our”) is an animal health company whose purpose is to create scientifically-proven and practical products that improve the health and productivity of dairy and beef cattle. The Company was originally incorporated in Maine in 1982 and reincorporated in Delaware in 1987, in conjunction with its initial public offering of common stock. We market products that provide immediate immunity to newborn dairy and beef cattle. We are developing product line extensions of our existing products and are in the late stages of developing a novel product that addresses mastitis, the most significant cause of economic loss to the dairy industry. These products help reduce the need to use traditional antibiotics in food producing animals. The Company is subject to certain risks associated with its stage of development including dependence on key individuals and third party providers of critical goods and services, competition from other larger companies, the successful sale of existing products and the development and acquisition of additional commercially viable products with appropriate regulatory approvals, where applicable. Based on our best estimates and projections, we believe that we have sufficient capital resources to continue operations for at least twelve months from the date of this filing. These and other risks to our Company are further detailed under **Part II, Item 1A** – “Risk Factors” of this Quarterly Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

We have prepared the accompanying unaudited condensed financial statements reflecting all adjustments that are, in our opinion, necessary in order to ensure that the financial statements are not misleading. We follow accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that we follow to ensure we consistently report our financial condition, results of operations, earnings per share and cash flows. References to GAAP in these footnotes are to the FASB *Accounting Standards Codification*TM (Codification). Accordingly, we believe that the disclosures are adequate to ensure that the information presented is not misleading.

(b) Cash and Cash Equivalents

We consider all highly liquid investment instruments that mature within three months of their purchase dates to be cash equivalents. Cash equivalents are principally invested in securities backed by the U.S. government. Certain cash balances in excess of Federal Deposit Insurance Corporation (FDIC) limits of \$250,000 per financial institution per

depositor are maintained in money market accounts at financial institutions that are secured, in part, by the Securities Investor Protection Corporation. Amounts in excess of these FDIC limits per bank that are not invested in securities backed by the U.S. government aggregated \$2,140,960 and \$3,546,529 as of September 30, 2018 and December 31, 2017, respectively. We account for investments in marketable securities in accordance with Codification Topic 320, *Investments – Debt and Equity Securities*. See Note 3.

(c) Inventory

Inventory includes raw materials, work-in-process and finished goods and is recorded at the lower of cost, on the first-in, first-out method, or net realizable value (determined as the estimated selling price in the normal course of business, less reasonably predictable costs of completion, disposal and transportation). Work-in-process and finished goods inventories include materials, labor and manufacturing overhead. At each monthly balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. Inventories that we consider excess or obsolete are reserved. Once inventory is written down and a new cost basis is established, it is not written back up if demand increases. We believe that supplies and raw materials for the production of our products are available from more than one vendor or farm. Our policy is to maintain more than one source of supply for the components used in our products when practicable. However, there is a risk that we could have difficulty in efficiently acquiring essential supplies. See Note 4.

(d) Accounts Receivable

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful collection. Management determines the allowance for doubtful accounts on a monthly basis by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are considered to be past due if a portion of the receivable balance is outstanding for more than 30 days. Past due accounts receivable are subject to an interest charge. Accounts receivable are written off when deemed uncollectible. The amount of accounts receivable written off during all periods reported was immaterial. Recoveries of accounts receivable previously written off are recorded as income when received. As of September 30, 2018, we determined that no allowance for doubtful accounts was necessary.

ImmuCell Corporation

Notes to Unaudited Condensed Financial Statements (Continued)

(e) Property, Plant and Equipment

We depreciate property, plant and equipment on the straight-line method by charges to operations in amounts estimated to expense the cost of the assets from the date they are first put into service to the end of the estimated useful lives of the assets. The facility we have constructed to produce the active pharmaceutical ingredient, Nisin, is being depreciated over 39 years from when a certificate of occupancy was issued during the fourth quarter of 2017. We began depreciating the equipment for our Nisin production facility when it was placed in service during the third quarter of 2018. Approximately 89% of these assets are being depreciated over ten years. Significant repairs to fixed assets that benefit more than a current year are capitalized and depreciated over their useful lives. Insignificant repairs are expensed when incurred. See Note 6.

(f) Intangible Assets and Goodwill

We amortize intangible assets on the straight-line method by charges to operations in amounts estimated to expense the cost of the assets from the date they are first put into service to the end of the estimated useful lives of the assets. We have recorded intangible assets related to customer relationships, non-compete agreements, and developed technology, each with defined useful lives. We have classified as goodwill the amounts paid in excess of fair value of the net assets (including tax attri