Opko Health, Inc.
Form 10-Q
May 10, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 001-33528

OPKO Health, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-2402409**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

4400 Biscayne Blvd.

Miami, FL 33137

(Address of Principal Executive Offices) (Zip Code)

(305) 575-4100

(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. x YES ¨ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x YES ¨ 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 x NO

As of April 30, 2013, the registrant had 336,737,265 shares of common stock outstanding.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, as that term is defined under the Private Securities Litigation Reform Act of 1995 (PSLRA), Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements about our expectations, beliefs or intentions regarding our product development efforts, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described below and in Item 1A-Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012, and described from time to time in our other reports filed with the Securities and Exchange Commission. Except as required by law, we do not undertake any obligation to update forward-looking statements. We intend that all forward-looking statements be subject to the safe-harbor provisions of the PSLRA. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance.

Risks and uncertainties, the occurrence of which could adversely affect our business, include the following:

We have a history of operating losses and we do not expect to become profitable in the near future.

Our technologies are in an early stage of development and are unproven.

Our business is substantially dependent on our ability to develop, launch and generate revenue from our pharmaceutical and diagnostic programs.

Our research and development activities may not result in commercially viable products.

The results of previous clinical trials may not be predictive of future results, and our current and planned clinical trials may not satisfy the requirements of the FDA or other non-U.S. regulatory authorities.

We may require substantial additional funding, which may not be available to us on acceptable terms, or at all.

We may finance future cash needs primarily through public or private offerings, debt financings or strategic collaborations, which may dilute your stockholdings in the Company.

If our competitors develop and market products that are more effective, safer or less expensive than our future product candidates, our commercial opportunities will be negatively impacted.

The regulatory approval process is expensive, time consuming and uncertain and may prevent us or our collaboration partners from obtaining approvals for the commercialization of some or all of our product candidates.

Failure to recruit and enroll patients for clinical trials may cause the development of our product candidates to be delayed.

Even if we obtain regulatory approvals for our product candidates, the terms of approvals and ongoing regulation of our products may limit how we manufacture and market our product candidates, which could materially impair our ability to generate anticipated revenues.

We may not meet regulatory quality standards applicable to our manufacturing and quality processes.

Even if we receive regulatory approval to market our product candidates, the market may not be receptive to our products.

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The loss of Phillip Frost, M.D., our Chairman and Chief Executive Officer, could have a material adverse effect on our business and product development.

If we fail to attract and retain key management and scientific personnel, we may be unable to successfully develop or commercialize our product candidates.

In the event that we successfully evolve from a company primarily involved in development to a company also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully.

If we fail to acquire and develop other products or product candidates, at all or on commercially reasonable terms, we may be unable to diversify or grow our business.

We have no experience manufacturing our pharmaceutical product candidates other than at our Israeli, Mexican, and Spanish facilities and we therefore rely on third parties to manufacture and supply our pharmaceutical product candidates, and would need to meet various standards necessary to satisfy FDA regulations if and when we commence manufacturing.

We currently have no pharmaceutical or diagnostic marketing, sales or distribution capabilities other than in Chile, Mexico, Spain, and Brazil for sales in those countries and our active pharmaceutical ingredients (APIs) business in Israel, and the sales force for our laboratory business based in Nashville, Tennessee. If we are unable to develop our sales and marketing and distribution capability on our own or through collaborations with marketing partners, we will not be successful in commercializing our pharmaceutical product candidates.

The success of our business will be heavily dependent on the success of Phase 3 clinical trials for CTAP101 Capsules and Fermagate Tablets.

Independent clinical investigators and contract research organizations that we engage to conduct our clinical trials may not be diligent, careful or timely.

The success of our business is dependent on the actions of our collaborative partners.

Our license agreement with TESARO, Inc. (TESARO) is important to our business. If TESARO does not successfully develop and commercialize rolapitant, our business could be adversely affected.

If we are unable to obtain and enforce patent protection for our products, our business could be materially harmed.

We do not have an exclusive arrangement in place with Dr. Tom Kodadek with respect to technology or intellectual property that may be material to our business.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.

We rely heavily on licenses from third parties.

We license patent rights to certain of our technology from third-party owners. If such owners do not properly maintain or enforce the patents underlying such licenses, our competitive position and business prospects will be harmed.

Our commercial success depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties.

Adverse results in material litigation matters or governmental inquiries could have a material adverse effect upon our business and financial condition.

Medicare prescription drug coverage legislation and future legislative or regulatory reform of the health care system may affect our ability to sell our products and provide our services profitably.

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Failure to obtain and maintain regulatory approval outside the United States will prevent us from marketing our product candidates abroad.

We may not have the funding available to pursue acquisitions.

Acquisitions may disrupt our business, distract our management, may not proceed as planned, and may also increase the risk of potential third party claims and litigation.

We may encounter difficulties in integrating acquired businesses.

Non-U.S. governments often impose strict price controls, which may adversely affect our future profitability.

Political and economic instability in Europe and Latin America and political, economic, and military instability in Israel could adversely impact our operations.

We are subject to fluctuations in currency exchange rates in connection with our international businesses.

Our business may become subject to legal, economic, political, regulatory and other risks associated with international operations.

The market price of our Common Stock may fluctuate significantly.

Directors, executive officers, principal stockholders and affiliated entities own a significant percentage of our capital stock, and they may make decisions that you may not consider to be in your best interests or in the best interests of our stockholders.

Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as they apply to us, or our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned and our Common Stock price may suffer.

We may be unable to maintain our listing on the NYSE, which could cause our stock price to fall and decrease the liquidity of our Common Stock.

Future issuances of Common Stock and hedging activities may depress the trading price of our Common Stock.

Provisions in our charter documents and Delaware law could discourage an acquisition of us by a third party, even if the acquisition would be favorable to you.

We do not intend to pay cash dividends on our Common Stock in the foreseeable future.

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PART I. FINANCIAL INFORMATION

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to the Company , OPKO , we , our , ours , and us to OPKO Health, Inc., a Delaware corporation, including our wholly-owned subsidiaries.

Item 1. Financial Statements

O PKO Health, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands except share and per share data)

	March 31, 2013[1]	December 31, 2012[1]
ASSETS		
Current assets		
Cash and cash equivalents	$ 181,596	$ 27,361
Accounts receivable, net	21,170	21,162
Inventory, net	23,022	22,261
Prepaid expenses and other current assets	11,895	7,873
Total current assets	237,683	78,657
Property, equipment, and investment properties, net	16,750	16,526
Intangible assets, net	82,354	84,238
In-process research and development	203,030	11,546
Goodwill	82,709	80,450
Investments, net	28,546	15,636
Other assets	2,863	2,777
Total assets	$ 653,935	$ 289,830
LIABILITIES, SERIES D PREFERRED STOCK, AND EQUITY		
Current liabilities		
Accounts payable	$ 11,287	$ 10,200
Accrued expenses	26,673	24,656
Current portion of lines of credit and notes payable	20,264	17,526
Total current liabilities	58,224	52,382
3.00% convertible senior notes, net of discount and estimated fair value of embedded derivatives	196,421	
Other long-term liabilities, principally contingent consideration and deferred tax liabilities	79,512	34,168
Total long-term liabilities	275,933	34,168
Total liabilities	334,157	86,550
Commitments and contingencies		
Series D preferred stock - $0.01 par value, 2,000,000 shares authorized; no shares issued or outstanding at March 31, 2013 and 1,129,032 shares issued and outstanding (liquidation value of $30,595) at December 31, 2012		24,386

Equity				
Series A Preferred stock - $0.01 par value, 4,000,000 shares authorized; no shares issued or outstanding at March 31, 2013 and December 31, 2012, respectively				
Series C Preferred Stock - $0.01 par value, 500,000 shares authorized; no shares issued or outstanding at March 31, 2013 or December 31, 2012				
Common Stock - $0.01 par value, 500,000,000 shares authorized; 338,828,976 and 305,560,763 shares issued at March 31, 2013 and December 31, 2012, respectively		3,388		3,056
Treasury stock - 2,293,056 shares at both March 31, 2013 and December 31, 2012		(7,457)		(7,457)
Additional paid-in capital		739,778		565,201
Accumulated other comprehensive income		8,093		7,356
Accumulated deficit		(422,985)		(388,770)
Total shareholders equity		320,817		179,386
Noncontrolling interests		(1,039)		(492)
Total equity		319,778		178,894
Total liabilities, Series D Preferred Stock, and equity	$	653,935	$	289,830

(1) As of March 31, 2013 and December 31, 2012, total assets include $5.7 million and $5.6 million, respectively, and total liabilities include $6.2 million and $5.5 million, respectively related to SciGen (I.L.) Ltd, (SciGen), a consolidated variable interest entity. SciGen s consolidated assets are owned by SciGen and SciGen s consolidated liabilities are those as to which there is no recourse against us. Refer to Note 5.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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OPKO Health, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except share and per share data)

	For the three months ended March 31,	
	2013	2012
Revenues:		
Products	$ 15,527	$ 8,639
Revenue from services	3,092	87
Revenue from transfer of intellectual property	12,757	51
Total revenues	31,376	8,777
Cost of revenues, excluding amortization of intangible assets	11,757	4,987
Gross margin, excluding amortization of intangible assets	19,619	3,790
Operating expenses:		
Selling, general and administrative	12,424	4,671
Research and development	9,910	4,831
Contingent consideration	1,344	1,144
Amortization of intangible assets	2,714	1,991
Total operating expenses	26,392	12,637
Loss from operations	(6,773)	(8,847)
Other income and (expense), net:		
Interest income	59	27
Interest expense	(2,897)	(351)
Fair value changes of derivative instruments, net	(23,549)	1,117
Other income, net	2,331	181
Other income and (expense), net	(24,056)	974
Loss before income taxes and investment losses	(30,829)	(7,873)
Income tax provision	43	215
Loss before investment losses	(30,872)	(8,088)
Loss from investments in investees	(3,890)	(523)
Net loss	(34,762)	(8,611)
Less: Net loss attributable to noncontrolling interests	(547)	
Net loss attributable to common shareholders before preferred stock dividend	(34,215)	(8,611)
Preferred stock dividend	(420)	(560)
Net loss attributable to common shareholders	$ (34,635)	$ (9,171)
Basic and diluted loss per share	$ (0.11)	$ (0.03)
Weighted average number of common shares outstanding, basic and diluted	312,932,561	297,543,066

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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OPKO Health, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

(In thousands)

	For the three months ended March 31,	
	2013	2012
Net loss attributable to common shareholders	$ (34,635)	$ (9,171)
Other comprehensive income (loss), net:		
Change in foreign currency translation	323	1,390
Available for sale investments:		
Change in other net unrealized gains, net	414	109
Comprehensive loss	$ (33,898)	$ (7,672)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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OPKO Health, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(unaudited)

(In thousands, except share and per share data)

For the three months ended March 31, 2013

	Common Stock		Treasury						
	Shares	Dollars	Shares	Dollars	Additional Paid-In Capital	Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interests	Total
Balance at December 31, 2012	305,560,763	$ 3,056	(2,293,056)	$ (7,457)	$ 565,201	$ 7,356	$ (388,770)	$ (492)	$ 178,894
Equity-based compensation expense					5,205				5,205
Exercise of Common Stock options	433,250	4			901				905
Exercise of Common Stock warrants	962,929	9			81				90
Series D Preferred Stock dividend					(3,015)				(3,015)
Conversion of Series D Preferred Stock	11,290,320	113			24,273				24,386
Issuance of Common Stock in connection with Silcon acquisition at $6.73 per share	64,684	1			435				436
Issuance of Common Stock in connection with Cytochroma acquisition at $7.16 per share	20,517,030	205			146,697				146,902
Net loss attributable common shareholders before preferred stock dividend for the three months ended March 31, 2013							(34,215)		(34,215)
Net loss attributable to noncontrolling interests for the three months ended March 31, 2013								(547)	(547)
Other comprehensive income						737			737
Balance at March 31, 2013	338,828,976	$ 3,388	(2,293,056)	$ (7,457)	$ 739,778	$ 8,093	$ (422,985)	$ (1,039)	$ 319,778

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OPKO Health, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands)

	For the three months ended March 31,	
	2013	2012
Cash flows from operating activities		
Net loss	$ (34,762)	$ (8,611)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,429	2,328
Non-cash interest on convertible senior notes	1,303	
Amortization of deferred financing costs	145	
Losses from investments in investees	3,890	523
Equity-based compensation employees and non-employees	5,205	1,180
Provision for (recovery of) bad debts	381	(151)
Provision for inventory obsolescence	939	255
Revenue from receipt of equity	(12,540)	(51)
Realized gain on investments available for sale	(2,347)	
Change in fair value of derivatives instruments	23,549	(1,117)
Change in fair value of contingent consideration	1,344	1,144
Deferred income tax benefit	98	
Changes in assets and liabilities of continuing operations, net of the		
effects of acquisitions:		
Accounts receivable	(558)	(2,691)
Inventory	(1,439)	(4,433)
Prepaid expenses and other current assets	(2,570)	(481)
Other assets	71	7
Accounts payable	(103)	(271)
Foreign currency measurement	(340)	(458)
Accrued expenses	(440)	1,253
Cash used in operating activities of continuing operations	(14,745)	(11,574)
Cash provided in operating activities of discontinued operations		75
Net cash used in operating activities	(14,745)	(11,499)
Cash flows from investing activities:		
Investments in investees	(2,500)	(2,700)
Proceeds from sale of investments available for sale	2,528	
Acquisition of businesses, net of cash	78	
Purchase of marketable securities		(14,997)
Capital expenditures	(755)	(175)
Net cash used in investing activities	(649)	(17,872)
Cash flows from financing activities:		
Issuance of 3.00% convertible senior notes, net (including related parties)	170,184	
Payment of Series D dividends, including related parties	(3,015)	
Proceeds from the exercise of Common Stock options and warrants	995	31
Borrowings on lines of credit	8,428	10,337

Repayments of lines of credit and capital lease obligations	(6,951)	(5,490)
Net cash provided by financing activities	169,641	4,878
Effect of exchange rate on cash and cash equivalents	(12)	95
Net increase (decrease) in cash and cash equivalents	154,235	(24,398)
Cash and cash equivalents at beginning of period	27,361	71,516
Cash and cash equivalents at end of period	$ 181,596	$ 47,118
SUPPLEMENTAL INFORMATION		
Interest paid	$ 242	$ 177
Income taxes refunded	$ (118)	$ (6)
RXi common stock received	$ 12,500	$
Non-cash financing:		
Shares issued upon the conversion of:		
Series D Preferred Stock	$ 24,386	$
Common Stock warrants, net exercised	$ 815	$
Issuance of Common Stock to acquire:		
Cytochroma	$ 146,902	$
Silcon	$ 436	$

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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OPKO Health, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BUSINESS AND ORGANIZATION

We are a multi-national biopharmaceutical and diagnostics company that seeks to establish industry-leading positions in large and rapidly growing medical markets by leveraging our discovery, development and commercialization expertise and our novel and proprietary technologies. We are developing a range of solutions to diagnose, treat and prevent various conditions, including molecular diagnostics tests, laboratory developed tests, point-of-care tests, and proprietary pharmaceuticals and vaccines. We plan to commercialize these solutions on a global basis in large and high growth markets, including emerging markets.

We own established pharmaceutical platforms in Spain, Chile and Mexico, which are generating revenue and which we expect to generate positive cash flow and facilitate future market entry for our products currently in development. In addition, we recently established pharmaceutical operations in Brazil. We also operate a specialty active pharmaceutical ingredients (APIs) manufacturer in Israel, which we expect to play a valuable role in the development of our pipeline of molecules and compounds for our proprietary molecular diagnostic and therapeutic products. We operate a laboratory business with laboratories certified under the Clinical Laboratory Improvement Amendments of 1988 (CLIA), that has a strong presence in the U.S. urologic pathology market, and will provide us with a platform to commercialize certain of our novel diagnostics tests currently in development. We operate a development stage pharmaceutical company, with operations in the United States and Canada, which is engaged in the development of a vitamin D prohormone to treat secondary hyperparathyroidism (known as CTAP 101 Capsules), and of a non-absorbed phosphate binder to treat hyperphosphatemia in dialysis patients. We also own an interest in a biopharmaceutical company that develops, manufactures and markets recombinant human health care biotechnology derived products in Israel and whose principal marketed product is a novel third generation Hepatitis B vaccine currently being commercialized in Israel, India and Hong Kong.

We are incorporated in Delaware and our principal executive offices are located in leased offices in Miami, Florida. We lease office and lab space in Jupiter and Miramar, Florida, which is where our molecular diagnostics research and development and oligonucleotide research and development operations are based, respectively. We lease office, manufacturing and warehouse space in Woburn, Massachusetts for our point-of-care diagnostics business, and in Nesher, Israel for our API business. We lease laboratory and office space in Nashville, Tennessee and Burlingame, California for our CLIA-certified laboratory business, and we lease office space in Bannockburn, Illinois, and Markham, Ontario and laboratory space in Toronto, Ontario for the Cytochroma business. Our Chilean operations are located in leased offices and warehouse facilities in Santiago. Our Mexican operations are based in owned offices, an owned manufacturing facility and a leased warehouse facility in Guadalajara. Our Spanish operations are based in owned offices in Barcelona, in an owned manufacturing facility in Banyoles and a leased warehouse facility in Palol de Revardit. Our Brazilian operations are located in leased offices in Sao Paulo.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the Company s results of operations, financial position and cash flows have been made. The results of operations and cash flows for the three months ended March 31, 2013, are not necessarily indicative of the results of operations and cash flows that may be reported for the remainder of 2013 or for future periods. The unaudited condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Reclassifications. Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the 2013 presentation. Due to the acquisition of Prost-Data, Inc., a CLIA-certified laboratory business, (OURLab) in December 2012, we changed our segment presentation to include diagnostics as a reportable segment. As a result of this change in reportable segments, we restated certain prior year amounts in the condensed consolidated financial statements to conform with the 2013 presentation. These reclassifications had no impact on our results of operations. Refer to Note 12.

Principles of consolidation. The accompanying unaudited condensed consolidated financial statements include the accounts of OPKO Health, Inc., our wholly-owned subsidiaries and variable interest entities (VIEs) in which we are deemed to be the primary beneficiary. All significant intercompany accounts and transactions are eliminated in consolidation.

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Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Cash and cash equivalents. Cash and cash equivalents include short-term, interest-bearing instruments with original maturities of 90 days or less at the date of purchase. We also consider all highly liquid investments with original maturities at the date of purchase of 90 days or less as cash equivalents. These investments include money markets, bank deposits, certificates of deposit and U.S. treasury securities.

Inventories. Inventories are valued at the lower of cost or market (net realizable value). Cost is determined by the first-in, first-out method. We consider such factors as the amount of inventory on hand, estimated time required to sell such inventories, remaining shelf-life, and current market conditions to determine whether inventories are stated at the lower of cost or market.

Goodwill and Intangible Assets. Goodwill represents the difference between the purchase price and the estimated fair value of the net assets acquired when accounted for by the purchase method of accounting and arose from our acquisitions. Goodwill and other intangible assets acquired in business combinations, licensing and other transactions at March 31, 2013 and December 31, 2012 were $368.1 million and $176.2 million, respectively.

Assets acquired and liabilities assumed in business combinations, licensing and other transactions are recognized at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recognized as goodwill. We determined the fair value of intangible assets, including in-process research and development (IPR&D), using the income method.

Goodwill is tested at least annually for impairment, or when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, on an enterprise level by assessing qualitative factors or performing a quantitative analysis in determining whether it is more likely than not that its fair value exceeds the carrying value.

Fair value measurements. The carrying amounts of our cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term maturities of these instruments. Investments that are considered available for sale as of March 31, 2013 are carried at fair value.

Short-term investments, which we invest in from time to time, include bank deposits, corporate notes, U.S. treasury securities and U.S. government agency securities with original maturities of greater than 90 days and remaining maturities of less than one year. Long-term investments include corporate notes, U.S. treasury securities and U.S. government agency securities with maturities greater than one year.

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange. Refer to Note 8.

Contingent consideration. Each period we revalue the contingent consideration obligations associated with certain acquisitions to their fair value and record increases in the fair value as contingent consideration expense and decreases in the fair value as contingent consideration income. Changes in contingent consideration result from changes in the assumptions regarding probabilities of successful achievement of related milestones, the estimated timing in which the milestones are achieved and the discount rate used to estimate the fair value of the liability. Contingent consideration may change significantly as our development programs progress, revenue estimates evolve and additional data is obtained, impacting our assumptions. The assumptions used in estimating fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value which may have a material impact on our results from operations and financial position.

Derivative financial instruments. We record derivative financial instruments on our balance sheet at their fair value and the changes in the fair value are recognized in Fair value changes of derivatives instruments, net, when they occur, the only exception being derivatives that qualify as hedges. For the derivative instrument to qualify as a hedge, we are required to meet strict hedge effectiveness and contemporaneous documentation requirements at the initiation of the hedge and assess the hedge effectiveness on an ongoing basis over the life of the hedge. At March 31, 2013 and December 31, 2012, our forward contracts for inventory purchases did not meet the documentation requirements to be designated as hedges. Accordingly, we recognize all changes in fair values in Fair value changes of derivatives instruments, net. Refer to Note 8. Changes in fair value of our common stock option and common stock warrants holdings of our available for sale investments are recognized in either Other income, net, or Other comprehensive loss. Refer to Note 8. In addition, based on specific terms of the Notes (defined in Note 6) that

we issued in January 2013, we have determined that those terms are considered to be embedded derivatives and recorded them at fair value. Refer to Note 6. The changes in fair value of the embedded derivatives are recognized in Fair value changes of derivatives instruments, net. Refer to Note 8.

Revenue recognition. Generally, we recognize revenue from product sales when goods are shipped and title and risk of loss transfer to our customers. Our estimates for sales returns and allowances are based upon the historical patterns of product returns and allowances taken, matched against the sales from which they originated, and management s evaluation of specific factors that may

increase or decrease the risk of product returns.

Revenue for services is recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payer programs including various managed care organizations, as well as the Medicare and Medicaid programs. Billings for services under third-party payer programs are included in sales net of allowances for contractual discounts and allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement as an adjustment to revenue. For the three months ended March 31, 2013 and 2012, revenue for services also includes $0.2 million and $0.1 million, respectively, of revenue related to our consulting agreement with Neovasc, Inc. (Neovasc) and to revenue related to molecular diagnostics collaboration agreements. We recognize this revenue on a straight-line basis over the contractual term of the agreements.

Revenue from transfer of intellectual property includes revenue related to the sale, license or transfer of intellectual property such as upfront license payments, license fees and milestone payments received through our license, collaboration and commercialization agreements. We analyze our multiple-element arrangements to determine whether the elements can be separated and accounted for individually as separate units of accounting.

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Non-refundable license fees for the out-license of our technology are recognized depending on the provisions of each agreement. We recognize non-refundable upfront license payments as revenue upon receipt if the license has standalone value and the fair value of our undelivered obligations, if any, can be determined. If the license is considered to have standalone value but the fair value of any of the undelivered items cannot be determined, the license payments are recognized as revenue over the period of our performance for such undelivered items or services. License fees with ongoing involvement or performance obligations are recorded as deferred revenue as Accrued expenses or Other long-term liabilities, when received and generally are recognized ratably over the period of such performance obligation only after both the license period has commenced and we have delivered the technology. The assessment of our obligations and related performance periods requires significant management judgment. If an agreement contains research and development obligations, the relevant time period for the research and development phase is based on management estimates and could vary depending on the outcome of clinical trials and the regulatory approval process. Such changes could materially impact the revenue recognized, and as a result, management reviews the estimates related to the relevant time period of research and development on a quarterly basis. For the three months ended March 31, 2013, we recorded $12.8 million of Revenue from the transfer of intellectual property, of which $12.5 million related to the sale of substantially all of our assets in the field of RNA interference to RXi Pharmaceuticals Corporation (RXi). Refer to Note 5.

Revenue from milestone payments related to arrangements under which we have continuing performance obligations are recognized as Other revenue upon achievement of the milestone only if all of the following conditions are met: the milestone payments are non-refundable; there was substantive uncertainty at the date of entering into the arrangement that the milestone would be achieved; the milestone is commensurate with either the vendor s performance to achieve the milestone or the enhancement of the value of the delivered item by the vendor; the milestone relates solely to past performance; and the amount of the milestone is reasonable in relation to the effort expended or the risk associated with the achievement of the milestone. If any of these conditions are not met, the milestone payments are not considered to be substantive and are, therefore, deferred and recognized as Other revenue over the term of the arrangement as we complete our performance obligations.

Total deferred revenue included in Accrued expenses and Other long-term liabilities was $3.1 million and $1.9 million at March 31, 2013 and December 31, 2012, respectively.

Allowance for doubtful accounts. We analyze accounts receivable and historical bad debt levels, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts using the specific identification method. Our reported net loss is directly affected by our estimate of the collectability of accounts receivable. The amount of allowance for doubtful accounts was $0.7 million and $0.5 million at March 31, 2013 and December 31, 2012, respectively.

Equity-based compensation. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. We record excess tax benefits, realized from the exercise of stock options as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations. Equity-based compensation arrangements to non-employees are recorded at their fair value on the measurement date. The measurement of equity-based compensation is subject to periodic adjustment as the underlying equity instruments vest. During the three months ended March 31, 2013 and 2012, we recorded $5.2 million and $1.2 million, respectively, of equity-based compensation expense.

Segment reporting. Our chief operating decision-maker (CODM) is comprised of our executive management with the oversight of our Board of Directors. Our CODM reviews our operating results and operating plans and makes resource allocation decisions on a Company-wide or aggregate basis. We currently manage our operations in two reportable segments, pharmaceuticals and diagnostics. The pharmaceutical segment consists of two operating segments, our (i) pharmaceutical research and development segment which is focused on the research and development of pharmaceutical products, and vaccines, and (ii) the pharmaceutical operations we acquired in Chile, Mexico, Israel, Spain and Brazil. The diagnostics segment consists of two operating segments, our (i) pathology operations we acquired through the acquisition of OURLab and (ii) point-of-care and molecular diagnostics operations. There are no inter-segment sales. We evaluate the performance of each segment based on operating profit or loss. There is no inter-segment allocation of interest expense and income taxes.

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Variable interest entities. The consolidation of VIEs is required when an enterprise has a controlling financial interest. A controlling financial interest in a VIE will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE. Refer to Note 5.

Investments. We have made strategic investments in development stage and emerging companies. We record these investments as equity method investments or investments available for sale based on our percentage of ownership and whether we have significant influence over the operations of the investees. For investments classified under the equity method of accounting, we record our proportionate share of their losses in Losses from investments in investees in our Condensed Consolidated Statement of Operations. Refer to Note 5. For investments classified as available for sale, we record changes in their fair value as unrealized gain or loss in Other comprehensive loss based on their closing price per share at the end of each reporting period. Refer to Note 5.

Recent accounting pronouncements. In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, (ASU 2013-02). ASU 2013-02 requires the presentation of reclassifications out of accumulated other comprehensive income in either (1) the notes or (2) the face of the financial statements. We adopted ASU 2013-02 for our first quarter ended March 31, 2013. The adoption of ASU 2013-02 did not have a material impact in our condensed consolidated financial statements, but did require certain additional disclosures. Refer to Note 7.

NOTE 3 LOSS PER SHARE

Basic loss per share is computed by dividing our net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is computed by dividing our net loss by the weighted average number of shares outstanding and the impact of all dilutive potential common shares, primarily stock options. The dilutive impact of stock options and warrants is determined by applying the treasury stock method. Potentially dilutive shares issuable pursuant to the Notes (defined in Note 6) were not included in the computation of net loss per share for the three months ended March 31, 2013, because their inclusion would be anti-dilutive.

Also, a total of 30,119,145 and 27,416,029 potential common shares have been excluded from the calculation of net loss per share for the three months ended March 31, 2013 and 2012, respectively, because their inclusion would be anti-dilutive.

During the three months ended March 31, 2013, 1,511,693 Common Stock options and Common Stock warrants to purchase shares of our Common Stock were exercised, resulting in the issuance of 1,396,179 shares of Common Stock. Of the 1,511,693 Common Stock options and Common Stock warrants exercised, 115,514 shares were surrendered in lieu of a cash payment via the net exercise feature of the warrant agreements.

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NOTE 4 COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

(In thousands)		March 31, 2013	December 31, 2012
Accounts receivable, net			
Accounts receivable		$ 21,839	$ 21,636
Less: allowance for doubtful accounts		(669)	(474)
		$ 21,170	$ 21,162
Inventories, net			
Finished products		$ 19,177	$ 17,963
Work in-process		970	688
Raw materials		5,152	4,923
Less: inventory reserve		(2,277)	(1,313)
		$ 23,022	$ 22,261
Intangible assets, net			
Technology		$ 52,740	$ 52,810
Customer relationships		23,151	23,088
Product registrations		9,660	9,637
Tradename		3,757	3,746
Covenants not to compete		8,660	8,662
Other		1,242	367
Less: accumulated amortization		(16,856)	(14,072)
		$ 82,354	$ 84,238
Accrued expenses			
Income taxes payable		$ 1,789	$ 1,614
Deferred revenue		1,593	1,518
Clinical trials		184	50
Professional fees		601	675
Employee benefits		3,533	3,319
Deferred acquisition payments, net of discount		5,298	6,172
Contingent consideration		5,151	5,126
Other		8,524	6,182
		$ 26,673	$ 24,656
Other long-term liabilities:			
Contingent consideration	Cytochroma	$ 48,110	$
Contingent consideration	Farmadiet	513	532
Contingent consideration	OPKO Diagnostics	12,006	11,310
Contingent consideration	FineTech		2,578
Contingent consideration	CURNA	528	510
Deferred acquisition payments, net of discount		3,868	3,931
Mortgages and other debts payable		3,706	5,150
Deferred tax liabilities		9,206	9,777
Other, including deferred revenue		1,575	380
		$ 79,512	$ 34,168

The change in value of the intangible assets and goodwill are primarily due to the acquisitions of Silcon Comércio, Importacao E Exportacao de Produtos Farmaceuticos e Cosmeticos Ltda, (Silcon), and Cytochroma Inc., (Cytochroma), as well as the foreign currency fluctuations between the Chilean and Mexican pesos and the Euro against the U.S. dollar at March 31, 2013 and December 31, 2012.

NOTE 5 ACQUISITIONS, INVESTMENTS, AND LICENSES

Cytochroma acquisition

On March 4, 2013, we acquired Cytochroma, a corporation located in Markham, Canada, whose lead products, both in Phase 3 development, are CTAP101 Capsules, a vitamin D prohormone to treat secondary hyperparathyroidism (SHPT) in patients with stage 3 or 4 chronic kidney disease (CKD) and vitamin D insufficiency, and Fermagate Tablets, a non-absorbed phosphate binder to treat hyperphosphatemia in dialysis patients (the Cytochroma Acquisition).

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In connection with the Cytochroma Acquisition, we delivered 20,517,030 of shares of our Common Stock valued at $146.9 million based on the closing price per share of our Common Stock as reported by the NYSE on the actual closing date of the acquisition, or $7.16 per share. The number of shares issued was based on the volume-weighted average price per share of our Common Stock as reported on the NYSE for the ten trading days immediately preceding the date of the purchase agreement for the Cytochroma Acquisition, or $4.87 per share. The Cytochroma Agreement contains customary representations, warranties, conditions to closing, indemnification rights and obligations of the parties.

In addition, the Cytochroma Acquisition requires payments of up to an additional $190.0 million in cash or additional shares of our Common Stock, at our election, upon the achievement of certain milestones relating to development and annual revenue. As a result, we recorded $47.7 million as contingent consideration. We will evaluate the contingent consideration on an ongoing basis and the changes in the fair value will be recognized in earnings until the milestones are achieved.

The following table summarizes the estimated fair value of the net assets acquired and liabilities assumed in the acquisition of Cytochroma at the date of acquisition, which are subject to change while contingencies that existed on the acquisition date are resolved:

(In thousands)	
Current assets (including cash of $378 thousand)	$ 1,224
Intangible assets:	
In-process research and development	191,530
Patents	210
Total intangible assets	191,740
Goodwill	2,411
Plant and equipment	306
Accounts payable and accrued expenses	(1,069)
Total purchase price	$ 194,612

Goodwill is principally related to the acquired workforce. Goodwill is not tax deductible for income tax purposes.

Silcon asset acquisition

On February 15, 2013, we acquired the assets of Silcon Comércio, Importacao E Exportacao de Produtos Farmaceuticos e Cosmeticos Ltda. (Silcon), a Brazilian pharmaceutical company, pursuant to a purchase agreement entered into on December 26, 2012. Pursuant to the purchase agreement, we paid $0.3 million in cash and delivered 64,684 shares of our Common Stock at closing valued at $0.4 million based on the closing price per share of our Common Stock as reported by the NYSE on the actual closing date of the acquisition, or $6.73 per share. The number of shares issued was based on the average closing price per share of Common Stock as reported on the NYSE for the 10 trading days immediately preceding the execution of the purchase agreement, or $4.64 per share.

We accounted for this acquisition as an asset acquisition rather than a business combination. As a result we recorded the assets at fair value, with most of the value being allocated to the most significant asset, its pharmaceutical business licenses.

OURLab acquisition

In October 2012, we entered into a definitive merger agreement to acquire OURLab, a Nashville-based CLIA laboratory with 17 phlebotomy sites throughout the U.S. In December 2012, we paid $9.4 million in cash and delivered 7,072,748 shares of our Common Stock at closing valued at $32.9 million based on the closing sales price per share of our Common Stock as reported by the NYSE on the actual closing date of the acquisition, or $4.65 per share. The number of shares issued was based on the average closing price per share of our Common Stock as reported on the NYSE for the 15 trading days immediately preceding the execution of the purchase agreement, or $4.33 per share. Pursuant to the merger agreement, 1,732,102 shares of the stock consideration issued in the transaction are being held in a separate escrow account to secure the indemnification obligations of OURLab.

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Farmadiet acquisition

In August 2012, we entered into a stock purchase agreement pursuant to which we acquired all of the outstanding stock of Farmadiet Group Holding, S.L. (Farmadiet), a Spanish company engaged in the development, manufacture, marketing, and sale of pharmaceutical, nutraceutical, and veterinary products in Europe (the Farmadiet Transaction).

In connection with the Farmadiet Transaction, we agreed to pay an aggregate purchase price of 13.5 million (approximately $16.0 million), of which (i) 50% ($8.4 million) was paid in cash at closing, and (ii) 50% (the Deferred Payments) will be paid, at our option, in cash or shares of our Common Stock as follows: (x) 25% to be paid on the first anniversary of the closing date; and (y) 25% to be paid 18 months after the closing date. On the date of acquisition, we recorded the 6.8 million Deferred Payments at $7.8 million, net of a discount of $0.6 million. The discount will be amortized as interest expense through the respective payment dates. The Deferred Payments are required to be paid in Euro and as such, the final U.S. dollar amount to be paid will be based on the exchange rate at the time the Deferred Payments are made. In the event we elect to pay the Deferred Payments in shares of our Common Stock, the number of shares issuable shall be calculated using the average closing price per share of our Common Stock as reported on the NYSE for the ten trading days immediately preceding the applicable payment date. We have the right to hold back up to 2.8 million (approximately $3.6 million as of March 31, 2013) from the Deferred Payment to satisfy indemnity claims.

In connection with the Farmadiet Transaction, we also entered into two ancillary transactions (the Ancillary Transactions). In exchange for a 40% interest held by one of the sellers in one of Farmadiet s subsidiaries, we agreed to issue up to an aggregate of 250,000 shares of our Common Stock, of which (a) 125,000 shares were issued on the closing date, and (b) 125,000 will be issued upon achieving certain milestones. In addition, we acquired an interest held by an affiliate of Farmadiet in a product in development in exchange for which we agreed to pay up to an aggregate of 1.0 million ($1.3 million) payable at our option in cash or shares of our Common Stock, of which (a) 25% ($0.3 million) was paid at closing through delivery of 70,421 shares of our Common Stock, and 75% ($1.0 million) will be paid in cash or shares of our Common Stock upon achieving certain milestones. As a result, we recorded $1.2 million as contingent consideration for the future consideration. We evaluate the contingent consideration on an ongoing basis and the changes in fair value are recognized in earnings until the milestones are achieved. Refer to Note 8. The final U.S. dollar amount to be paid will be based on the exchange rate at the time the milestones are achieved. The number of shares of our Common Stock issued is determined based on the average closing sales price for our Common Stock on the NYSE for the ten trading days preceding the required payment date.

ALS acquisition

In April 2012, we completed the acquisition of ALS Distribuidora Limitada (ALS), a privately-held Chilean pharmaceutical company, pursuant to a stock purchase agreement entered into in January 2012. In connection with the transaction, we agreed to pay up to a total of $4.0 million in cash to the sellers. Pursuant to the purchase agreement, we paid (i) $2.4 million in cash at the closing, less certain liabilities, and (ii) $0.8 million in cash at the closing into a separate escrow account to satisfy possible indemnity claims. During the three months ended March 31, 2013, we paid the remaining $0.8 million that we had agreed to pay upon the legal registration in the name of ALS of certain trademarks and product registrations previously held by Arama Laboratorios y Compañía Limitada.

Pro forma disclosure for acquisitions

The following table includes the pro forma results for the three months ended March 31, 2013 and 2012 of the combined companies as though the acquisition of Cytochroma had been completed as of the beginning of each period, respectively.

	For the three months ended March 31,	
(In thousands)	2013	2012
Revenues	$ 31,376	$ 10,958
Net loss	$ (35,276)	$ (9,210)
Net loss attributable to common shareholders	$ (35,149)	$ (9,766)
Basic and diluted loss per share	$ (0.11)	$ (0.03)

The unaudited pro forma financial information is presented for information purposes only. The unaudited pro forma financial information may not necessarily reflect our future results of operations or what the results of operations would have been had we owned and operated each company as of the beginning of the period presented.

We incurred a pre-tax loss related to the activities of Cytochroma of $2.3 million from the date of our acquisition through March 31, 2013.

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Investments

The total assets, liabilities, and net losses of our equity method investees as of and for the three months ended March 31, 2013 were $47.5 million, $15.1 million, and $21.0 million, respectively. The following table reflects our maximum exposure, accounting method, ownership interest and underlying equity in net assets of each of our unconsolidated investments as of March 31, 2013:

(Dollars in thousands) Investee name	Year invested	Accounting method	Ownership at March 31, 2013	Investment	Underlying equity in net assets	Closing share price at March 31, 2013 for investments available for sale
Sorrento	2009	Equity method	20%	$ 2,300	$ 1,219	
Cocrystal	2009	Equity method	16%	2,500	675	
Neovasc	2011	Equity method, warrants available for sale	4%	2,013	287	
Fabrus	2010	VIE, equity method	13%	650	(28)	
BZNE common stock	2012	VIE, equity method	12%	1,276	(302)	
RXi	2013	Equity method	21%	15,000	3,766	
TESARO	2010	Investment available for sale	1%	550		$21.96
Neovasc options	2011	Investment available for sale	N/A	925		CA$ 2.60
BZNE Note and conversion feature	2012	VIE, investment available for sale	N/A	1,700		
ChromaDex	2012	Investment available for sale	1%	1,320		$ 0.71
Plus unrealized gains on investments, options and warrants, net				8,920		
Less accumulated losses in investees				(8,608)		
Total carrying value of equity method investees and investments, available for sale				$ 28,546		

RXi transaction

An element of our growth strategy is to leverage our proprietary technology through a combination of internal development, acquisition, and external partnerships to maximize the commercial opportunities for our portfolio of proprietary pharmaceutical and diagnostic products. Consistent with this strategy, in March 2013, we completed the sale to RXi of substantially all of our assets in the field of RNA interference (the RNAi Assets) (collectively, the Asset Purchase Agreement). As consideration for the RNAi Assets, at the closing of the Asset Purchase Agreement, RXi issued to us 50 million shares of its common stock (the APA Shares). In accounting for the sale of the RNAi Assets, we determined that we did not have any continuing involvement in the development of the RNAi Assets or any other future performance obligations and, as a result, during the three months ended March 31, 2013, we recognized the APA Shares as $12.5 million of Revenue from transfer of intellectual property in our Condensed Consolidated Statement of Operations.

Pursuant to the Asset Purchase Agreement, RXi will be required to pay us up to $50.0 million in milestone payments upon the successful development and commercialization of each drug developed by RXi, certain of its affiliates or any of its or their licensees or sublicensees utilizing patents included within the RNAi Assets (each, a Qualified Drug). In addition, RXi will also be required to pay us royalties equal to: (a) a mid single-digit percentage of Net Sales (as defined in the Asset Purchase Agreement) with respect to each Qualified Drug sold for an ophthalmologic use during the applicable Royalty Period (as defined in the Asset Purchase Agreement); and (b) a low single-digit percentage of net sales with respect to each Qualified Drug sold for a non-ophthalmologic use during the applicable royalty period.

In addition to the Asset Purchase Agreement, we purchased 17,241,380 shares of RXi, for $2.5 million, as part of a $16.4 million financing for RXi, which included other related parties. We have determined that our ownership, along with that of our related parties, provides us the ability to exercise significant influence over RXi operations and as such we have accounted for our investment in RXi under the equity method.

Investments in variable interest entities

We have determined that we hold variable interests in Fabrus, Inc. (Fabrus), Biozone Pharmaceutical, Inc. (BZNE) and SciGen (I.L.) Ltd. (SciGen). We made this determination as a result of our assessment that they do not have sufficient resources to carry out their principal

activities without additional financial support.

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In order to determine the primary beneficiary of BZNE, we evaluated our investment and our related parties investments, as well as our investment combined with the related party group s investments to identify if we had the power to direct the activities that most significantly impact the economic performance of BZNE. We determined that power to direct the activities that most significantly impact BZNE s economic performance is conveyed through the board of directors of BZNE and no entity is able to appoint the BZNE governing body that oversees its executive management team. Based on the capital structure, governing documents and overall business operations of BZNE, we determined that, while a VIE, no single entity has the power to direct the activities that most significantly impact BZNE s economic performance. However, we determined that we and our related parties can significantly influence the success of BZNE through our voting power. As such, we account for investment in BZNE under the equity method.

In order to determine the primary beneficiary of Fabrus, we evaluated our investment and our related parties investment, as well as our investment combined with the related party group s investment to identify if we had the power to direct the activities that most significantly impact the economic performance of Fabrus. We determined that power to direct the activities that most significantly impact Fabrus s economic performance is conveyed through the board of directors of Fabrus as no entity is able to appoint the Fabrus governing body that oversees its executive management team. Based on the capital structure, governing documents and overall business operations of Fabrus, we determined that, while a VIE, no single entity has the power to direct the activities that most significantly impact Fabrus s economic performance. We did determine, however, that our related parties can significantly influence the success of Fabrus through our board representation and voting power. Accordingly, as we and our related parties have the ability to exercise significant influence over Fabrus operations, we account for our investment in Fabrus under the equity method.

Consolidated variable interest entities

In June 2012, we entered into a share and debt purchase agreement whereby in exchange for $0.7 million we acquired shares representing a 45% stock ownership in SciGen from FDS Pharma LLP (FDS). SciGen is a privately-held Israeli company that produces a third-generation hepatitis B-vaccine. In November 2012 and March 2013, we loaned to SciGen a combined $0.8 million for working capital purposes. We have determined that we hold variable interests in SciGen based on our assessment that SciGen does not have sufficient resources to carry out its principal activities without financial support. In order to determine the fair market value of our investment in SciGen, we have utilized a business enterprise valuation approach.

In order to determine the primary beneficiary of SciGen, we evaluated our investment to identify if we had the power to direct the activities that most significantly impact the economic performance of SciGen. We have determined that the power to direct the activities that most significantly impact the economic performance of SciGen is conveyed through SciGen s board of directors. SciGen s board of directors appoint and oversee SciGen s management team who carry out the activities that most significantly impact the economic performance of SciGen. As part of the share and debt purchase agreement, SciGen s board of directors is constituted by 5 members, of which 3 members will be appointed by us, representing 60% of SciGen s board. Based on this analysis, we determined that we have the power to direct the activities of SciGen and as such we are the primary beneficiary. As a result of this conclusion, we have consolidated the results of SciGen and record a reduction of equity for the portion of SciGen we do not own.

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The following table represents the consolidated assets and non-recourse liabilities related to SciGen as of March 31, 2013 and December 31, 2012. These assets are owned by, and these liabilities are obligations of, SciGen, not us.

(In thousands)	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 301	$ 174
Accounts receivable, net	76	387
Inventories, net	1,399	1,092
Prepaid expenses and other current assets	174	199
Total current assets	1,950	1,852
Property, plant and equipment, net	1,493	1,539
Intangible assets, net	1,150	1,154
Goodwill	815	796
Other assets	324	231
Total assets	$ 5,732	5,572
Liabilities		
Current liabilities:		
Accounts payable	$ 1,220	$ 1,108
Accrued expenses	3,352	2,859
Notes payable	1,329	
Total current liabilities	5,901	3,967
Other long-term liabilities	288	1,529
Total liabilities	$ 6,189	$ 5,496

NOTE 6 DEBT

On January 25, 2013, we entered into note purchase agreements (the Notes) with qualified institutional buyers and accredited investors (collectively the Purchaser) in a private placement in reliance on exemptions from registration under the Securities Act of 1933, (the Securities Act). The Purchasers of the Notes include Frost Gamma Investments Trust, a trust affiliated with Dr. Phillip Frost, our Chairman and Chief Executive Officer, and Hsu Gamma Investment, L.P., an entity affiliated with Dr. Jane H. Hsiao, our Vice Chairman and Chief Technology Officer. The Notes were issued on January 30, 2013. The Notes, which total $175.0 million, bear interest at the rate of 3.00% per year, payable semiannually on February 1 and August 1 of each year, beginning August 1, 2013. The Notes will mature on February 1, 2033, unless earlier repurchased, redeemed or converted. Upon a fundamental change as defined in the instruments governing the Notes, subject to certain exceptions, the holders may require us to repurchase all or any portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus any accrued and unpaid interest to but not including the fundamental change repurchase date.

The Notes will be convertible at any time on or after November 1, 2032, through the second scheduled trading day immediately preceding the maturity date, at the option of the holders. Additionally, holders may convert their Notes prior to the close of business on the scheduled trading day immediately preceding November 1, 2032, under the following circumstances: (1) conversion based upon satisfaction of the trading price condition relating to the Notes; (2) conversion based on the Common Stock price; (3) conversion based upon the occurrence of specified corporate events; or (4) if we call the Notes for redemption. The Notes will be convertible into cash, shares of our Common Stock, or a combination of cash and shares of Common Stock, at our election unless we have made an irrevocable election of net share settlement. The initial conversion rate for the Notes will be 141.4827 shares of Common Stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $7.07 per share of Common Stock), and will be subject to adjustment upon the occurrence of certain events. In addition, we will, in certain circumstances, increase the conversion rate for holders who convert their Notes in connection with a make-whole

fundamental change (as defined in the Indenture) and holders who convert upon the occurrence of certain specific events prior to February 1, 2017 (other than in connection with a make-whole fundamental change).

We may not redeem the Notes prior to February 1, 2017. On or after February 1, 2017 and before February 1, 2019, we may redeem for cash any or all of the Notes but only if the last reported sale price of our Common Stock exceeds 130% of the applicable conversion price for at least 20 trading days during the 30 consecutive trading day period ending on the trading day immediately prior to the date on which we deliver the redemption notice. The redemption price will equal 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to but not including the redemption date. On or after February 1, 2019, we may redeem for cash any or all of the Notes at a redemption price of 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest up to but not including the redemption date.

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The terms of the Notes, include, among others: (i) rights to convert into shares of our Common Stock, including upon a fundamental change; and (ii) a coupon make-whole payment in the event of a conversion by the holders of the Notes on or after February 1, 2017 but prior to February 1, 2019. We have determined that these specific terms are considered to be embedded derivatives. As a result, embedded derivatives are required to be separated from the host contract, the Notes, and carried at fair value when: (a) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract; and (b) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument. We have concluded that the embedded derivatives within the Notes meet these criteria and, as such, must be valued separate and apart from the Notes and recorded at fair value each reporting period.

For purposes of accounting and financial reporting, we combine these embedded derivatives and value them together as one unit of accounting. At each reporting period, we record these embedded derivatives at fair value which is included as a component of the Notes on our Condensed Consolidated Balance Sheets.

We have used a binomial lattice model in order to estimate the fair value of the embedded derivative in the Notes. A binomial lattice model generates two probable outcomes one up and another down arising at each point in time, starting from the date of valuation until the maturity date. A lattice was initially used to determine if the Notes would be converted, called or held at each decision point. Within the lattice model, the following assumptions are made: (i) the Notes will be converted early if the conversion value is greater than the holding value; or (ii) the Notes will be called if the holding value is greater than both (a) the redemption price (as defined in the Indenture) and (b) the conversion value plus the coupon make-whole payment at the time. If the Notes are called, then the holder will maximize their value by finding the optimal decision between (1) redeeming at the redemption price and (2) converting the Notes.

Using this lattice, we valued the embedded derivatives using the with-and-without method, where the value of the Notes including the embedded derivatives is defined as the with, and the value of the Notes excluding the embedded derivatives is defined as the without. This method estimates the value of the embedded derivatives by looking at the difference in the values between the Notes with the embedded derivatives and the value of the Notes without the embedded derivatives.

The lattice model requires the following inputs: (i) price of our Common Stock; (ii) Conversion Rate (as defined in the Indenture); (iii) Conversion Price (as defined in the Indenture); (iv) maturity date; (v) risk-free interest rate; (vi) estimated stock volatility; and (vii) estimated credit spread for the Company.

The following table sets forth the inputs to the lattice model used to value the embedded derivative:

	March 31, 2013	Issuance Date
Stock price	$ 7.63	$ 6.20
Conversion Rate	141.4827	141.4827
Conversion Price	$ 7.07	$ 7.07
Maturity date	February 1, 2033	February 1, 2033
Risk-free interest rate	1.01%	1.12%
Estimated stock volatility	35%	40%
Estimated credit spread	966 basis points	944 basis points

The following table sets forth the fair value of the Notes with and without the embedded derivatives, and the fair value of the embedded derivatives as of the issuance date and March 31, 2013 (in thousands):

	March 31, 2013	Issuance Date
Fair value of Notes:		
With the embedded derivatives	$ 203,069	$ 175,000
Without the embedded derivatives	$ 119,077	$ 115,796
Estimated fair value of the embedded derivatives	$ 83,992	$ 59,204

Changes in certain inputs into the lattice model can have a significant impact on changes in the estimated fair value of the embedded derivatives. For example, a decrease in our estimated credit spread results in an increase in the estimated value of the embedded derivatives. Conversely, a decrease in the price of our Common Stock results in a decrease in the estimated fair value of the embedded derivatives. From the date the Notes were issued through March 31, 2013, we observed an increase in the market price of our Common Stock which resulted in a $24.8 million

increase in the estimated fair value of our embedded derivatives recorded in Fair value changes of derivative instruments, net in our Condensed Consolidated Statements of Operations.

The principal amounts, unamortized discount and net carrying amounts of the Notes as of March 31, 2013 were as follows:

(In thousands)	Principal Balance	Unamortized Discount	Net Carrying Amount
Notes	$ 175,000	$ 62,571	$ 112,429
	$ 175,000	$ 62,571	$ 112,429

We have entered into line of credit agreements with sixteen financial institutions in Chile and Spain. These lines of credit are used primarily as a source of working capital for inventory purchases.

The following table summarizes the amount outstanding under the lines of credit:

(In thousands)

Lender	Interest rate on borrowings	Credit line capacity	March 31, 2013	December 31, 2012
Itau Bank	7.10%	$ 3,000	$ 3,072	$ 2,738
Bank of Chile	6.05%	3,000	2,391	2,292
BICE Bank	5.39%	2,000	1,650	2,451
Corp Banca	6.00%	1,000	663	1,248
BBVA Bank	6.36%	3,000	2,785	2,823
Penta Bank	9.48%	1,000	854	833
Security Bank	7.65%	1,500	1,066	
BCI	6.00%	1,500	1,626	
Estado Bank	6.26%	2,000	1,969	1,963
Sabadell Bank	7.60%	192		3
Bilbao Vizcaya Bank	4.90%	384	307	377
Banco Popular	8.25%	384	3	260
Santander Bank	6.00%	192	71	
Banesto	5.80%	192	135	163
Banca March	6.25%	256	233	44
Total		$ 19,600	$ 16,825	$ 15,195

At both March 31, 2013 and December 31, 2012, the weighted average interest rate on our lines of credit was approximately 6.5%.

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At March 31, 2013 and December 31, 2012, we had mortgage notes and other debt payables related to Farmadiet as follows:

(In thousands)	March 31, 2013	December 31, 2012
Current portion of lines of credit and notes payable	$ 2,110	$ 2,331
Other long-term liabilities	3,706	3,916
Total mortgage notes and other debt payables	$ 5,816	$ 6,247

The mortgages and other debts payable mature at various dates ranging from 2015 through 2024 bearing variable interest rates from 2.7% up to 8.5%. The weighted average interest rate on the mortgage notes and other debt payable at March 31, 2013 and December 31, 2012 was 4.8% and 4.5%, respectively.

NOTE 7 ACCUMULATED OTHER COMPREHENSIVE INCOME

For the three months ended March 31, 2013 changes in Accumulated other comprehensive income, net of tax, were as follows:

(In thousands)	Foreign currency	Unrealized gains in Accumulated OCI
Balance at December 31, 2012	$ 3,196	$ 4,160
Other comprehensive income before reclassifications, net of tax [1]	323	1,405
Amounts reclassified from accumulated other comprehensive income, net of tax [1]		(991)
Net other comprehensive income	323	414
Balance at March 31, 2013	$ 3,519	$ 4,574

[1] Effective tax rate of 38.47%.

Amounts reclassified out of accumulated other comprehensive for the three months ended March 31, 2013 related to $2.3 million realized gain on the sales of certain of our investments available for sale. Of the $2.3 million gain on the sales of our investments available for sale, $1.6 million gain was reclassified from unrealized gains in Accumulated other comprehensive income to Other income, net.

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NOTE 8 FAIR VALUE MEASUREMENTS

We record fair value at an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

A summary of our investments as of March 31, 2013, classified as available for sale, and carried at fair value is as follows:

	As of March 31, 2013				
((In thousands)	Amortized Cost	Gross unrealized gains in Accumulated OCI	Gross unrealized losses in Accumulated OCI	Gain/(Loss) in Accumulated Deficit	Fair value
Common stock investments, available for sale	$ 1,870	$ 6,522	$	$	$ 8,392
BZNE Note and conversion feature	1,700	53		287	2,040
Neovasc common stock options	925	629		589	2,143
Neovasc common stock warrants	659	194		473	1,326
Total assets	$ 5,154	$ 7,398	$	$ 1,349	$ 13,901

A summary of our investments as of December 31, 2012, classified as available for sale, and carried at fair value is as follows:

	As of December 31, 2012				
(In thousands)	Amortized Cost	Gross unrealized gains in Accumulated OCI	Gross unrealized losses in Accumulated OCI	Gain/(Loss) in Accumulated Deficit	Fair value
Common stock investments, available for sale	$ 2,051	$ 6,185	$	$	$ 8,236
BZNE Note and conversion feature	1,700	53		287	2,040
Neovasc common stock options	925	293		176	1,394
Neovasc common stock warrants	659	194		(375)	478
Total assets	$ 5,335	$ 6,725	$	$ 88	$ 12,148

Any future fluctuation in fair value related to these instruments that is judged to be temporary, including any recoveries of previous write-downs, will be recorded in Accumulated other comprehensive income or loss. If we determine that any future valuation adjustment was other-than-temporary, we will record a loss during the period such determination is made.

As of March 31, 2013, we have money market funds that qualify as cash equivalents, forward contracts for inventory purchases (Refer to Note 9) and contingent consideration related to the acquisitions of CURNA, Inc. (CURNA), Claros Diagnostics, Inc. (OPKO Diagnostics), FineTech Pharmaceuticals, Ltd. (FineTech), Farmadiet, and Cytochroma that are required to be measured at fair value on a recurring basis. In addition, in connection with our investment and our consulting agreement with Neovasc, we record the related Neovasc options and warrants at fair value.

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Our financial assets and liabilities measured at fair value on a recurring basis are as follows:

	Fair value measurements as of March 31, 2013			
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Money market funds	$ 167,276	$	$	$ 167,276
Certificates of deposit		827		827
Common stock investments, available for sale	8,392			8,392
BZNE Note and conversation feature			2,040	2,040
Neovasc common stock options		2,143		2,143
Neovasc common stock warrants		1,326		1,326
Total assets	$ 175,668	$ 4,296	$ 2,040	$ 182,004
Liabilities:				
Forward contracts	$	$ 21	$	$ 21
Embedded conversion option			83,992	83,992
Deferred acquisition payments, net of discount			9,166	9,166
Contingent consideration:				
CURNA			528	528
OPKO Diagnostics			13,721	13,721
FineTech			2,667	2,667
Cytochroma			48,110	48,110
Farmadiet			1,282	1,282
Total liabilities	$	$ 21	$ 159,466	$ 159,487

	Fair value measurements as of December 31, 2012			
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Money market funds	$ 18,716	$	$	$ 18,716
Certificates of deposit		820		820
Common stock investments, available for sale	8,236			8,236
BZNE Note and conversation feature			2,040	2,040
Neovasc common stock options		1,394		1,394
Neovasc common stock warrants		478		478
Total assets	$ 26,952	$ 2,692	$ 2,040	$ 31,684
Liabilities:				
Forward contracts	$	$ 10	$	$ 10

Deferred acquisition payments, net of discount			10,103	10,103
Contingent consideration:				
CURNA			510	510
OPKO Diagnostics			12,974	12,974
FineTech			5,262	5,262
Farmadiet			1,310	1,310
Total liabilities	$	$ 10	$ 30,159	$ 30,169

The carrying amount and estimated fair value of our long-term debt, as well as the applicable fair value hierarchy tiers, are contained in the table below. The fair value of the Notes is determined using a binomial lattice approach in order to estimate the fair value of the embedded derivative in the Notes. Refer to Note 6.

	March 31, 2013				
(In thousands)	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
Notes	$ 112,429	$ 203,069	$	$	$ 203,069
	$ 112,429	$ 203,069	$	$	$ 203,069

As of March 31, 2013 and December 31, 2012, the carrying value of our other assets and liabilities approximates their fair value due to their short-term nature.

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The following tables reconcile the beginning and ending balances of our Level 3 assets and liabilities as of March 31, 2013 and December 31, 2012:

	March 31, 2013			
(In thousands)	BZNE Note and conversion feature	Contingent consideration	Deferred acquisition payments, net of discount	Embedded conversion option
Balance at December 31, 2012	$ 2,040	$ 20,056	$ 10,103	$
Additions		47,710		59,204
Total losses (gains) for the period:				
Included in results of operations		1,303	(137)	24,788
Payments		(2,761)	(800)	
Balance at March 31, 2013	$ 2,040	$ 66,308	$ 9,166	$ 83,992

	December 31, 2012		
(In thousands)	BZNE Note and conversion feature	Contingent consideration	Deferred acquisition payments, net of discount
Balance at December 31, 2011	$	$ 18,002	$
Additions	1,700	1,234	9,673
Total losses (gains) for the period:			
Included in results of operations	1,563	820	430
Included in Other comprehensive loss	53		
Transfer out to equity method investment	(1,276)		
Balance at December 31, 2012	$ 2,040	$ 20,056	$ 10,103

The estimated fair values of our financial instruments have been determined by using available market information and what we believe to be appropriate valuation methodologies. We use the following methods and assumptions in estimating fair value:

BZNE Notes and conversion feature - The stock market activity in BZNE does not represent an active market and as such, we determined the fair market value utilizing a business enterprise valuation approach in order to determine the fair value of our investment. The most significant assumptions are the projected revenue growth and operating income (loss). The impact of a change in any of our significant underlying assumptions +/- 1% would not result in a materially different fair value.

Contingent consideration We estimate the fair value of the contingent consideration utilizing a discounted cash flow model for the expected payments based on estimated timing and expected revenues. We use several discount rates depending on each type of contingent consideration related to FineTech, OPKO Diagnostics, CURNA, Farmadiet and Cytochroma transactions. The discount rates used range from 6% to 27% and were based on the weighted average cost of capital for those businesses. If the discount rates were to increase by 1%, on each transaction, the contingent consideration would decrease by $1.6 million. If estimated future sales were to decrease by 10%, the contingent consideration related to CURNA, FineTech and Cytochroma would decrease by $0.6 million. As of March 31, 2013, of the $66.3 million of contingent consideration, $5.2 million is recorded in Accrued expenses and $61.2 million is recorded in Other-long-term liabilities. As of December 31, 2012, of the $20.0 million of contingent consideration, $14.9 million is recorded in Accrued expenses and $5.1 million is recorded in Other-long-term liabilities.

Deferred payments We estimate the fair value of the deferred payments utilizing a discounted cash flow model for the expected payments.

Embedded conversion option We estimate the fair value of the embedded conversion option related to the Notes using a binomial lattice model. Refer to Note 6 for detail description of the binomial lattice model and the fair value assumptions used.

NOTE 9 DERIVATIVE CONTRACTS

We enter into foreign currency forward exchange contracts to cover the risk of exposure to exchange rate differences arising from inventory purchases on letters of credit. Under these forward contracts, for any rate above or below the fixed rate, we receive or pay the difference between the spot rate and the fixed rate for the given amount at the settlement date.

During the three months ended March 31, 2013, we entered into a foreign exchange, fixed interest rate swap contract that provides for us to pay a fixed interest rate on the underlying loan balance denominated in Chilean Pesos. We entered into this agreement in Chile for purchases of inventory denominated in U.S. dollars. A hypothetical 1% interest rate change or 10% foreign exchange rate change will not have a material impact on our results from operations or financial position.

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The following table summarizes the fair values and the presentation of our derivative financial instruments in the Condensed Consolidated Balance Sheets:

(In thousands)	Balance Sheet Location	March 31, 2013	December 31, 2012
Derivative financial instruments:			
Neovasc common stock options/warrants	Investment, net	$ 3,469	$ 1,872
Embedded conversion option	3.00% convertible senior notes, net of discount	83,992	
Forward contracts (1)	Current portion of lines of credit and notes payable	1,107	1,294

(1) The effect on loss in the forward contracts is recorded in Accrued expenses.

To qualify the derivative instrument as a hedge, we are required to meet strict hedge effectiveness and contemporaneous documentation requirements at the initiation of the hedge and assess the hedge effectiveness on an ongoing basis over the life of the hedge. At March 31, 2013 and December 31, 2012, our derivative financial instruments do not meet the documentation requirements to be designated as hedges. Accordingly, we recognize the changes in fair value in Fair value changes of derivative instruments, net in our Condensed Consolidated Statements of Operations. The following table summarizes the (loss) gain recorded during the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
(In thousands)	2013	2012
Derivative gain (loss):		
Neovasc common stock options/warrants	$ 1,260	$ 1,030
Notes	(24,788)	
Forward contracts	(21)	87
Total	$ (23,549)	$ 1,117

The outstanding contracts at March 31, 2013, have been recorded at fair value, and their maturity details are as follows:

(In thousands)

Days until maturity	Contract value	Fair value at March 31, 2013	Decrease of loss
0 to 30	$ 314	$ 310	$ (4)
31 to 60	112	109	(3)
61 to 90	21	21	
91 to 120	269	264	(5)
121 to 180	412	403	(9)
More than 180			
Total	$ 1,128	$ 1,107	$ (21)

The outstanding contracts at December 31, 2012 have been recorded at fair value, and their maturity details are as follows:

(In thousands)	Contract value	Decrease of loss

Days until maturity			Fair value at December 31, 2012			
0 to 30	$		$		$	
31 to 60		581		577		(4)
61 to 90		341		339		(2)
91 to 120		212		210		(2)
121 to 180		170		168		(2)
More than 180						
Total	$	1,304	$	1,294	$	(10)

NOTE 10 RELATED PARTY TRANSACTIONS

On January 25, 2013, we entered into the Notes, with the Purchasers for the sale of $175.0 million aggregate principal amount of Notes in a private placement in reliance on exemptions from registration under the Securities Act. The Purchasers of the Notes include Frost Gamma Investments Trust, a trust affiliated with Dr. Phillip Frost, our Chairman and Chief Executive Officer, and Hsu Gamma Investment, L.P., an entity affiliated with Dr. Jane H. Hsiao, our Vice Chairman and Chief Technology Officer. The Notes were issued on January 30, 2013.

In December 2012, we entered into a five year lease with AVI Properties, LLC (AVI), an entity affiliated with Dr. Jonathan Oppenheimer, OURLab s Chief Executive Officer. The lease is for approximately 44,000 square feet of laboratory and office space in Nashville, Tennessee, where OURLab is based. The lease provides for payments of approximately $18 thousand per month in the first year, increasing annually if the consumer price index exceeds 5%, plus applicable sales tax. In addition to the rent, we pay a portion of operating expenses, property taxes and parking.

During the year ended December 31, 2012, our FineTech subsidiary recorded revenue of $0.1 million for the sale of APIs to Teva. Dr. Frost serves as the Chairman of the Board of Directors of Teva.

In February 2012, we entered into a cooperative research funding and option agreement with The Scripps Research Institute (TSRI) to support research for the development of novel oligomeric compounds relating to our

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molecular diagnostics technology (the Research Agreement). Pursuant to the Research Agreement, we agreed to provide funding of approximately $0.9 million annually over a five year period. In conjunction with entering into the Research Agreement, we also entered into a license agreement with TSRI for technology relating to libraries of peptide tertiary amides. In addition, we entered into a second license with TSRI for technology relating to highly selective inhibitors of c-Jun-N-Terminal Kinases that may be useful for the treatment of various diseases, including Parkinson s disease. We also entered into a research funding and option agreement to provide funding of approximately $0.2 million annually over three years to support further development of the technology. Dr. Frost served as a Trustee for TSRI until November 2012 and Dr. Lerner served as its President until De