REPLIGEN CORP
Form 10-Q
May 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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 000-14656

REPLIGEN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2729386**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

41 Seyon Street, Bldg. 1, Suite 100

Waltham, MA	**02453**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (781) 250-0111

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 x 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 x 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 x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of April 19, 2013.

Class	**Number of Shares**
Common Stock, par value $.01 per share	31,442,868

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 28,570,015	$ 29,209,821
Marketable securities	19,337,124	10,845,195
Accounts receivable, less reserve for doubtful accounts of $10,000	6,912,751	4,158,758
Royalties and other receivables	3,845,715	9,130,515
Inventories, net	10,264,232	11,143,695
Deferred tax asset, net	416,580	416,580
Prepaid expenses and other current assets	1,352,523	1,304,887
Total current assets	70,698,940	66,209,451
Property, plant and equipment, at cost:		
Leasehold improvements	5,246,962	5,200,271
Equipment	12,963,808	12,802,978
Furniture and fixtures	1,978,138	1,937,238
Construction in progress	383,353	338,814
Total property, plant and equipment, at cost	20,572,261	20,279,301
Less: Accumulated depreciation	(10,879,103)	(10,326,840)
Property, plant and equipment, net	9,693,158	9,952,461
Long-term deferred tax asset, net	2,669,762	2,557,384
Long-term marketable securities	6,148,089	9,914,855
Intangible assets, net	6,910,819	7,182,012
Goodwill	994,000	994,000
Restricted cash	200,000	200,000
Total assets	$ 97,314,768	$ 97,010,163
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$1,900,861	$2,454,238
Accrued liabilities	6,993,805	8,297,990
Total current liabilities	8,894,666	10,752,228
Other long-term liabilities	1,009,068	2,133,339
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value, 40,000,000 shares authorized, 31,425,368 shares at March 31, 2013 and 31,195,041 shares at December 31, 2012 issued and outstanding	314,254	311,950
Additional paid-in capital	188,255,742	187,051,253
Accumulated other comprehensive income	1,653,379	1,911,970
Accumulated deficit	(102,812,341)	(105,150,577)

Total stockholders equity	87,411,034	84,124,596
Total liabilities and stockholders equity	$ 97,314,768	$ 97,010,163

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

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months ended March 31, 2013	2012
Revenue:		
Product revenue	$ 11,934,269	$ 9,342,601
Royalty and other revenue	4,521,724	3,481,860
Total revenue	16,455,993	12,824,461
Operating expenses:		
Cost of product revenue	6,896,608	5,272,543
Cost of royalty revenue	576,857	462,088
Research and development	2,183,404	2,808,463
Selling, general and administrative	3,308,099	3,428,536
Contingent consideration fair value adjustments	(53,974)	
Gain on bargain purchase		(314,244)
Total operating expenses	12,910,994	11,657,386
Income from operations	3,544,999	1,167,075
Investment income	61,519	31,424
Interest expense	(13,531)	(22,381)
Other (expense) income	29,081	109,261
Income before income taxes	3,622,068	1,285,379
Income tax provision	1,283,832	58,907
Net income	$ 2,338,236	$ 1,226,472
Earnings per share:		
Basic	$ 0.07	$ 0.04
Diluted	$ 0.07	$ 0.04
Weighted average shares outstanding:		
Basic	31,240,606	30,729,660
Diluted	31,855,428	31,009,833
Other comprehensive income:		
Unrealized gain (loss) on investments	(1,983)	8,099
Foreign currency translation gain (loss)	(256,608)	1,079,726
Comprehensive income	$ 2,079,645	$ 2,314,297

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

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REPLIGEN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31, 2013	2012
Cash flows from operating activities:		
Net income:	$ 2,338,236	$ 1,226,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	818,920	824,409
Stock-based compensation expense	250,071	240,873
Deferred tax expense	(112,403)	
Provision for bad debts		8,036
Gain on bargain purchase		(314,244)
(Gain) loss on revaluation of contingent consideration	(53,974)	24,629
Changes in assets and liabilities:		
Accounts receivable	(2,772,175)	(1,362,078)
Royalties and other receivables	5,284,800	126,252
Inventories	872,260	(54,782)
Prepaid expenses and other current assets	(51,472)	(293,908)
Accounts payable	(548,648)	276,225
Accrued liabilities	(1,301,152)	960,971
Long-term liabilities	(1,129,760)	70,967
Net cash provided by operating activities	3,594,703	1,733,822
Cash flows from investing activities:		
Purchases of marketable securities	(10,538,701)	(14,612,493)
Redemptions of marketable securities	5,811,555	14,383,333
Purchases of property, plant and equipment	(322,099)	(156,742)
Net cash used in investing activities	(5,049,245)	(385,902)
Cash flows from financing activities:		
Exercise of stock options	956,721	113,540
Net cash provided by financing activities	956,721	113,540
Effect of exchange rate changes on cash and cash equivalents	(141,985)	163,694
Net (decrease) increase in cash and cash equivalents	(639,806)	1,625,154
Cash and cash equivalents, beginning of period	29,209,821	11,167,745
Cash and cash equivalents, end of period	$ 28,570,015	$ 12,792,899

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

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REPLIGEN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by Repligen Corporation (the Company, Repligen or we) in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), for quarterly reports on Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnote disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting of only normal, recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows. The results of operations for the interim periods presented are not necessarily indicative of results to be expected for the entire year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Acquisitions, Goodwill and Other Intangible Assets

Acquisitions

Novozymes Biopharma Sweden AB

On December 20, 2011, pursuant to the terms of the Asset Transfer Agreement, dated as of October 27, 2011 (the Asset Transfer Agreement), by and among the Company, Repligen Sweden AB, a company organized under the laws of Sweden and a wholly-owned subsidiary of the Company (Repligen Sweden), Novozymes Biopharma DK A/S, a company organized under the laws of Denmark (Novozymes Denmark), and Novozymes Biopharma Sweden AB, a company organized under the laws of Sweden and a wholly-owned subsidiary of Novozymes Denmark (Novozymes Sweden and, together with Novozymes Denmark, Novozymes), the Company acquired Novozymes business headquartered at Novozymes Sweden s facility in Lund, Sweden and all related operations, including the manufacture and supply of cell culture ingredients and Protein A affinity ligands for use in industrial cell culture, stem and therapeutic cell culture and biopharmaceutical manufacturing (the Novozymes Biopharma Business). Pursuant to the Asset Transfer Agreement, Repligen Sweden (a) purchased all of the assets related to the Novozymes Biopharma Business and assumed certain specified liabilities related to the Novozymes Biopharma Business from Novozymes Sweden and (b) purchased contract rights and licenses used in the Novozymes Biopharma Business and other specified assets from Novozymes Denmark (collectively, the Transferred Business and the acquisition of the Transferred Business, the Novozymes Acquisition). The Novozymes Biopharma Business now operates as Repligen Sweden. The Company paid a total purchase price of 20,310,000 Euros (~$26,400,000) to Novozymes for the Transferred Business. In addition, Novozymes has the right to contingent payments of up to 4,000,000 Euros (~$5,200,000) consisting of: (i) an earn-out of 1,000,000 Euros (~$1,300,000) if the Transferred Business achieves sales of a minimum quantity of a Novozymes product between January 1, 2012 and December 31, 2012 (the Company made this 1,000,000 Euro payment in March 2013); (ii) two milestone payments of 1,000,000 Euros (~$1,300,000) each if sales of certain Novozymes products achieve agreed levels for the combined calendar years 2012 and 2013 and for calendar year 2014, respectively; and (iii) technology transfer payments totaling 1,000,000 Euros (~$1,300,000) following the successful transfer of certain Novozymes manufacturing technology. The Company made a 1,000,000 Euro milestone payment in March 2013 in connection with the achievement of the milestone discussed in clause (i) above. The probability-weighted fair value of the remaining contingent consideration was $1,013,000 and $2,353,000 at March 31, 2013 and at December 31, 2012, respectively.

The Company accounted for the Novozymes Acquisition as the purchase of a business under U.S. GAAP. Under the acquisition method of accounting, the assets of the Novozymes Biopharma Business were recorded as of the acquisition date, at their respective fair values, and consolidated with those of Repligen. The fair value of the net assets acquired was approximately $28,922,000, which exceeded the total consideration transferred of $28,495,000. Accordingly, the Company recognized the excess of the fair value of the net assets over the purchase

price of approximately $427,000 as a gain on bargain purchase. In the three months ended March 31, 2012, the Company recognized an additional gain on bargain purchase of $314,000 due to net working capital adjustments. The Company finalized its fixed asset valuation analysis in the quarter ended September 30, 2012 and the purchase price allocation is now considered final.

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Goodwill

Goodwill is not amortized and is reviewed for impairment at least annually. There was no evidence of impairment to goodwill at March 31, 2013. There were no goodwill impairment charges during the three-month period ended March 31, 2013.

Other Intangible Assets

Intangible assets are amortized over their useful lives using the estimated economic benefit method, as applicable, and the amortization expense is recorded within selling, general and administrative expense in the statements of operations. Intangible assets and their related useful lives are reviewed at least annually to determine if any adverse conditions exist that would indicate the carrying value of these assets may not be recoverable. More frequent impairment assessments are conducted if certain conditions exist, including a change in the competitive landscape, any internal decisions to pursue new or different technology strategies, a loss of a significant customer, or a significant change in the marketplace, including changes in the prices paid for our products or changes in the size of the market for our products. An impairment results if the carrying value of the asset exceeds the estimated fair value of the asset. If the estimate of an intangible asset s remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over the revised remaining useful life. The Company continues to believe that its intangible assets are recoverable at March 31, 2013.

Other intangible assets consisted of the following at March 31, 2013:

	Gross Carrying Amount	Accumulated Amortization	Weighted Average Useful Life (in years)
Technology developed	$ 1,450,743	$ (404,503)	8
Patents	240,000	(95,000)	8
Customer relationships	6,853,905	(1,134,326)	8
Total other intangible assets	$ 8,544,648	$ (1,633,829)	8

Other intangible assets consisted of the following at December 31, 2012:

	Gross Carrying Amount	Accumulated Amortization	Weighted Average Useful Life (in years)
Technology developed	$ 1,452,729	$ (360,748)	8
Patents	240,000	(87,500)	8
Customer relationships	6,872,383	(934,852)	8
Total other intangible assets	$ 8,565,112	$ (1,383,100)	8

Amortization expense for amortized intangible assets was approximately $251,000 for the three months ended March 31, 2013. The Company expects to record amortization expense of approximately $1,000,000 in each of the next five years.

3. Revenue Recognition

Product Sales

The Company generates revenue from the sale of products, licensing transactions and research and development collaborations. The Company s product revenues are from the sale of bioprocessing products to customers in the life science and biopharmaceutical industries. Revenue related

to product sales is recognized upon delivery of the product to the customer as long as there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Determination of whether these criteria have been met are based on management s judgments primarily regarding the fixed nature of the fee charged for the product delivered and the collectability of those fees. The Company has a few longstanding customers who comprise the majority of revenue and have excellent payment histories and therefore the Company does not require collateral. The Company has had no significant write-offs of uncollectible invoices in the periods presented.

At the time of sale, the Company also evaluates the need to accrue for warranty and sales returns. The supply agreements the Company has with its customers and the related purchase orders identify the terms and conditions of each sale and the price of the goods ordered. Due to the nature of the sales arrangements, inventory produced for sale is tested for quality specifications prior to shipment. Since the product is manufactured to order and in compliance with required specifications prior to shipment, the likelihood of sales return, warranty or other issues is largely diminished. Sales returns and warranty issues are infrequent and have had nominal impact on the Company s financial statements historically.

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Orencia Royalty

In April 2008, the Company settled its outstanding litigation with Bristol-Myers Squibb Company (Bristol) and began recognizing royalty revenue in fiscal year 2009 for Bristol s net sales in the United States of Orencia® which is used in the treatment of rheumatoid arthritis. Pursuant to the settlement with Bristol (Bristol Settlement), the Company recognized royalty revenue of approximately $3,846,000 and $3,081,000 for the three months ended March 31, 2013 and 2012, respectively. Revenue earned from Bristol royalties is recorded in the periods when it is earned based on royalty reports sent by Bristol to the Company. The Company has no continuing obligations to Bristol as a result of this settlement. The royalty agreement with Bristol provides that the Company will receive such royalty payments on sales of Orencia® by Bristol through December 31, 2013.

Pursuant to the Bristol Settlement, Repligen must remit to the University of Michigan 15% of all royalty revenue received from Bristol. Royalty expense for the three months ended March 31, 2013 and 2012 was approximately $577,000 and $462,000, respectively. This operating expense has been included in the Company s Statements of Operations under the line item Cost of royalty revenue.

Pfizer License Agreement

In December 2012, the Company entered into an exclusive worldwide licensing agreement (the License Agreement) with Pfizer Inc. (Pfizer) to advance the SMA program, which is led by RG3039 and also includes backup compounds and enabling technologies. Under the terms of the License Agreement, the Company received $5 million from Pfizer as an upfront payment on January 22, 2013 and is entitled to receive up to $65 million in potential future milestone payments, a portion of which may be owed to third parties. These potential payments are approximately equally divided between milestones related to clinical development and initial commercial sales in specific geographies. In addition, the Company is entitled to receive royalties on any future sales of RG3039 or any SMA compounds developed under the License Agreement. The royalty rates are tiered and begin in the high single-digits for RG3039 or lesser amounts for any backup compounds developed under the License Agreement. Repligen s receipt of these royalties is subject to an obligation under an existing in-license agreement and other customary offsets and deductions. There are no refund provisions in this agreement. The Company recognized $4,876,000 of revenue related to the value of the license in the year ended December 31, 2012. The Company recognized $55,000 of revenue in the three months ended March 31, 2013 and expects to recognize the remaining $69,000 of revenue from the upfront payment under the License Agreement in the fiscal quarter ending June 30, 2013 as the Company performs clinical and transition services under the agreement.

Research and Development Agreements

For the three months ended March 31, 2013 and 2012, the Company recognized approximately $621,000 and $401,000 of revenue, respectively, from sponsored research and development projects under agreements with the National Institutes of Health / Scripps Research Institute and Go Friedreich s Ataxia Research (GoFar).

Research revenue is recognized when the expense has been incurred and services have been performed. Determination of which incurred costs qualify for reimbursement under the terms of the Company s contractual agreements and the timing of when such costs were incurred involves the judgment of management. The Company s calculations are based on the agreed-upon terms as stated in the arrangements. However, should the estimated calculations change or be challenged by other parties to the agreements, research revenue may be adjusted in subsequent periods. The calculations have not historically changed or been challenged, and the Company does not anticipate any significant subsequent change in its revenue related to sponsored research and development projects.

4. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component:

(In thousands)	Unrealized gain (loss) on investments	Foreign currency translation gain (loss)	Total
Balance at December 31, 2012	$ 14,130	$ 1,897,840	$ 1,911,970
Other comprehensive income (loss) before reclassifications	(1,983)	(256,608)	(258,591)

Amounts reclassified from accumulated other comprehensive income (loss)			
Net current period other comprehensive income (loss)	(1,983)	(256,608)	(258,591)
Balance at March 31, 2013	$ 12,147	$ 1,641,232	$ 1,653,379

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5. Earnings Per Share

The Company reports earnings per share in accordance with Accounting Standards Codification Topic 260, Earnings Per Share, which establishes standards for computing and presenting earnings per share. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares and dilutive common share equivalents then outstanding. Potential common share equivalents consist of restricted stock awards and the incremental common shares issuable upon the exercise of stock options and warrants. Under the treasury stock method, unexercised in-the-money stock options and warrants are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common shares at the average market price during the period. Share-based payment awards that entitle their holders to receive non-forfeitable dividends before vesting are considered participating securities and are considered in the calculation of basic and diluted earnings per share.

Basic and diluted weighted average shares outstanding were as follows:

	Three Months Ended March 31,	
	2013	2012
Weighted average common shares	31,240,606	30,729,660
Dilutive common stock options	614,822	280,173
Weighted average common shares, assuming dilution	31,855,428	31,009,833

At March 31, 2013, there were outstanding options to purchase 2,231,590 shares of the Company s common stock at a weighted average exercise price of $4.40 per share. For the three-month period ended March 31, 2013, 516,500 shares of the Company s common stock were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and were therefore anti-dilutive.

At March 31, 2012, there were outstanding options to purchase 2,622,400 shares of the Company s common stock at a weighted average exercise price of $4.17 per share. For the three-month period ended March 31, 2012, 1,917,900 shares of the Company s common stock were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and were therefore anti-dilutive.

6. Stock-Based Compensation

For the three months ended March 31, 2013 and 2012, the Company recorded stock-based compensation expense of approximately $250,000 and $241,000, respectively, for share-based awards granted under the Second Amended and Restated 2001 Repligen Corporation Stock Plan (the 2001 Plan) and the Repligen Corporation 2012 Stock Option and Incentive Plan (the 2012 Plan, and collectively with the 2001 Plan and the 1992 Repligen Corporation Stock Option Plan, the Plans).

The following table presents stock-based compensation expense included in the Company s consolidated statements of operations:

	Three Months Ended March 31,	
	2013	2012
Cost of product revenue	$ 12,000	$ 10,000
Research and development	8,000	52,000
Selling, general and administrative	230,000	179,000
Total	$ 250,000	$ 241,000

The 2012 Plan allows for the granting of incentive and nonqualified options to purchase shares of common stock, restricted stock and other equity awards. Incentive options granted to employees under the Plans generally vest over a four to five-year period, with 20%-25% vesting on the first anniversary of the date of grant and the remainder vesting in equal yearly installments thereafter. Nonqualified options issued to non-employee directors and consultants under the Plans generally vest over one year. Options granted under the Plans have a maximum term of ten years from the date of grant and generally, the exercise price of the stock options equals the fair market value of the Company s common stock on the date of grant. At March 31, 2013, options to purchase 2,231,590 shares were outstanding under the Plans. At March 31, 2013, 1,253,120 shares were available for future grant under the 2012 Plan.

The Company uses the Black-Scholes option pricing model to calculate the fair value of share-based awards on the grant date. The Company measures stock-based compensation cost at the grant date based on the estimated fair value of the award, and recognizes it

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as expense over the employee s requisite service period on a straight-line basis. Management evaluates whether the achievement of a performance-based milestone is probable as of the reporting date. The Company has no awards that are subject to market conditions. The Company recognizes stock-based compensation expense based upon options that are ultimately expected to vest, and accordingly, such compensation expense has been adjusted by an amount of estimated forfeitures.

Information regarding option activity for the three months ended March 31, 2013 under the Plans is summarized below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2013	2,315,090	$ 4.20		
Granted	325,000	6.23		
Exercised	(310,300)	4.86		
Forfeited/Cancelled	(98,200)	4.32		
Options outstanding at March 31, 2013	2,231,590	$ 4.40	6.70	$ 5,618,691
Options exercisable at March 31, 2013	1,223,100	$ 4.28	5.01	$ 3,241,959
Vested and expected to vest at March 31, 2013 (1)	2,121,159	$ 4.37	6.63	$ 5,417,308

(1) This represents the number of vested options as of March 31, 2013 plus the number of unvested options expected to vest as of March 31, 2013 based on the unvested outstanding options at March 31, 2013 adjusted for estimated forfeiture rates of 8% for awards granted to non-executive level employees and 3% for awards granted to executive level employees.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the common stock on March 31, 2013 of $6.91 and the exercise price of each in-the-money option) that would have been received by the option holders had all option holders exercised their options on March 31, 2013.

The weighted average grant date fair value of options granted during the three months ended March 31, 2013 and 2012 was $3.26 and $2.30, respectively. The total fair value of stock options that vested during the three months ended March 31, 2013 and 2012 was approximately $232,617 and $256,000, respectively.

As of March 31, 2013, there was $2,144,889 of total unrecognized compensation cost related to unvested share-based awards. This cost is expected to be recognized over a weighted average remaining requisite service period of 3.29 years. The Company expects 898,059 unvested options to vest over the next five years.

7. Cash, Cash Equivalents and Marketable Securities

At March 31, 2013 and December 31, 2012, the Company s investments included money market funds as well as short-term and long-term marketable securities. These marketable securities are classified as available-for-sale. Marketable securities are investments with original maturities of greater than 90 days. Long-term marketable securities are securities with maturities of greater than one year. The average remaining contractual maturity of marketable securities at March 31, 2013 is approximately 9.21 months.

Management reviewed the Company s investments as of March 31, 2013 and December 31, 2012 and concluded that there are no securities with other than temporary impairments in the investment portfolio. The Company does not intend to sell any investments in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases.

Investments in debt securities consisted of the following at March 31, 2013:

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
U.S. Government and agency securities	$ 2,084,913	$ 208	$	$ 2,085,121
Corporate and other debt securities	17,242,580	11,159	(1,736)	17,252,003
	19,327,493	11,367	(1,736)	19,337,124

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	March 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Long-term marketable securities:				
U.S. Government and agency securities	5,324,930	2,457	(209)	5,327,178
Corporate and other debt securities	820,643	306	(38)	820,911
	6,145,573	2,763	(247)	6,148,089
Total	$ 25,473,066	$ 14,130	$ (1,983)	$ 25,485,213

At March 31, 2013, the Company s investments included twelve debt securities in unrealized loss positions with a total unrealized loss of approximately $2,000 and a total fair market value of approximately $9,305,000. All investments with gross unrealized losses have been in unrealized loss positions for less than 12 months. The unrealized losses were caused primarily by current economic and market conditions. There was no change in the credit risk of the securities. There were no realized gains or losses on the investments for the three months ended March 31, 2013 or the year ended December 31, 2012.

Investments in debt securities consisted of the following at December 31, 2012:

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable securities:				
U.S. Government and agency securities	$ 2,000,897	$ 353	$ (7)	$ 2,001,243
Corporate and other debt securities	8,835,098	8,854		8,843,952
	10,835,995	9,207	(7)	10,845,195
Long-term marketable securities:				
U.S. Government and agency securities	5,198,264	2,747		5,201,011
Corporate and other debt securities	4,711,679	3,525	(1,360)	4,713,844
	9,909,943	6,272	(1,360)	9,914,855
Total	$ 20,745,938	$ 15,479	$ (1,367)	$ 20,760,050

The contractual maturities of debt securities at March 31, 2013 were as follows:

	Amortized Cost	Fair Value
Due in 1 year or less	$ 19,327,493	$ 19,337,124
Due in 1 to 2 years	6,145,573	6,148,089
	$ 25,473,066	$ 25,485,213

8. Fair Value Measurement

In determining the fair value of its assets and liabilities, the Company uses various valuation approaches. The Company employs a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based

on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level 1	Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access
Level 2	Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly
Level 3	Valuations based on inputs that are unobservable and significant to the overall fair value measurement

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The availability of observable inputs can vary among the various types of financial assets and liabilities. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for financial statement disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is categorized is based on the lowest level input that is significant to the overall fair value measurement.

The Company s fixed income investments are comprised of obligations of U.S. government agencies, corporate debt securities and other interest bearing securities. These investments have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. The Company validates the prices provided by third party pricing services by reviewing their pricing methods and matrices, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active. After completing its validation procedures, the Company did not adjust or override any fair value measurements provided by the pricing services as of March 31, 2013.

The following fair value hierarchy table presents information about each major category of the Company s assets measured at fair value on a recurring basis as of March 31, 2013: