BIOMARIN PHARMACEUTICAL INC
Form 10-Q
April 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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: 000-26727

BioMarin Pharmaceutical Inc.

(Exact name of registrant as specified in its charter)

Delaware	**68-0397820**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
770 Lindaro Street San Rafael, California	**94901**
(Address of principal executive offices)	**(Zip Code)**

(415) 506-6700

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant 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.

Large accelerated filer x	Accelerated filer ¨
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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. 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: 139,010,175 shares of common stock, par value $0.001, outstanding as of April 19, 2013.

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BIOMARIN PHARMACEUTICAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2013 and December 31, 2012

(In thousands of U.S. dollars, except per share amounts)

	March 31, 2013 (unaudited)	December 31, 2012 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 154,380	$ 180,527
Short-term investments	247,502	270,211
Accounts receivable, net (allowance for doubtful accounts: $376 and $348, respectively)	120,345	109,066
Inventory	135,822	128,695
Current deferred tax assets	29,474	29,454
Other current assets	35,501	25,509
Total current assets	723,024	743,462
Noncurrent assets:		
Investment in BioMarin/Genzyme LLC	679	1,080
Long-term investments	123,819	115,993
Property, plant and equipment, net	281,865	284,473
Intangible assets, net	172,016	162,980
Goodwill	54,975	51,543
Long-term deferred tax assets	226,757	225,501
Other assets	15,158	16,611
Total assets	$ 1,598,293	$ 1,601,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 144,008	$ 147,068
Convertible debt	0	23,365
Total current liabilities	144,008	170,433
Noncurrent liabilities:		
Long-term convertible debt	109,849	324,859
Long-term contingent acquisition consideration payable	27,224	30,618
Long-term deferred tax liabilities	37,521	33,296
Other long-term liabilities	29,539	26,674
Total liabilities	348,141	585,880
Stockholders equity:		
Common stock, $0.001 par value: 250,000,000 shares authorized at March 31, 2013 and December 31, 2012: 138,873,207 and 125,809,162 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively.	139	126
Additional paid-in capital	1,833,831	1,561,890
Company common stock held by Nonqualified Deferred Compensation Plan	(5,715)	(6,603)
Accumulated other comprehensive income (loss)	1,155	(202)
Accumulated deficit	(579,258)	(539,448)

Total stockholders equity	1,250,152	1,015,763
Total liabilities and stockholders equity	$ 1,598,293	$ 1,601,643

(1) December 31, 2012 balances were derived from the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 filed, with the Securities and Exchange Commission (SEC) of February 26, 2013.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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BIOMARIN PHARMACEUTICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three Months Ended March 31, 2013 and 2012

(In thousands of U.S. dollars, except per share amounts)

(Unaudited)

	2013	2012
REVENUES:		
Net product revenues	$ 127,344	$ 116,239
Collaborative agreement revenues	135	96
Royalty and license revenues	449	314
Total revenues	127,928	116,649
OPERATING EXPENSES:		
Cost of sales (excludes amortization of certain acquired intangible assets)	20,500	17,105
Research and development	83,743	73,834
Selling, general and administrative	51,050	45,248
Intangible asset amortization and contingent consideration	5,556	2,328
Total operating expenses	160,849	138,515
LOSS FROM OPERATIONS	(32,921)	(21,866)
Equity in the loss of BioMarin/Genzyme LLC	(401)	(734)
Interest income	718	505
Interest expense	(1,725)	(1,947)
Debt conversion expense	(10,420)	0
Other income	228	36
LOSS BEFORE INCOME TAXES	(44,521)	(24,006)
Benefit from income taxes	(4,711)	(34)
NET LOSS	$ (39,810)	$ (23,972)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.31)	$ (0.21)
Weighted average common shares outstanding, basic and diluted	127,969	115,070
COMPREHENSIVE LOSS	$ (38,453)	$ (26,347)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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BIOMARIN PHARMACEUTICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2013 and 2012

(In thousands of U.S. dollars)

(Unaudited)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (39,810)	$ (23,972)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,564	10,598
Accretion of discount on investments	1,456	852
Equity in the loss of BioMarin/Genzyme LLC	401	734
Stock-based compensation	11,508	11,155
Impairment of intangible assets	0	6,704
Deferred income taxes	(43)	712
Excess tax benefit from stock option exercises	(128)	(18)
Unrealized foreign exchange loss on forward contracts	(364)	(1,878)
Changes in the fair value of contingent acquisition consideration payable	4,751	(5,181)
Debt conversion expense	10,420	0
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,279)	(989)
Inventory	(7,127)	6,054
Other current assets	(8,404)	(11,113)
Other assets	(1,016)	(6,040)
Accounts payable and accrued liabilities	(6,732)	3,826
Other long-term liabilities	2,774	1,385
Net cash used in operating activities	(32,029)	(7,171)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(11,826)	(6,179)
Maturities and sales of investments	82,531	74,037
Purchase of available-for-sale investments	(68,770)	(36,562)
Business acquisitions, net of cash acquired	(9,875)	0
Investments in BioMarin/Genzyme LLC	0	(1,258)
Net cash (used in) provided by investing activities	(7,940)	30,038
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercises of stock options and ESPP	24,355	13,679
Excess tax benefit from stock option exercises	128	18
Payments for debt conversion	(10,420)	0
Payment on maturity of 2013 convertible note	(98)	0
Repayment of capital lease obligations	(143)	(250)
Net cash provided by financing activities	13,822	13,447
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,147)	36,314

Cash and cash equivalents:		
Beginning of period	$ 180,527	$ 46,272
End of period	$ 154,380	$ 82,586
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest, net of interest capitalized into fixed assets	$ 1,998	$ 293
Cash paid for income taxes	646	1,739
Stock-based compensation capitalized into inventory	993	894
Depreciation capitalized into inventory	2,607	1,062
SUPPLEMENTAL CASH FLOW DISCLOSURES FROM INVESTING AND FINANCING ACTIVITIES:		
Decrease in accrued liabilities related to fixed assets	$ (6,407)	$ (3,149)
Conversion of convertible debt	238,277	0
Deferred offering costs reclassified into additional paid-in-capital as a result of conversion of convertible debt	2,315	0

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(1) NATURE OF OPERATIONS AND BUSINESS RISKS

BioMarin Pharmaceutical Inc. (the Company or BioMarin), a Delaware corporation, develops and commercializes innovative biopharmaceuticals for serious diseases and medical conditions. BioMarin selects product candidates for diseases and conditions that represent a significant unmet medical need, have well-understood biology and provide an opportunity to be first-to-market or offer a significant benefit over existing products. The Company s product portfolio is comprised of four approved products and multiple investigational product candidates. The Company s approved products are Naglazyme (galsulfase), Kuvan (sapropterin dihydrochloride), Firdapse (amifampridine phosphate) and Aldurazyme (laronidase).

Through March 31, 2013, the Company had accumulated losses of approximately $579.3 million. Management believes that the Company s cash, cash equivalents and short-term and long-term investments at March 31, 2013 will be sufficient to meet the Company s obligations for at least the next twelve months based on management s current business plans. If the Company elects to increase its spending on development programs significantly above current long-term plans or enters into potential licenses and other acquisitions of complementary technologies, products or companies, the Company may need additional capital. The Company expects to continue to finance future cash needs that exceed its operating activities primarily through its current cash, cash equivalents, short-term and long-term investments, and to the extent necessary, through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners.

The Company is subject to a number of risks, including: the financial performance of Naglazyme, Kuvan, Firdapse and Aldurazyme; the potential need for additional financings; its ability to successfully commercialize its product candidates, if approved; the uncertainty of the Company s research and development efforts resulting in future successful commercial products; obtaining regulatory approval for new products; significant competition from larger organizations; reliance on the proprietary technology of others; dependence on key personnel; uncertain patent protection; dependence on corporate partners and collaborators; and possible restrictions on reimbursement from governmental agencies and healthcare organizations, as well as other changes in the health care industry.

(2) BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended December 31, 2012 included in the Company s Annual Report on Form 10-K.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013.

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing this Quarterly Report on Form 10-Q that would require recognition or disclosure in the Condensed Consolidated Financial Statements.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

(3) SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company s significant accounting policies during the three months ended March 31, 2013, as compared to the significant accounting policies disclosed in Note 3 of the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Reclassifications

Certain items in the Company s prior year Condensed Consolidated Financial Statements have been reclassified to conform to the current presentation.

(4) RECENT ACCOUNTING PRONOUNCEMENTS

Except for Financial Accounting Standards Board (FASB) Accounting Standards Update 2013-02 (ASU 2013-02), *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* there have been no new accounting pronouncements or changes to accounting pronouncements during the three months ended March 31, 2013, as compared to the recent accounting pronouncements described in the Company s Annual Report on Form 10-K for the year-ended December 31, 2012, that are of significance or potential significance to the Company. ASU 2013-02 requires an entity to present either on the face of the statement where income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. See Note 17 to the accompanying Condensed Consolidated Financial Statements for the expanded disclosures required by ASU 2013-02.

(5) ACQUISITION OF ZACHARON PHARMACEUTICALS, INC.

On January 4, 2013, the Company entered into a merger agreement with Zacharon Pharmaceuticals, Inc. (Zacharon), a private biotechnology company focused on developing small molecules targeting pathways of glycan and glycolipid metabolism for a total purchase price of $11.5 million.

In connection with its acquisition of Zacharon, the Company made an upfront payment of $9.7 million in cash to the Zacharon stockholders for all of the outstanding common stock of Zacharon, net of transaction costs of $0.8 million paid on behalf of the Zacharon stockholders. The Company also agreed to pay the Zacharon stockholders additional consideration in future periods of up to $134.0 million (undiscounted) in milestone payments if certain clinical, development and sales milestones are met. The fair value of the contingent acquisition consideration payments was $1.9 million and was estimated by applying a probability-based income approach utilizing an appropriate discount rate. This estimation was based on significant inputs that are not observable in the market, referred to as Level 3 inputs. Key assumptions included a discount rate of 4.7% and various probability factors. The range of outcomes and assumptions used to develop these estimates have been updated to estimate the fair value of the contingent consideration payable as of March 31, 2013 (see Note 14 to the accompanying Condensed Consolidated Financial Statements for additional discussion regarding fair value measurements of the contingent acquisition consideration payable).

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

The following table presents the allocation of the purchase consideration for the Zacharon acquisition, including the contingent acquisition consideration payable, based on fair value:

Upfront cash payments, net	$ 9,663
Contingent acquisition consideration payable	1,857
Total consideration	$ 11,520
Cash and cash equivalents	$ 560
Other current assets	216
Property, plant and equipment	398
Acquired deferred tax assets	1,904
Other assets	38
Intangible assets In Process Research & Development (IPR&D)	11,680
Total identifiable assets acquired	$ 14,796
Accounts payable and accrued expenses	$ (1,182)
Debt assumed	(1,313)
Deferred tax liability	(4,213)
Total liabilities assumed	$ (6,708)
Net identifiable assets acquired	$ 8,088
Goodwill	3,432
Net assets acquired	$ 11,520

A substantial portion of the assets acquired consisted of intangible assets related to Zacharon s SENSI-Pro assay. The Company determined that the estimated acquisition-date fair values of the intangible assets related to the SENSI-Pro assay was $11.7 million.

The $1.9 million of deferred tax assets resulting from the acquisition was primarily related to federal and state net operating loss and tax credit carryforwards. The $4.2 million of deferred tax liabilities relates to the tax impact of future amortization or possible impairments associated with the identified intangible assets acquired, which are not deductible for tax purposes.

The excess of the consideration transferred over the fair values assigned to the assets acquired and liabilities assumed was $3.4 million, which represents the amount of goodwill resulting from the acquisition. The Company believes that the goodwill primarily represents synergies expected from the acquisition and other benefits that do not qualify for separate recognition as acquired intangible assets. None of the goodwill is expected to be deductible for income tax purposes. The Company recorded the goodwill in the Company s Condensed Consolidated Balance Sheet as of the acquisition date.

Zacharon s results of operations prior to and since the acquisition date are insignificant to the Company s Condensed Consolidated Financial Statements.

See Note 8 to the accompanying Condensed Consolidated Financial Statements for further discussion of the acquired intangible assets.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

(6) INVESTMENTS

All investments were classified as available-for-sale at March 31, 2013 and December 31, 2012.

The amortized cost, gross unrealized holding gains or losses, and fair value of the Company s available-for-sale securities by major security type at March 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Certificates of deposit	$ 40,459	$ 4	$ (2)	$ 40,461
Corporate debt securities	255,781	349	(159)	255,971
Corporate equity securities	3,000	267	0	3,267
Commercial paper	65,005	31	(14)	65,022
U.S. Government agency securities	6,500	0	0	6,500
Greek government-issued bonds	48	52	0	100
Total	$ 370,793	$ 703	$ (175)	$ 371,321

The amortized cost, gross unrealized holding gains or losses, and fair value of the Company s available-for-sale securities by major security type at December 31, 2012 were as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Certificates of deposit	$ 48,741	$ 14	$ (1)	$ 48,754
Corporate debt securities	316,709	402	(211)	316,900
Corporate equity securities	3,000	0	(67)	2,933
U.S. Government agency securities	17,512	5	0	17,517
Greek government-issued bonds	48	52	0	100
Total	$ 386,010	$ 473	$ (279)	$ 386,204

The fair values of available-for-sale securities by contractual maturity at March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
Maturing in one year or less	$ 247,502	$ 270,211
Maturing after one year through two years	123,819	115,993

Total	$ 371,321	$ 386,204

Impairment assessments are made at the individual security level each reporting period. When the fair value of an investment is less than its cost at the balance sheet date, a determination is made as to whether the impairment is other-than-temporary and, if it is other-than-temporary, an impairment loss is recognized in earnings equal to the difference between the investment s amortized cost and fair value at such date. As of March 31, 2013, some of the Company s investments were in an unrealized loss position. However, none of the underlying investments have been in a continuous loss position longer than twelve months, and no other-than-temporary impairment is deemed to have occurred.

See Note 14 to the accompanying Condensed Consolidated Financial Statements for additional discussion regarding the fair value of the Company s available-for-sale securities.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

(7) GOODWILL

Goodwill is tested for impairment on an annual basis and between annual tests if the Company becomes aware of any events occurring or changes in the circumstances that would indicate a reduction in the fair value of the goodwill below its carrying amount.

The following table represents the changes in goodwill for the three months ended March 31, 2013:

Balance at December 31, 2012	$ 51,543
Addition of goodwill related to the acquisition of Zacharon	3,432
Balance at March 31, 2013	$ 54,975

(8) INTANGIBLE ASSETS

Intangible assets consisted of the following:

	March 31, 2013	December 31, 2012
Intangible assets:		
Finite-lived intangible assets	$ 118,242	$ 118,242
Indefinite-lived intangible assets	75,369	63,689
Gross intangible assets:	193,611	181,931
Less: Accumulated amortization	(21,595)	(18,951)
Net carrying value	$ 172,016	$ 162,980

Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets consist of IPR&D assets related to both early and late stage product candidates purchased in the acquisitions of Huxley Pharmaceuticals Inc. (Huxley), LEAD Therapeutics, Inc. (LEAD), ZyStor Therapeutics, Inc. (ZyStor) and Zacharon.

Intangible assets related to IPR&D assets are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. During the period the assets are considered indefinite-lived, they will not be amortized but will be tested for impairment on an annual basis and between annual tests if the Company becomes aware of any events occurring or changes in circumstances that would indicate a reduction in the fair value of the IPR&D assets below their respective carrying amounts. During the first quarter of 2012, the Company recorded an impairment charge of $6.7 million related to certain Firdapse IPR&D assets. These IPR&D assets were associated with marketing rights in the U.S. The Company was exploring strategic options for the Firdapse U.S. program, including the potential outlicense of rights in the U.S. In March 2012, the Company recognized an impairment charge based on the status of business development efforts at the time and the related discounted cash flow projections that no longer supported the carrying-value of the IPR&D intangible assets. The

impairment charge was included in Intangible Asset Amortization and Contingent Consideration on the Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2012.

See Note 6 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for additional information related to the Company s intangible assets.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

(9) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following:

	March 31, 2013	December 31, 2012
Leasehold improvements	$ 65,506	$ 65,918
Building and improvements	146,548	144,700
Manufacturing and laboratory equipment	79,834	79,915
Computer hardware and software	58,013	56,011
Furniture and equipment	11,231	11,143
Land	11,608	11,608
Construction-in-progress	66,672	64,300
	439,412	433,595
Less: Accumulated depreciation	(157,547)	(149,122)
Total property, plant and equipment, net	$ 281,865	$ 284,473

Depreciation expense for the three months ended March 31, 2013 and 2012 was $8.7 million and $8.4 million, respectively, of which $2.6 million and $1.1 million was capitalized into inventory, respectively.

Capitalized interest related to the Company s property, plant and equipment purchases for the three months ended March 31, 2013 and 2012 was insignificant.

(10) INVENTORY

Inventory consisted of the following:

	March 31, 2013	December 31, 2012
Raw materials	$ 13,314	$ 11,943
Work-in-process	75,543	71,443
Finished goods	46,965	45,309
Total inventory	$ 135,822	$ 128,695

Inventory as of March 31, 2013 includes $5.1 million of pre-launch Vimizim inventory. The Company must receive marketing approval from the FDA before the Vimizim inventory can be sold commercially. Inventory as of March 31, 2013 also includes $7.4 million of product manufactured using certain process and specification changes that have not yet received regulatory approval. The process and specification changes are required to be approved by the FDA before the product can be sold commercially however the Company expects to receive FDA

approval and realize the costs of the inventory through future sales.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

(11) SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts payable and accrued liabilities consisted of the following:

	March 31, 2013	December 31, 2012
Accounts payable	$ 25,470	$ 23,993
Accrued accounts payable	44,338	43,156
Accrued vacation expense	10,045	8,403
Accrued compensation expense	15,417	27,530
Accrued interest expense	921	1,306
Accrued royalties payable	3,867	4,991
Accrued rebates payable	8,670	9,625
Other accrued operating expenses	4,279	6,179
Current portion of nonqualified deferred compensation liability	6,350	6,440
Value added taxes payable	2,005	2,072
Current portion of contingent acquisition consideration payable	20,766	10,764
Other	1,880	2,609
Total accounts payable and accrued liabilities	$ 144,008	$ 147,068

(12) DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

Foreign Currency Exchange Rate Exposure

The Company uses forward foreign currency exchange contracts to hedge certain operational exposures resulting from changes in foreign currency exchange rates. Such exposures result from portions of the Company s forecasted revenues and operating expenses being denominated in currencies other than the U.S. dollar, primarily the Euro and Brazilian Real, respectively.

The Company designates certain of these forward foreign currency exchange contracts as hedging instruments and enters into some forward foreign currency exchange contracts that are considered to be economic hedges that are not designated as hedging instruments. Whether designated or undesignated, these forward foreign currency exchange contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from Naglazyme product revenues, Aldurazyme royalty revenues, operating expenses and net asset or liability positions designated in currencies other than the U.S. dollar. The fair values of forward foreign currency exchange contracts are estimated using current exchange rates and interest rates, and take into consideration the current creditworthiness of the counterparties or the Company, as applicable. Details of the specific instruments used by the Company to hedge its exposure to foreign currency exchange rate fluctuations follow below. See Note 14 to the accompanying Condensed Consolidated Financial Statements for additional discussion regarding the fair value of forward foreign currency exchange contracts.

At March 31, 2013, the Company had 82 forward foreign currency exchange contracts outstanding to sell a total of 49.1 million Euros and two forward foreign currency exchange contracts outstanding to buy 2.4 million Brazilian Reais with expiration dates ranging from April 2013 through May 2014. These hedges were entered into in order to protect against the fluctuations in revenue associated with Euro denominated Naglazyme, Firdapse and Aldurazyme sales and operating expenses denominated in the Brazilian Real. The Company has formally designated

these forward foreign currency exchange contracts as cash flow hedges and expects them to be highly effective within the meaning of FASB Accounting Standards Codification (ASC) Subtopic 815-30, *Derivatives and Hedging-Cash Flow Hedges,* in offsetting fluctuations in revenues denominated in Euros and operating expenses denominated in the Brazilian Real related to changes in foreign currency exchange rates.

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BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of U.S. dollars, except per share amounts or as otherwise disclosed)

(Unaudited)

The Company also enters into forward foreign currency exchange contracts that are not designated as hedges for accounting purposes. The changes in fair value of these forward foreign currency exchange contracts are included as a part of Selling, General and Administrative expense in the Condensed Consolidated Statements of Comprehensive Loss. At March 31, 2013, separate from the 84 contracts discussed above, the Company had two outstanding forward foreign currency exchange contracts to sell 35.2 million Euros and 3.4 million British Pounds, respectively, which were not designated as a hedge for accounting purposes and which will mature on April 30, 2013.

The maximum length of time over which the Company is hedging its exposure to the reduction in value of forecasted foreign currency cash flows through forward foreign currency exchange contracts is through May 2014. Over the next twelve months, the Company expects to reclassify $1.6 million from accumulated other comprehensive income to earnings as the forecasted revenue transactions and operating expenses occur.

The fair value carrying amounts of the Company s derivative instruments were as follows:

	Asset Derivatives		Liability Derivatives	
	March 31, 2013		March 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Forward foreign currency exchange contracts	Other current assets	$ 2,098	Accounts payable and accrued liabilities	$ 348
Forward foreign currency exchange contracts	Other assets	0	Other long-term liabilities	44
Total		$ 2,098		$ 392
Derivatives not designated as hedging instruments:				
Forward foreign currency exchange contracts	Other current assets	$ 0	Accounts payable and accrued liabilities	$ 205
Total		0		205
Total value of derivative contracts		$ 0		$ 597

	Asset Derivatives		Liability Derivatives	
	December 31, 2012		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Forward foreign currency exchange contracts	Other current assets	$ 1,463	Accounts payable and accrued liabilities	$ 1,078
Forward foreign currency exchange contracts	Other assets	0	Other long-term liabilities	368
Total		$ 1,463		$ 1,446

Derivatives not designated as hedging instruments:					
Forward foreign currency exchange contracts	Other current assets	$ 84	Accounts payable and accrued liabilities	$	0
Total		84			0
Total value of derivative contracts		$ 1,547		$	1,446

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The effect of the Company s derivative instruments on the Condensed Consolidated Financial Statements for the three months ended March 31, 2013 and 2012 was as follows:

	Forward Foreign Currency Exchange Contracts	
	2013	2012
Derivatives Designated as Hedging Instruments:		
Net gain (loss) recognized in Other Comprehensive Income (OCI) (1)	$ 1,561	$ (4,373)
Net gain reclassified from accumulated OCI into income (2)	499	1,248
Net gain recognized in income (3)	105	481
Derivatives Not Designated as Hedging Instruments:		
Net gain (loss) recognized in income (4)	$ 901	$ (863)

(1) Net change in the fair value of the effective portion classified as OCI.
(2) Effective portion classified as net product revenue.
(3) Ineffective portion and amount excluded from effectiveness testing classified as selling, general and administrative expense.
(4) Classified as selling, general and administrative expense.

At March 31, 2013 and December 31, 2012, accumulated other comprehensive income before taxes associated with forward foreign currency exchange contracts qualifying for hedge accounting treatment was a gain of $1.5 million and a loss of $0.2 million, respectively.

The Company is exposed to counterparty credit risk on all of its derivative financial instruments. The Company has established and maintained strict counterparty credit guidelines and enters into hedges only with financial institutions that are investment grade or better to minimize the Company s exposure to potential defaults. The Company does not require collateral to be pledged under these agreements.

(13) CONVERTIBLE DEBT

In April 2007, the Company sold approximately $324.9 million of senior subordinated convertible notes due in April 2017 (the 2017 Notes), of which $109.8 million remains outstanding at March 31, 2013. The debt was issued at face value and bears interest at the rate of 1.875% per annum, payable semi-annually in cash. The debt is convertible, at the option of the holder, at any time prior to maturity or redemption, into shares of the Company s common stock at a conversion price of approximately $20.36 per share, subject to adjustment in certain circumstances. The debt does not include a call provision and the Company is unable to unilaterally redeem the debt prior to maturity on April 23, 2017. The Company also must repay the debt if there is a qualifying change in control or termination of trading of its common stock. If a change of control occurs, the Company will pay a make whole premium by increasing the conversion rate applicable to the notes.

In connection with the placement of the 2017 Notes, the Company paid approximately $8.5 million in offering costs, which have been deferred and are included in other assets. The deferred offering costs are being amortized as interest expense over the life of the debt, and in each of the three months ended March 31, 2013 and 2012, the Company recognized amortization expense of $0.2 million.

In March 2013, the Company entered into separate agreements with 13 of the existing holders of its 2017 Notes pursuant to which such holders converted $215.0 million in aggregate principal amount of the 2017 Notes into 10,560,164 shares of the Company s common stock. In addition to issuing the requisite number of shares of the Company s common stock pursuant to the 2017 Notes, the Company also made varying cash payments to each of the holders, totaling $12.0 million in the aggregate, of which $10.4 million was recognized in total as Debt Conversion Expense on the Condensed Consolidated Statement of Comprehensive Loss for the three months ended March 31, 2013 and $1.6 million was for

accrued interest. Additionally, the Company reclassified $2.3 million of deferred offering costs to additional paid-in capital in connection with the conversion of the 2017 Notes.

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In March 2006, the Company sold $172.5 million of senior subordinated convertible notes due in March 2013 (the 2013 Notes), which fully matured as of March 31, 2013. The debt was issued at face value and bears interest at the rate of 2.5% per annum, payable semi-annually in cash. The debt was convertible, at the option of the holder, at any time prior to maturity or redemption, into shares of the Company s common stock at a conversion price of approximately $16.58 per share, subject to adjustment in certain circumstances. The debt did not include a call provision and the Company was unable to unilaterally redeem the debt prior to maturity on March 29, 2013. Upon maturity of the remaining convertible notes outstanding in March 2013, the Company issued the requisite 1.4 million shares of common stock pursuant to the 2013 Notes to the bond holders, in exchange for $23.3 million in aggregate principal and paid one bond holder the par value at maturity in cash totaling $98.

The Company s total fixed rate convertible debt outstanding was as follows:

	March 31, 2013	December 31, 2012
Fixed rate convertible debt on balance sheet	$ 109,849	$ 348,224
Fair value of fixed rate convertible debt	$ 337,789	$ 811,798

The fair value of our fixed rate convertible debt is based on open market trades and is classified as Level 1 in the fair value hierarchy.

Interest expense on the Company s convertible debt for the three months ended March 31, 2013 was $1.5 million, compared to $1.7 million for the three months ended March 31, 2012.

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(14) FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities and foreign currency derivatives. The tables below present the fair value of these financial assets and liabilities determined using the following input levels.

	Fair Value Measurements at March 31, 2013			
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents:				
Overnight deposits	$ 57,723	$ 0	$ 0	$ 57,723
Money market instruments	0	96,657	0	96,657
Total cash and cash equivalents	$ 57,723	$ 96,657	$ 0	$ 154,380
Available-for-sale securities:				
Short-term:				
Certificates of deposit	$ 0	$ 30,531	$ 0	$ 30,531
Corporate debt securities	0	148,682	0	148,682
Corporate equity securities	0	3,267	0	3,267
Commercial paper	0	65,022		65,022
Long-term:				
Certificates of deposit	0	9,930	0	9,930
Corporate debt securities	0	107,289	0	107,289
U.S. Government agency securities	0	6,500	0	6,500
Greek government-issued bonds	0	100	0	100
Total available-for-sale securities	$ 0	$ 371,321	$ 0	$ 371,321
Other Current Assets:				
Nonqualified Deferred Compensation Plan assets	$ 0	$ 2,010	$ 0	$ 2,010
Forward foreign currency exchange contract asset (1)	0	2,098	0	2,098
Restricted investments (2)	0	3,578		3,578
Total other current assets	$ 0	$ 7,686	$ 0	$ 7,686
Other Assets:				
Nonqualified Deferred Compensation Plan assets	$ 0	$ 2,981	$ 0	$ 2,981

Restricted investments (2)	0	2,172	0	2,172
Total other assets	$ 0	$ 5,153	$ 0	$ 5,153
Total assets	$ 57,723	$ 480,817	$ 0	$ 538,540
Liabilities:				
Current Liabilities:				
Nonqualified Deferred Compensation Plan liability	$ 4,340	$ 2,010	$ 0	$ 6,350
Forward foreign currency exchange contract liability (1)	0	553	0	553
Contingent acquisition consideration payable	0	0	20,766	20,766
Asset retirement obligation	0	0	205	205
Total current liabilities	$ 4,340	$ 2,563	$ 20,971	$ 27,874
Other long-term liabilities:				
Nonqualified Deferred Compensation Plan liability	$ 8,222	$ 2,981	$ 0	$ 11,203
Forward foreign currency exchange contract liability (1)	0	44	0	44
Contingent acquisition consideration payable	0	0	27,224	27,224
Asset retirement obligation	0	0	3,730	3,730
Total other long-term liabilities	$ 8,222	$ 3,025	$ 30,954	$ 42,201
Total liabilities	$ 12,562	$ 5,588	$ 51,925	$ 70,075

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	Fair Value Measurements at December 31, 2012			
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents:				
Overnight deposits	$ 54,018	$ 0	$ 0	$ 54,018
Money market instruments	0	126,509	0	126,509
Total cash and cash equivalents	$ 54,018	$ 126,509	$ 0	$ 180,527
Available-for-sale securities:				
Short-term:				
Certificates of deposit	$ 0	$ 36,615	$ 0	$ 36,615
Corporate debt securities	0	222,147	0	222,147
Corporate equity securities	0	2,933	0	2,933
U.S. Government agency securities	0	8,516	0	8,516
Long-term:				
Certificates of deposit	0	12,139	0	12,139
Corporate debt securities	0	94,753	0	94,753
U.S. Government agency securities	0	9,001	0	9,001
Greek government-issued bonds	0	100	0	100
Total available-for-sale securities	$ 0	$ 386,204	$ 0	$ 386,204
Other Current Assets:				
Nonqualified Deferred Compensation Plan assets	$ 0	$ 2,052	$ 0	$ 2,052
Forward foreign currency exchange contract asset (1)	0	1,547	0	1,547
Restricted investments (2)	0	2,243	0	2,243
Total other current assets	$ 0	$ 5,842	$ 0	$ 5,842
Other Assets:				
Nonqualified Deferred Compensation Plan assets	$ 0	$ 2,375	$ 0	$ 2,375
Restricted investments (2)	0	3,492	0	3,492
Total other assets	$ 0	$ 5,867	$ 0	$ 5,867
Total assets	$ 54,018	$ 524,422	$ 0	$ 578,440
Liabilities:				
Current Liabilities:				

Nonqualified Deferred Compensation Plan liability	$ 6,440	$ 0	$ 0	$ 6,440
Forward foreign currency exchange contract liability (1)	0	1,078	0	1,078
Contingent acquisition consideration payable	0	0	10,764	10,764
Asset retirement obligation	0	0	1,685	1,685
Total current liabilities	$ 6,440	$ 1,078	$ 12,449	$ 19,967
Other long-term liabilities:				
Nonqualified Deferred Compensation Plan liability	$ 5,041	$ 4,427	$ 0	$ 9,468
Forward foreign currency exchange contract liability (1)	0	368	0	368
Contingent acquisition consideration payable	0	0	30,618	30,618
Asset retirement obligation	0	0	2,192	2,192
Total other long-term liabilities	$ 5,041	$ 4,795	$ 32,810	$ 42,646
Total liabilities	$ 11,481	$ 5,873	$ 45,259	$ 62,613

(1) See Note 12 to the accompanying Condensed Consolidated Financial Statements for further information regarding the derivative instruments.

(2) The restricted investments secure the Company s irrevocable standby letter of credit obtained in connection with the Company s new corporate facility lease agreements and certain commercial agreements.

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There were no transfers between levels during the three months ended March 31, 2013.

The Company s Level 2 securities are valued using third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities, prepayment/default projections based on historical data and other observable inputs.

The Company validates the prices provided by its third-party pricing services by understanding the models used, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming those securities traded in active markets. Due to the continued volatility associated with market conditions in Greece and reduced trading activity in its sovereign debt, the Company classified its Greek government-issued bonds as Level 2 on March 31, 2013 and December 31 2012. See Note 6 to the accompanying Condensed Consolidated Financial Statements for further information regarding the Company s financial instruments.

Liabilities measured at fair value using Level 3 inputs were comprised of contingent acquisition consideration payable and asset retirement obligations.

The Company s contingent acquisition consideration payable is estimated using a probability-based income approach utilizing an appropriate discount rate. Key assumptions used by management to estimate the fair value of contingent acquisition consideration payable include estimated probabilities, the estimated timing of when a milestone may be attained and assumed discount periods and rates. Subsequent changes in the fair value of the contingent acquisition consideration payable, resulting from management s revision of key assumptions, will be recorded in Intangible Asset Amortization and Contingent Consideration on the Condensed Consolidated Statements of Comprehensive Loss.

Contingent acquisition consideration payable at December 31, 2012	$ 41,382
Changes in the fair value of the contingent acquisitions	4,751
Addition of contingent consideration payable related to the Zacharon acquisition	1,857
Contingent acquisition consideration payable at March 31, 2013	$ 47,990

Under certain of the Company s lease agreements, the Company is contractually obligated to return leased space to its original condition upon termination of the lease agreement. The Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation when estimable. In subsequent periods, for each such lease, the Company records interest expense to accrete the asset retirement obligation liability to full value and depreciates each capitalized asset retirement obligation asset, both over the term of the associated lease agreement. The Company s asset retirement obligations were $3.9 million at March 31, 2013 and December 31, 2012.

The Company acquired intangible assets as a result of various business acquisitions. The estimated fair value of these long-lived assets was measured using Level 3 inputs as of the acquisition date.

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(15) STOCK-BASED COMPENSATION

On May 8, 2012, the Company s Board of Directors approved the BioMarin Pharmaceutical Inc. 2012 Inducement Plan (2012 Inducement Plan), which provides for grants of up to 750,000 share-based awards to new employees including grants of restricted stock units and grants of options to purchase common stock at a price equal to the fair market value of such shares. The awards are substantially similar to those granted under the Company s 2006 Share Incentive Plan as amended and restated on March 22, 2010 and as further amended on March 28, 2013 (2006 Share Incentive Plan). The 2012 Inducement Plan expires in May 2013.

In addition to the 2012 Inducement Plan, the Company s stock-based compensation plans include the 2006 Share Incentive Plan and the Employee Stock Purchase Plan (ESPP). The Company s stock-based compensation plans are administered by the Compensation Committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. See Note 13 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, for additional information related to these stock-based compensation plans.

Determining the Fair Value of Stock Options and Stock Purchase Rights

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model and the assumptions noted in the tables below. The expected life of options is based on observed historical exercise patterns. Groups of employees that have similar historical exercise patterns were considered separately for valuation purposes, but none were identified that had distinctly different exercise patterns as of March 31, 2013. The expected volatility of stock options is based upon the weighted average of the historical volatility of the Company s common stock and the implied volatility of traded options on the Company s common stock for fiscal periods in which there is sufficient trading volume in options on the Company s common stock. The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield reflects that the Company has not paid any cash dividends since inception and does not intend to pay any cash dividends in the foreseeable future. The assumptions used to estimate the per share fair value of stock options granted under the 2012 Inducement Plan and the 2006 Share Incentive Plan were as follows:

	Three Months Ended March 31,	
	2013	2012
Expected volatility	44%	46%
Dividend yield	0.0%	0.0%
Expected life	6.7 years	6.5 years
Risk-free interest rate	1.1%	1.1%

During the three months ended March 31, 2013, the Company granted 200,550 options with a weighted average option value of $25.36 per option.

The Company did not grant any new stock purchase rights under the ESPP during the three months ended March 31, 2013.

Restricted Stock Unit Awards with Service-Based Vesting Conditions

Restricted stock units (RSUs) are generally subject to forfeiture if employment terminates prior to the release of vesting restrictions. The Company expenses the cost of the RSUs, which is determined to be the fair market value of the shares of common stock underlying the RSUs at the date of grant, ratably over the period during which the vesting restrictions lapse. During the three months ended March 31, 2013, the

Company granted 44,305 RSUs with a weighted average fair market value of $55.59 per share.

Restricted Stock Unit Awards with Performance and Market-Based Vesting Conditions

Pursuant to the approval of the Board of Directors, the Company granted RSU awards with performance and market-based vesting conditions during 2012 and 2011 to certain executive officers. As of March 31, 2013, these

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awards provide for a base award of 875,000 RSUs (Base RSUs), with a weighted-average grant date fair value of $33.83. The number of RSUs that could potentially vest from the Base RSUs granted is contingent upon achievement of specific performance goals and will be multiplied by the Total Shareholder Return multiplier which could range from 75% to 125% to determine the number of earned RSUs.

Stock-based compensation expense for this award will be recognized over the remaining service period beginning in the period the Company determines that achievement of strategic performance goal or goals is probable. Accordingly, because the Company s management has not determined that the achievement of the goals is probable as of March 31, 2013, no compensation expense has been recognized for these awards for the three months ended March 31, 2013 and 2012.

Compensation expense included in the Condensed Consolidated Statements of Comprehensive Loss for all stock-based compensation arrangements was as follows:

	Three Months Ended March 31,	
	2013	2012
Cost of sales	$ 1,044	$ 873
Research and development	5,324	4,695
Selling, general and administrative	5,197	5,566
Total stock-based compensation expense	$ 11,565	$ 11,134

Stock-based compensation of $1.0 million and $0.9 million was capitalized into inventory for the three months ended March 31, 2013 and 2012, respectively. Capitalized stock-based compensation is recognized as cost of sales when the related product is sold.

(16) NET LOSS PER SHARE

Potentially issuable shares of common stock include shares issuable upon the exercise of outstanding employee stock option awards, common stock issuable under the ESPP, unvested restricted stock, common stock held by the Company s Nonqualified Deferred Compensation Plan and contingent issuances of common stock related to convertible debt.

The table below presents potential shares of common stock that were excluded from the computation of diluted net loss per share as they were anti-dilutive using the treasury stock method (in thousands):

	Three Months Ended March 31,	
	2013	2012
Options to purchase common stock	12,884	15,537
Common stock issuable under convertible debt	5,396	17,371
Unvested restricted stock units	1,375	1,425
Potentially issuable common stock for ESPP purchases	325	308
Common stock held by the Nonqualified Deferred Compensation Plan	202	153
Total number of potentially issuable shares	20,182	34,794

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(17) COMPREHENSIVE INCOME

The following table summarizes amounts reclassified out of Accumulated Other Comprehensive Income/(Loss) (AOCI) and their effect on the Company s Condensed Consolidated Statement of Comprehensive Loss for the three months ended March 31, 2013.

Details about AOCI Components	Amount Reclassified from AOCI (Gain)/Loss	Condensed Consolidated Statement of Comprehensive Loss Classification
Gains on cash flow hedges:		
Forward foreign currency exchange contracts	$ 472	Net product revenues
Forward foreign currency exchange contracts	27	Selling, general and administrative
	(180)	Provision for income taxes
	$ 319	Net loss

The following table summarizes changes in the accumulated balances for each component, of other comprehensive income/(loss), including current period other comprehensive income and reclassifications act of AOCI for the three months ended March 31, 2013.

	Gains/(Losses) on Cash Flow Hedges	Unrealized Gain/(Losses) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total
AOCI balance, net of tax at December 31, 2012	$ (97)	$ 133	$ (238)	$ (202)
Other comprehensive income before reclassifications	1,317	210	149	1,676
Amounts reclassified from AOCI	(319)	0	0	(319)
Net increase in other comprehensive income	998	210	149	1,357
AOCI balance, net of tax at March 31, 2013	$ 901	$ 343	$ (89)	$ 1,155

(18) REVENUE AND CREDIT CONCENTRATIONS

Net Product Revenue The Company considers there to be revenue concentration risks for regions where net product revenue exceeds ten percent of consolidated net product revenue. The concentration of the Company s net product revenue within the regions below may have a material adverse effect on the Company s revenue and results of operations if sales in the respective regions experience difficulties.

The table below summarizes net product revenue concentrations based on patient location for Naglazyme, Kuvan and Firdapse and Genzyme s headquarters for Aldurazyme. Although Genzyme sells Aldurazyme worldwide, the royalties earned by the Company on Genzyme s net sales are included in the U.S. region, as the transactions are with Genzyme whose headquarters are located in the U.S.

	Three Months Ended March 31,	
	2013	2012
Region:		
United States	48%	43%
Europe	21%	25%
Latin America	16%	18%
Rest of world	15%	14%
Total net product revenue	100%	100%

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The following table illustrates the percentage of the consolidated net product revenue attributed to the Company s four largest customers.

	Three Months Ended March 31,	
	2013	2012
Customer A	15%	15%
Customer B (1)	13%	10%
Customer C	13%	16%
Customer D	10%	9%
Total	51%	50%

(1) Genzyme is the Company s sole customer for Aldurazyme and is responsible for marketing and selling Aldurazyme to third-parties. Net product revenues from Genzyme are comprised of royalties on worldwide net Aldurazyme sales and incremental product transfer revenue.

The accounts receivable balances at March 31, 2013 and December 31, 2012 were comprised of amounts due from customers for net product sales of Naglazyme, Kuvan and Firdapse and Aldurazyme product transfer and royalty revenues. On a consolidated basis, our three largest customers accounted for 40%, 12% and 11% of the March 31, 2013 accounts receivable balance, respectively, compared to December 31, 2012 when the two largest customers accounted for 51% and 13% of the accounts receivable balance, respectively. As of March 31, 2013 and December 31, 2012, accounts receivable for the Company s largest customer balance included $28.9 million and $32.4 million, respectively, of unbilled accounts receivable related to net incremental Aldurazyme product transfers to Genzyme. The Company does not require collateral from its customers, but does perform periodic credit evaluations of its customers financial condition and requires immediate payment in certain circumstances.

The Company s product sales to government-owned or government-funded customers in certain European countries, including Italy, Spain, Portugal and Greece are subject to payment terms that are statutorily determined. Because these customers are government-owned or government-funded, the Company may be impacted by declines in sovereign credit ratings or sovereign defaults in these countries. A significant or further decline in sovereign credit ratings or a default in these countries may decrease the likelihood that the Company will collect accounts receivable or may increase the discount rates and the length of time until receivables are collected, which could result in a negative impact to the Company s operating results. For the three months ended March 31, 2013, approximately 4% of the Company s net product revenues were from these countries. Additionally, approximately 11% of the Company s outstanding accounts receivable at March 31, 2013 related to such countries.

The following table summarizes the accounts receivable by country that were past due related to Italy, Spain, Portugal and Greece, the number of days past due and the total allowance for doubtful accounts related to each of these countries at March 31, 2013.

	Days Past Due				
	< 180 Days	180 360 Days	> 360 Days	Total Amount Past Due	Allowance for Doubtful Accounts