

BIOTIME INC
Form 10-Q
May 10, 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 March 31, 2018

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 **1-12830**

BioTime, Inc.

(Exact name of registrant as specified in its charter)

California

94-3127919

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(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1010 Atlantic Avenue, Suite 102

Alameda, California 94501

(Address of principal executive offices)

(510) 521-3390

(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 website, 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, a 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

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

Accelerated filer

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 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 126,873,240 common shares, no par value, as of May 4, 2018.

PART 1—FINANCIAL INFORMATION

Statements made in this Report that are not historical facts may constitute forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed. Such risks and uncertainties include but are not limited to those discussed in this Report under Item 1 of the Notes to Condensed Consolidated Financial Statements, and under Risk Factors in this Report. Words such as “expects,” “may,” “will,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions identify forward-looking statements.

References to “we” means BioTime, Inc. and its subsidiaries unless the context otherwise indicates.

The description or discussion, in this Form 10-Q, of any contract or agreement is a summary only and is qualified in all respects by reference to the full text of the applicable contract or agreement.

Deconsolidation of OncoCyte Corporation Effective February 17, 2017

Effective February 17, 2017, BioTime deconsolidated OncoCyte Corporation (“OncoCyte”) financial statements and results of operations from those of BioTime under applicable generally accepted accounting principles due to the decrease in BioTime’s percentage ownership in OncoCyte below 50% as a result of OncoCyte issuing 625,000 shares of its common stock pursuant to warrant exercises by certain OncoCyte shareholders. Prior to that date, OncoCyte was a majority-owned and consolidated subsidiary of BioTime. Since February 17, 2017, BioTime has accounted for OncoCyte using the equity method of accounting, electing the fair value option, with all subsequent changes in fair value included in BioTime’s unaudited condensed consolidated statements of operations in other income and expenses, net. As of, and for each reporting period after February 17, 2017, the fair value of BioTime’s interest in OncoCyte is determined by the number of shares of OncoCyte held by BioTime and the closing price of the OncoCyte common stock as quoted on NYSE American: OCX.

OncoCyte’s assets and liabilities are not included in BioTime’s condensed consolidated balance sheets at March 31, 2018 and December 31, 2017 due to the deconsolidation. The fair value of OncoCyte shares owned by BioTime is shown on BioTime’s condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

OncoCyte’s results are not included in BioTime’s unaudited condensed consolidated statements of operations for the three months ended March 31, 2018. BioTime’s unaudited condensed consolidated statements of operations for the three months ended March 31, 2017 include OncoCyte’s results for the period from January 1, 2017 through February

16, 2017, the day immediately preceding the deconsolidation.

For further discussion, see Notes to the Condensed Consolidated Financial Statements and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this Report.

The deconsolidation of OncoCyte is sometimes referred to as the “OncoCyte Deconsolidation” in this Report.

Item 1. Financial Statements**BIOTIME, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(IN THOUSANDS)**

	March 31, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 29,827	\$ 36,838
Marketable equity securities	1,552	1,337
Trade accounts and grants receivable, net	916	780
Receivable from affiliates, net (Note 9)	2,082	2,266
Prepaid expenses and other current assets	1,749	1,402
Total current assets	36,126	42,623
Property, plant and equipment, net	5,366	5,533
Deposits and other long-term assets	236	1,018
Equity method investment in OncoCyte, at fair value (Note 4)	30,816	68,235
Equity method investment in Asterias, at fair value (Note 5)	31,534	48,932
Intangible assets, net	6,317	6,900
TOTAL ASSETS	\$ 110,395	\$ 173,241
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,703	\$ 5,718
Capital lease and lease liabilities, current portion	222	212
Promissory notes, current portion	120	152
Deferred license and subscription revenues	563	488
Deferred grant revenues	202	309
Total current liabilities	5,810	6,879
LONG-TERM LIABILITIES		
Deferred rent liabilities, net of current portion	114	105
Lease liability, net of current portion	968	1,019
Capital lease, net of current portion and other liabilities	122	132
Promissory notes, net of current portion	-	18
Liability classified warrants and other long-term liabilities	926	825
TOTAL LIABILITIES	7,940	8,978

Commitments and contingencies (Note 13)

SHAREHOLDERS' EQUITY

Preferred shares, no par value, authorized 2,000 shares; none issued and outstanding as of March 31, 2018 and December 31, 2017	-	-
Common shares, no par value, 150,000 shares authorized (Note 14); 126,869 shares issued and outstanding as of March 31, 2018 and 126,866 shares issued and outstanding as of December 31, 2017	379,186	378,487
Accumulated other comprehensive income	198	451
Accumulated deficit	(279,416)	(216,297)
BioTime, Inc. shareholders' equity	99,968	162,641
Noncontrolling interest	2,487	1,622
Total shareholders' equity	102,455	164,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 110,395	\$ 173,241

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(IN THOUSANDS, EXCEPT PER SHARE DATA)****(UNAUDITED)**

	Three Months Ended March 31,	
	2018	2017
REVENUES:		
Grant revenue	\$326	\$11
Royalties from product sales and license fees	136	110
Subscription and advertisement revenues	239	264
Sale of research products and services	-	5
Total revenues	701	390
Cost of sales	(109)	(57)
Gross profit	592	333
OPERATING EXPENSES:		
Research and development	5,935	6,494
Acquired in-process research and development (Note 9)	800	-
General and administrative	6,044	5,101
Total operating expenses	12,779	11,595
Loss from operations	(12,187)	(11,262)
OTHER INCOME/(EXPENSES):		
Interest income (expense), net	52	(306)
Gain on sale of equity method investment in Ascendance	3,215	-
Gain on deconsolidation of OncoCyte	-	71,697
Gain (loss) on equity method investment in OncoCyte at fair value	(37,419)	16,142
Loss on equity method investment in Asterias at fair value	(17,398)	(26,097)
Unrealized gain on marketable equity securities	215	-
Other income (expense), net	(176)	727
Total other income (expenses), net	(51,511)	62,163
INCOME (LOSS) BEFORE INCOME TAXES	(63,698)	50,901
Deferred income tax expense	-	(3,877)
NET INCOME (LOSS)	(63,698)	47,024
Net loss attributable to noncontrolling interest	150	2,264

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NET INCOME (LOSS) ATTRIBUTABLE TO BIOTIME, INC.			\$(63,548)	\$49,288
NET INCOME (LOSS) PER COMMON SHARE:				
BASIC			\$(0.50)	\$0.46
DILUTED			\$(0.50)	\$0.46
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING:				
BASIC			126,869	106,712
DILUTED			126,869	107,384

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(IN THOUSANDS)****(UNAUDITED)**

	Three Months Ended March 31,	
	2018	2017
NET INCOME (LOSS)	\$(63,698)	\$47,024
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment, net of tax	75	847
Available-for-sale investments:		
Reclassification of beginning accumulated other comprehensive income to accumulated deficit (Note 2)	(328)	-
Unrealized gain on available-for-sale securities, net of taxes	-	299
COMPREHENSIVE INCOME (LOSS)	(63,951)	48,170
Less: Comprehensive loss attributable to noncontrolling interest	150	2,264
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO BIOTIME, INC. COMMON SHAREHOLDERS	\$(63,801)	\$50,434

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN THOUSANDS)****(UNAUDITED)**

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to BioTime, Inc.	\$(63,548)	\$49,288
Net loss allocable to noncontrolling interest	(150)	(2,264)
Adjustments to reconcile net income (loss) attributable to BioTime, Inc. to net cash used in operating activities:		
Gain on deconsolidation of OncoCyte (Note 3)	-	(71,697)
Gain on sale of equity method investment in Ascendance	(3,215)	-
Acquired in-process research and development	800	-
Unrealized (gain) loss on equity method investment in OncoCyte at fair value	37,419	(16,142)
Unrealized loss on equity method investment in Asterias at fair value	17,398	26,097
Unrealized gain on marketable equity securities	(215)	-
Depreciation expense, including amortization of leasehold improvements	281	216
Amortization of intangible assets	582	602
Stock-based compensation	984	1,026
Liability classified warrants	108	-
Amortization of discount on related party convertible debt	-	253
Foreign currency remeasurement and other (gain) loss	87	(829)
Deferred income tax provision	-	3,877
Changes in operating assets and liabilities:		
Accounts and grants receivable, net	(37)	248
Receivables from affiliates, net of payables	175	231
Prepaid expenses and other current assets	(213)	338
Accounts payable and accrued liabilities	(840)	655
Other liabilities	46	3
Net cash used in operating activities	(10,338)	(8,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deconsolidation of cash and cash equivalents of OncoCyte	-	(8,898)
Proceeds from the sale of equity method investment in Ascendance	3,215	-
Purchase of in-process research and development	(800)	-
Purchase of equipment and other assets	(198)	(215)
Security deposit paid	(6)	(41)
Net cash provided by (used in) investing activities	2,211	(9,154)
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Proceeds from issuance of common shares	-	20,125
Fees paid on sale of common shares	-	(1,345)
Proceeds from exercises of stock options	-	25
Common shares received and retired for employee taxes paid	(7)	-
Proceeds from sale of subsidiary warrants	737	-
Repayment of lease liability and promissory notes	(97)	(31)
Reimbursement from landlord on construction in progress	-	200
Proceeds from issuance of related party convertible debt	-	123
Net cash provided by financing activities	633	19,097
Effect of exchange rate changes on cash, cash equivalents and restricted cash	60	(117)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(7,434)	1,728
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
At beginning of the period	37,685	22,935
At end of the period	\$30,251	\$24,663

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Business Overview

General – BioTime, Inc. (“BioTime” or the “Company”) is a clinical-stage biotechnology company targeting degenerative diseases. BioTime’s programs are based on two proprietary core technology platforms: cell replacement and cell/drug delivery. With the cell replacement platform, BioTime is producing new cells and tissues with its pluripotent and progenitor cell technologies. These cells and tissues are developed to replace those that are either rendered dysfunctional or lost due to degenerative diseases or injuries. BioTime’s cell/drug delivery programs are based upon its proprietary *HyStem*[®] cell and drug delivery matrix technology. *HyStem*[®] was designed to provide for the transfer, retention, and/or engraftment of cell replacement therapies and to act as a device for localized drug delivery.

BioTime’s lead cell replacement clinical product is *OpRegeff*[®], a retinal pigmented epithelium (RPE) cell replacement therapy, which is in a Phase I/IIa multicenter trial for the treatment of late-stage, dry age-related macular degeneration (dry-AMD). There are currently no FDA-approved therapies for dry-AMD, which accounts for approximately 90% of all age-related macular degeneration cases, and is the leading cause of blindness in people over the age of 60.

BioTime’s lead cell delivery clinical product, based on its proprietary *HyStem*[®] technology, is *Renevia*[®], a potential treatment for facial lipoatrophy. “Lipoatrophy” means the loss of fat tissue, which can be caused by several factors, including trauma, aging, or drug side effects, such as those that cause HIV-associated lipoatrophy. BioTime is also developing *HyStem*[®] for the sustained delivery of therapeutic drugs and targeted cells to specific areas of the body.

In 2017, BioTime formed AgeX Therapeutics, Inc. (“AgeX”) to continue development of early-stage programs focusing on development of regenerative medicine technologies targeting the diseases of aging and metabolic disorders. AgeX’s initial programs focus on utilizing brown adipose tissue (“brown fat”) in targeting diabetes, obesity, and heart disease; and induced tissue regeneration (“iTR”) in utilizing the human body’s own abilities to scarlessly regenerate tissues damaged from age or trauma. AgeX may also pursue other early-stage programs.

On August 17, 2017, AgeX completed an asset acquisition and stock sale pursuant to which it received certain assets from BioTime for use in its research and development programs and raised \$10.0 million in cash from investors to finance its operations. This capitalization of AgeX has allowed BioTime to focus its resources on its clinical programs in its core therapeutic sectors. As of March 31, 2018, BioTime owned approximately 85% of the issued and

outstanding shares of AgeX common stock (see Note 10).

BioTime is also enabling early-stage programs in other new technologies through its own research programs as well as through other subsidiaries or affiliates.

BioTime also has significant equity holdings in two publicly traded companies, Asterias Biotherapeutics, Inc. (“Asterias”) and OncoCyte Corporation (“OncoCyte”), which BioTime founded and, until recently, were majority-owned and consolidated subsidiaries. Asterias (NYSE American: AST) is presently focused on advancing three clinical-stage programs that have the potential to address areas of very high unmet medical needs in the fields of neurology (spinal cord injury) and oncology (Acute Myeloid Leukemia and lung cancer). OncoCyte (NYSE American: OCX) is developing confirmatory diagnostic tests for lung cancer, breast cancer, and bladder cancer utilizing novel liquid biopsy technology.

Beginning on February 17, 2017, BioTime deconsolidated OncoCyte’s financial statements and results of operations from BioTime (the “OncoCyte Deconsolidation”) (see Notes 3 and 4). Beginning on May 13, 2016, BioTime also deconsolidated Asterias’ financial statements and results of operations from BioTime (the “Asterias Deconsolidation”) (see Notes 3 and 5).

2. Basis of Presentation, Liquidity and Summary of Significant Accounting Policies

The unaudited condensed consolidated interim financial statements presented herein, and discussed below, have been prepared in accordance with generally accepted accounting principles in the U.S. (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Commission. In accordance with those rules and regulations certain information and footnote disclosures normally included in comprehensive consolidated financial statements have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated financial statements at that date, but does not include all the information and footnotes required by GAAP. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in BioTime’s Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying interim condensed consolidated financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of BioTime’s financial condition and results of operations. The condensed consolidated results of operations are not necessarily indicative of the results to be expected for any other interim period or for the entire year.

Principles of consolidation – BioTime’s condensed consolidated financial statements present the operating results of all of its wholly-owned and majority-owned subsidiaries that it consolidates as required under GAAP. All material intercompany accounts and transactions have been eliminated in consolidation. BioTime consolidated Cell Cure Neurosciences, Ltd (“Cell Cure”), OrthoCyte Corporation (“OrthoCyte”), ES Cell International, Pte Ltd (“ESI”), BioTime Asia, Limited (“BioTime Asia”), AgeX Therapeutics, Inc. (“AgeX”), ReCyte Therapeutics, Inc. (“ReCyte”), LifeMap Sciences, Inc. (“LifeMap Sciences”) and LifeMap Sciences, Ltd., as BioTime has the ability to control their operating and financial decisions and policies through its stock ownership or representation on the board of directors, and the noncontrolling interest is reflected as a separate element of shareholders’ equity on BioTime’s condensed consolidated balance sheets.

Beginning on February 17, 2017 and May 13, 2016, respectively, OncoCyte and Asterias financial statements and results are no longer a part of BioTime’s condensed consolidated financial statements and results. The market value of OncoCyte and Asterias common stock, as of those respective dates, held by BioTime is now reflected on BioTime’s condensed consolidated balance sheet and the subsequent changes in the market value of those shares is reflected in BioTime’s condensed consolidated balance sheet and condensed consolidated statements of operations, allowing BioTime shareholders to evaluate the value of the respective OncoCyte and Asterias’ portion of BioTime’s business.

OncoCyte’s results are not included in BioTime’s condensed consolidated statements of operations for the three months ended March 31, 2018. BioTime’s condensed consolidated statements of operations for the three months ended March 31, 2017 include OncoCyte’s results for the period from January 1, 2017 through February 16, 2017, the day immediately preceding the OncoCyte Deconsolidation.

Liquidity – Since inception, BioTime has incurred significant operating losses and has funded its operations primarily through the issuance of equity securities, payments from research grants, royalties from product sales and sales of research products and services. At March 31, 2018, BioTime had an accumulated deficit of \$279.4 million, working capital of \$30.3 million and sharehold