BIOMARIN PHARMACEUTICAL INC
Form 10-Q
August 09, 2007
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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 June 30, 2007

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 issuer as specified in its charter)

Delaware	**68-0397820**
(State of other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**
105 Digital Drive, Novato, California	**94949**

(Address of principal executive offices) **(Zip Code)**

Registrant s telephone number: (415) 506-6700

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 proceeding 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: 95,958,161 shares common stock, par value $0.001, outstanding as of July 31, 2007.

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BIOMARIN PHARMACEUTICAL INC.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

BIOMARIN PHARMACEUTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share data)

	December 31, 2006 (1)	June 30, 2007 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,162	$ 205,010
Short-term investments	199,685	382,700
Accounts receivable, net	14,670	15,900
Advances to BioMarin/Genzyme LLC	1,596	1,302
Inventory	25,075	30,714
Other current assets	4,036	5,306
Total current assets	334,224	640,932
Investment in BioMarin/Genzyme LLC	31,457	33,269
Property, plant and equipment, net	55,466	58,780
Acquired intangible assets, net	11,655	9,470
Goodwill	21,262	21,262
Restricted cash	1,731	3,103
Other assets	7,641	14,823
Total assets	$ 463,436	$ 781,639
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 32,166	$ 30,604
Current portion of acquisition obligation, net of discount	6,787	6,785
Current portion of deferred revenue	7,092	7,154
Total current liabilities	46,045	44,543
Convertible debt	223,940	497,375
Long-term portion of acquisition obligation, net of discount	68,548	67,332
Deferred revenue, net of current portion	5,023	1,509
Other long-term liabilities	2,078	3,278
Total liabilities	345,634	614,037
Stockholders equity:		
Common stock, $0.001 par value: 150,000,000 and 250,000,000 shares authorized at December 31, 2006 and June 30, 2007, respectively; 91,725,528 and 95,901,593 shares issued and outstanding at December 31, 2006 and June 30, 2007, respectively	92	96
Additional paid-in capital	709,359	772,294
Accumulated other comprehensive loss	(25)	(7)

Accumulated deficit	(591,624)	(604,781)
Total stockholders equity	117,802	167,602
Total liabilities and stockholders equity	$ 463,436	$ 781,639

(1) December 31, 2006 balances were derived from the audited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

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BIOMARIN PHARMACEUTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended, June 30, 2006 and 2007

(In thousands, except for per share data, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Revenues:				
Net product sales	$ 9,657	$ 20,941	$ 18,636	$ 39,276
Collaborative agreement revenues	4,435	3,505	8,949	7,652
Royalty and license revenues	9,358	4,438	9,677	4,795
Total revenues	23,450	28,884	37,262	51,723
Operating expenses:				
Cost of sales (excludes amortization of developed product technology)	789	4,557	2,512	8,674
Research and development	15,779	19,186	28,058	37,345
Selling, general and administrative	11,871	17,649	22,767	33,935
Amortization of acquired intangible assets	1,093	1,093	1,466	2,185
Total operating expenses	29,532	42,485	54,803	82,139
Loss from operations	(6,082)	(13,601)	(17,541)	(30,416)
Equity in the income of BioMarin/Genzyme LLC	4,745	6,550	8,545	12,713
Interest income	4,034	6,907	4,736	10,601
Interest expense	(4,022)	(3,720)	(6,846)	(6,055)
Net loss	$ (1,325)	$ (3,864)	$ (11,106)	$ (13,157)
Net loss per share, basic and diluted	$ (0.02)	$ (0.04)	$ (0.14)	$ (0.14)
Weighted average common shares outstanding, basic and diluted	85,341	95,796	80,181	95,180

See accompanying notes to unaudited consolidated financial statements.

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BIOMARIN PHARMACEUTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2006 and 2007

(In thousands, unaudited)

	Six Months Ended June 30,	
	2006	2007
Cash flows from operating activities		
Net loss	$ (11,106)	$ (13,157)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,311	6,349
Amortization of discount on short-term investments	(60)	(5,370)
Imputed interest on acquisition obligation	2,367	2,282
Loss on disposals of property and equipment		9
Equity in the income of BioMarin/Genzyme LLC	(8,545)	(12,713)
Stock based compensation	4,512	8,506
Changes in operating assets and liabilities:		
Accounts receivable	(5,086)	(1,231)
Advances to BioMarin/Genzyme LLC	145	294
Inventory	(13,349)	(5,639)
Other current assets	532	(1,268)
Other assets	(806)	(1,096)
Accounts payable and accrued liabilities	2,331	(1,539)
Other liabilities	(352)	1,199
Deferred revenue	(3,706)	(3,452)
Net cash used in operating activities	(26,812)	(26,826)
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,957)	(6,828)
Sale of short-term investments	9,700	242,906
Purchase of short-term investments	(19,875)	(420,536)
Distributions from BioMarin/Genzyme LLC	12,000	10,900
Net settlement of foreign currency forward contracts		(126)
Net cash used in investing activities	(17,132)	(173,684)
Cash flows from financing activities		
Proceeds from ESPP and exercise of stock options	5,578	3,516
Decrease in cash balances related to long-term debt	17,049	
Repayment of equipment and facility loans	(20,909)	
Repayment of acquisition obligation	(4,200)	(3,500)
Proceeds from public offering of common stock, net	127,398	
Proceeds from convertible debt offering, net	166,934	316,340
Net cash provided by financing activities	291,850	316,356
Effect of foreign currency translation on cash	(8)	2
Net increase in cash	247,898	115,848

Cash and cash equivalents:		
Beginning of period	38,092	89,162
End of period	$ 285,990	$ 205,010

See accompanying notes to unaudited consolidated financial statements.

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BIOMARIN PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

(Unaudited)

(1) NATURE OF OPERATIONS AND BUSINESS RISKS

BioMarin Pharmaceutical Inc. (the Company or BioMarin®) develops and commercializes innovative biopharmaceuticals for serious diseases and medical conditions. BioMarin received marketing approval for Naglazyme® (galsulfase) in the U.S. in May 2005, and in the E.U. in January 2006. Aldurazyme® (laronidase) has been approved in the U.S and E.U. and is marketed by its joint venture partner, Genzyme Corporation (Genzyme). In May 2004, BioMarin acquired the Ascent Pediatrics business, for which the North American rights were sublicensed to Alliant Pharmaceuticals, Inc., which was recently acquired by Sciele Pharma, Inc. (Sciele), by BioMarin in March 2006. The May 2004 transaction included the exclusive marketing and development rights to Orapred® (prednisolone sodium phosphate oral solution). See Note 4 for further discussion of the sublicense in 2006. The Company is incorporated in the state of Delaware.

Through June 30, 2007, the Company had accumulated losses of approximately $604.8 million. Management believes that the Company s cash, cash equivalents and short-term investments at June 30, 2007 will be sufficient to meet the Company s obligations for the foreseeable future based on management s current long-term business plans and assuming that the Company achieves its long-term goals. If the Company elects to increase its spending on development programs significantly above current long-term plans or invest in new technologies or other business development activities, the Company may need additional capital. Until the Company can generate sufficient levels of cash from its operations, the Company expects to continue to finance net future cash needs primarily through its current cash, cash equivalents and short-term investments, and to the extent necessary, through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners. In April 2007, the Company raised approximately $316.3 million in net proceeds from a public offering of senior subordinated convertible debt due in 2017. The proceeds are intended to fund future business development transactions and for general corporate purposes.

The Company is subject to a number of risks, including the financial performance of Naglazyme and the Aldurazyme joint venture; 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 successful commercial products; obtaining regulatory approval for such 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, as well as other changes in the health care industry.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These unaudited consolidated financial statements include the accounts of BioMarin and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated. These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and the Securities and Exchange Commission (SEC) requirements for interim reporting. However, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2006, included in the Company s Annual Report on Form 10-K.

(b) Use of Estimates

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

(c) Inventory

The Company values inventories at the lower of cost or fair market value. The Company determines the cost of inventory using the average cost method. The Company analyzes its inventory levels quarterly and writes down inventory that has become obsolete, inventory that has a cost basis in excess of its expected net realizable value and inventory quantities in excess of expected requirements. Expired inventory is disposed of and the related costs are written off and recognized as additional cost of sales.

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June 30, 2007

(Unaudited)

Regulatory approval for Naglazyme was received in May 2005, and costs related to the manufacturing of Naglazyme prior to this date were expensed as research and development expenses. The Company considers regulatory approval of product candidates to be uncertain, and product manufactured prior to regulatory approval may not be sold unless regulatory approval is obtained. As such, the manufacturing costs for Naglazyme prior to regulatory approval were not capitalized as inventory. When regulatory approval was obtained in May 2005, the Company began capitalizing Naglazyme inventory at the lower of cost or fair market value. As of June 30, 2007, Naglazyme inventory includes a small amount of pre-approval manufactured finished goods, which have an insignificant cost basis. The majority of the previously expensed inventory has been sold or used in clinical trials as of June 30, 2007. Stock-based compensation of $0.6 million and $1.0 million was capitalized into Naglazyme inventory in three and six months ended June 30, 2007, respectively, compared to $0.3 million and $0.7 million of stock-based compensation being capitalized into Naglazyme inventory in the three and six months ended June 30, 2006, respectively. See Note 7 for further information on inventory balances as of December 31, 2006 and June 30, 2007.

(d) Goodwill, Acquired Intangible Assets and Impairment of Long-Lived Assets

The Company records goodwill in a business combination when the total consideration exceeds the fair value of the net tangible and identifiable intangible assets acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite lives are not amortized. Intangible assets with definite lives are amortized over their useful lives on a straight-line basis.

The Company reviews long-lived assets for impairment annually and whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that the full carrying amount of an asset is not recoverable, an impairment loss is recorded in the amount by which the carrying amount of the asset exceeds its fair value. See Note 5 for further discussion of the Company s intangible asset and goodwill impairment analyses.

The Company currently operates in one business segment, the biopharmaceutical development and commercialization segment. When reviewing goodwill for impairment, SFAS No. 142 requires that the Company assess whether goodwill should be allocated to operating levels lower than its single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. As of June 30, 2007, the Company has only one reporting unit. The Company performs an annual impairment test in the fourth quarter of each fiscal year by assessing the fair value and recoverability of its goodwill, unless facts and circumstances warrant a review of goodwill for impairment before that time. No triggering events were identified during the first or second quarter of 2007. The Company determines the fair value of its reporting units using a combination of discounted cash flow models, quoted market prices when available and independent appraisals.

The recoverability of the carrying value of buildings and leasehold improvements for the Company s facilities will depend on the successful execution of the Company s business plan and the Company s ability to earn sufficient returns on its approved products and product candidates. Based on management s current estimates, the Company expects to recover the carrying value of such assets.

(e) Revenue Recognition

The Company recognizes revenue in accordance with the provisions of SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, and Emerging Issues Task Force Issue (EITF) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*.

The Company s revenues consist of Naglazyme product sales, Orapred product sales through March 2006, revenues from its collaborative agreement with Merck Serono and revenues from its sublicense agreement with Sciele for North American Orapred rights (see Note 4). All Aldurazyme sales are reported by BioMarin/Genzyme LLC and are included in the results of the joint venture (see Note 6).

Naglazyme product sales The Company recognizes revenue from Naglazyme product sales when persuasive evidence of an arrangement exists, the product has been delivered to the customer, title and risk of loss have passed to the customer, the price to the buyer is fixed or determinable and collection from the customer is reasonably assured. Naglazyme product sales transactions are evidenced by customer purchase orders, customer contracts, invoices and/or the related shipping documents. Amounts collected from

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June 30, 2007

(Unaudited)

customers and remitted to governmental authorities, which are primarily comprised of value-added taxes (VAT) in foreign jurisdictions, are presented on a net basis in the Company s statements of operations, in that taxes billed to customers are not included as a component of net product sales, as per Emerging Issues Task Force Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* .

In the U.S., Naglazyme is generally sold to specialty pharmacies or end-users, such as hospitals, which act as retailers. In the E.U., Naglazyme is generally sold to the Company s authorized European distributors or directly to hospitals, which act as the end users. Additionally, the Company receives revenue from named patient sales of Naglazyme in other countries, which are generally made to local distributors. Because of the pricing of Naglazyme, the limited number of patients and the customers limited return rights, Naglazyme customers and retailers generally carry a very limited inventory. Accordingly, the Company expects that sales related to Naglazyme will be closely tied to end-user demand.

The Company records reserves for rebates payable under Medicaid and other government programs as a reduction of revenue at the time product sales are recorded. The Company s reserve calculations require estimates, including estimates of customer mix, to determine which sales will be subject to rebates and the amount of such rebates. The Company updates its estimates and assumptions each period, and records any necessary adjustments to its reserves. The Company records fees paid to Naglazyme distributors as a reduction of revenue, in accordance with EITF Issue No. 01-09, *Accounting for Consideration given by a Vendor to a Customer (including a Reseller of a Vendor s Products)* .

The Company records allowances for product returns, if appropriate, as a reduction of revenue at the time product sales are recorded. Several factors are considered in determining whether an allowance for product returns of Naglazyme is required, including market exclusivity of the product based on its orphan drug status, the patient population, the customers limited return rights and the Company s joint venture s experience of returns for Aldurazyme, which is a similar product. Based on these factors, management has concluded that product returns will be minimal. In the future, if any of these factors and/or the history of product returns changes, an allowance for product returns may be required. The Company maintains a policy to record allowances for doubtful accounts for estimated losses resulting from the inability of its Naglazyme customers to make required payments. As of June 30, 2007, the Company has experienced no bad debts and had no allowance for doubtful accounts.

Orapred product sales The Company does not expect to report Orapred product sales in future periods because of the sublicense of North American rights to the product to Sciele in March 2006. The Company recognized revenue from Orapred product sales when persuasive evidence of an arrangement existed, the product had been shipped, title and risk of loss passed to the customer, the price to the buyer was fixed or determinable and collection from the customer was reasonably assured. Orapred product sales transactions were evidenced by customer purchase orders, customer contracts, invoices and/or the related shipping documents.

The Company established and maintained rebate reserves for amounts payable to managed care organizations and state Medicaid programs for the reimbursement of a portion of the retail price of prescriptions filled that are covered by the respective plans. The amounts estimated to be paid relating to products sold are recognized as revenue reductions and as additions to accrued expenses at the time of the original sale. The rebate reserves were generally based on the Company s best estimate of the expected prescription fill rate to these managed care organizations and state Medicaid patients. The estimates were developed using the product s rebate history adjusted to reflect known and forecasted changes in the factors that impact such reserves. During the first six months of 2006, the Company reduced its Orapred rebate reserves by $1.3 million, which increased net revenues by $1.1 million for rebates related to product sold by the Company and decreased operating expenses by $0.2 million for rebates related to product sold by the previous seller of Orapred. The reduction was due to the sublicense of North American Orapred rights to Sciele, which reduced the Company s liability for certain rebates. No significant adjustments were made in the first or second quarter of 2007.

Provisions for sales discounts and estimates for chargebacks and product returns were established as a reduction of product sales at the time such revenues were recognized. These revenue reductions were established by the Company s management as its best estimate at the time of the original sale based on the product s historical experience adjusted to reflect known and forecasted changes in the factors that impact such

reserves. These revenue reductions were generally reflected either as a direct reduction to gross sales and accounts receivable through an allowance or as an addition to accrued expenses. The Company generally permits product returns only if the product is damaged or if it is returned near or after expiration. During the second quarter and first six months of 2006, the Company adjusted estimates of return liabilities based upon updated forecasts of retail demand. This adjustment resulted in additional charges of $1.1 million, which were recorded as an offset to revenue of $0.8 million for returns of product sold by the Company and $0.3 million of additional expense for returns of product sold by the previous owner.

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(Unaudited)

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. As of December 31, 2006 and June 30, 2007, the Company s allowance for doubtful accounts was insignificant.

Collaborative agreement revenues Collaborative agreement revenues from Merck Serono include both license revenue and contract research revenue. Nonrefundable up-front license fees where the Company has continuing involvement through research and development collaboration are initially deferred and recognized as collaborative agreement license revenue over the estimated period for which the Company continues to have a performance obligation. There is no cost of sales associated with the amortization of the up-front license fee received from Merck Serono. Nonrefundable amounts received for shared development costs are recognized as revenue in the period in which the related expenses are incurred. Contract research revenue included in collaborative agreement revenues represents Merck Serono s share of Kuvan (sapropterin dihydrochloride) development costs under the agreement, which are recorded as research and development expenses. Allowable costs during the development period must have been included in the pre-approved annual budget in order to be subject to reimbursement, or must be separately approved by both parties.

Collaborative agreement revenues during the three and six months ended June 30, 2007 include $1.8 million and $3.6 million, respectively, of the up-front license fee received from Merck Serono recognized as revenue and $1.7 million and $4.1 million of reimbursable Kuvan development costs incurred during the three and six months ended June 30, 2007, respectively. Collaborative agreement revenues during the three and six months ended June 30, 2006 include $1.9 million and $3.8 million, respectively, of the up-front license fee received from Merck Serono recognized as revenue and $2.5 million and $5.1 million of reimbursable Kuvan development costs incurred during the three and six months ended June 30, 2006, respectively.

Royalty and license revenues Royalty revenue is recognized based on sublicensee sales of Orapred liquid and Orapred ODT (Oral Disintegrating Tablets) subsequent to the execution of the sublicense of Orapred North American rights in March 2006. Royalties are recognized as earned in accordance with the contract terms, when the royalty amount is fixed or determinable based on information received from the sublicensee and when collectibility is reasonably assured.

The timing of customer purchases and the resulting product shipments have a significant impact on the amount of royalty revenue that the Company recognizes in a particular period. The majority of Orapred sales are made to wholesalers, which, in turn, resell the product to retail outlets. Inventory in the distribution channel consists of inventory held by wholesalers, who are the principal customers for Orapred, and inventory held by retailers. Royalty revenues from Orapred sales in a particular period will be impacted by increases or decreases in wholesaler inventory levels. If wholesaler inventories substantially exceed retail demand, the Company could experience reduced royalty revenue from sales in subsequent periods.

The up-front license fee of $2.5 million received from Sciele in March 2006 was deferred and was recognized as revenue on a straight-line basis over approximately 5 months, which represented the best estimate of the time from inception of the agreement until commercial launch of Orapred ODT in August 2006, at which point the Company s performance obligations ended. Royalty and license revenues include royalty revenues from Orapred product sold by the sublicensee of $0.4 million and $0.8 million for the three and six months ended June 30, 2007, respectively, and was $42,000 and $0.1 million for the three and six months ended June 30, 2006, respectively. Royalty and license revenue during the three and six months ended June 30, 2006 also includes $1.7 million and $1.9 million of the up-front license fee received from Sciele that was recognized as revenue, respectively. There are no cost of sales associated with the royalty and license revenues recorded during the periods and no related costs are expected in future periods.

The Company also recognized $4.0 million in milestone revenue during the second quarter of 2007 as a result of the one-year anniversary of FDA approval for the marketing application of Orapred ODT, and recognized $7.5 million in the second quarter of 2006 related to the initial FDA approval, which was received in June 2006. Milestone payments are recognized in full when the related milestone performance goal is achieved and the Company has no future performance obligations related to that payment.

(f) Research and Development

Research and development expenses include expenses associated with contract research and development provided by third parties, product manufacturing prior to regulatory approval, clinical and regulatory costs, and internal research and development costs. In instances where the Company enters into agreements with third parties for research and development activities, costs are generally expensed upon the earlier of when non-refundable amounts are due or as services are performed, unless there is an alternative future use of the funds in other research and development projects. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables. The Company accrues costs for clinical trial activities based upon estimates of the services received and related expenses incurred that have yet to be invoiced by the vendors that perform the activities.

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BIOMARIN PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

(Unaudited)

The Company believes that regulatory approval of its product candidates is uncertain, and does not assume that products manufactured prior to regulatory approval will be sold commercially. As a result, inventory costs for product candidates are expensed as research and development until regulatory approval is obtained, at which time inventory is capitalized at the lower of cost or fair value.

(g) Net Loss Per Share

Net loss per share is calculated by dividing net loss by the weighted average shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average shares of common stock outstanding and potential shares of common stock during the period. Potential shares of common stock include dilutive shares issuable upon the exercise of outstanding common stock options, contingent issuances of common stock related to convertible debt, acquisition payable and purchases under the Employee Stock Purchase Plan. For all periods presented, such potential shares of common stock were excluded from the computation of diluted net loss per share, as their effect is antidilutive.

Potentially dilutive securities include (in thousands):

	June 30,	
	2006	2007
Options to purchase common stock	8,645	12,187
Common stock issuable under convertible debt	19,103	26,361
Portion of acquisition payable in common stock at the option of the Company	598	479
Restricted share units		114
Potentially issuable common stock for ESPP purchases	457	330
Total	28,803	39,471

(h) Stock Based Compensation

Stock-based compensation is accounted for in accordance with SFAS No. 123R, *Share-Based Payment* and related interpretations. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating future stock price volatility and employee stock option exercise behaviors. If actual results differ significantly from these estimates, stock-based compensation expense and results of operations could be materially impacted.

Expected volatility is based upon proportionate weightings of the historical volatility of the Company s stock and the implied volatility of traded options on the Company s stock. The expected life of options is based on observed historical exercise patterns, which can vary over time.

As stock-based compensation expense recognized in the consolidated statement of operations is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

If factors change and different assumptions are employed in the application of SFAS No. 123R, the compensation expense recorded in future periods may differ significantly from what was recorded in the current period. See Note 3 for further discussion of the Company s accounting for

stock-based compensation.

(i) Derivative Instruments

The Company utilizes derivative financial instruments, including foreign exchange forward contracts, to manage its exposure to foreign currency exchange rate fluctuation risks. The Company does not hold or issue financial instruments for speculative or trading purposes, but rather for the intent of economic hedging.

The Company has transactions denominated in foreign currencies and, as a result, is exposed to changes in foreign currency

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exchange rates. The Company manages some of these exposures on a consolidated basis, which results in the netting of certain exposures to take advantage of natural offsets. Forward exchange contracts are used to hedge a portion of the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings and cash flow volatility resulting from fluctuating foreign currency exchange rates. The resulting losses or gains from these instruments are included as a component of selling, general and administrative expenses on the Company s consolidated statements of operations. See Note 10 for further discussion of the Company s derivative instruments.

(j) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* , requires the Company to disclose the fair value of financial instruments for assets and liabilities for which it is practicable to estimate that value.

The carrying amounts of all cash equivalents and forward exchange contracts approximate fair value based upon quoted market prices. The fair value of trade accounts receivables, accounts payable and other financial instruments approximates carrying value due to their short-term nature.

(k) Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss was approximately $3.9 million and $13.1 million for the three and six months ended June 30, 2007, respectively, and included $2,000 of other comprehensive loss and $18,000 of other comprehensive income during the periods, respectively. Comprehensive loss was approximately $1.4 million and $11.1 million for the three and six months ended June 30, 2006, respectively, and included $34,000 and $33,000 of other comprehensive loss during the periods, respectively. Other comprehensive income/loss includes unrealized gains and losses on short-term investments designated as available for sale and foreign currency translation adjustments, of which each were individually insignificant for the periods presented. There were no tax effects related to any components of other comprehensive income during the three or six months ended June 30, 2006 and 2007.

Comprehensive loss was approximately $187.8 million, $73.9 million, $28.5 million for the years ended December 31, 2004, 2005 and 2006, respectively, and included $0.3 million of other comprehensive loss, $0.3 million of other comprehensive income and $9,000 of other comprehensive loss, respectively. Other comprehensive income/loss includes unrealized gains and losses on short-term investments designated as available for sale and foreign currency translation adjustments. There were no tax effects related to any components of other comprehensive income/loss during the years ended December 31, 2004, 2005 and 2006.

(l) Restricted Cash

Restricted cash of $1.7 million and $3.1 million as of December 31, 2006 and June 30, 2007, respectively, includes $0.9 million and $2.0 million related to cash received for royalties pursuant to the Orapred sublicense agreement, respectively, which are restricted until August 2009, upon the stock purchase of Ascent Pediatrics from Medicis (see Note 4). Restricted cash also includes investments of $0.8 million and $1.1 million held by the Company s Nonqualified Deferred Compensation Plan as of December 31, 2006 and June 30, 2007, respectively (see Note 13).

(m) Other Significant Accounting Policies

For all other significant accounting policies, please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

(n) Recent Accounting Pronouncements

In June 2007, the FASB ratified the EITF consensus reached in EITF Issue No. 07-3 *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* , which provides guidance for prepayments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the goods are delivered or the related services are performed. EITF No. 07-3 is effective for interim and annual reporting periods beginning after December 15, 2007. Management does not expect the adoption of EITF No. 07-3 to have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial*

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Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement provides entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply the hedge accounting provisions as prescribed by SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* . This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact of adopting this Statement.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* . FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of January 1, 2007 and June 30, 2007, the Company did not have any unrecognized tax benefits. There was no effect on the Company s consolidated financial position, results of operations or cash flows as a result of adopting FIN 48. The Company s policy is to recognize accrued interest and penalties for unrecognized tax benefits as a component of tax expense. As of January 1, 2007 and June 30, 2007, there was no accrued interest and penalties for unrecognized tax benefits. For the second quarter of 2007, there was no interest or penalties included as a component of tax expense for unrecognized tax benefits.

The Company and its subsidiaries file income tax returns in their relevant U.S. federal, various state and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for tax years before 2002, although carryforward tax attributes that were generated prior to 2002 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

(o) Reclassifications

The Company s equity in the income of the BioMarin/Genzyme LLC joint venture has been presented as non-operating income in the consolidated statements of operations. During the first quarter of 2007, management determined that the significance of the joint ventures operations with respect to the Company has decreased on a relative basis compared to the Company s other activities and that presenting the equity in the income of the joint venture as a non-operating income item was now more representative of the Company s operations as a whole. Changes to the proportionate significance of the operating nature of the joint venture to the Company s total operations include the continued world-wide commercialization of Naglazyme, the planned commercial launch of Kuvan pending FDA approval, and the increasing requirements of the Company s ongoing research and development programs. Prior periods have been reclassified to conform to the current presentation for consistency.

Additionally, approximately $1.7 million was reclassified from Other Assets to Restricted Cash on the consolidated balance sheet as of December 31, 2006. Certain other items in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

(3) STOCK-BASED COMPENSATION

Effective January 1, 2006, BioMarin began recording compensation expense associated with stock options and other forms of equity compensation in accordance with SFAS No. 123R, *Share Based Payment* , as interpreted by SAB No. 107. Prior to January 1, 2006, the Company accounted for stock options according to the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. BioMarin adopted the modified prospective transition method provided for under SFAS No. 123R, and consequently has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options now includes: (1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) quarterly amortization related to all restricted stock and stock option awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. In addition, the Company records expense related to shares issued under its employee stock purchase plan

over the offering period.

The compensation expense for stock-based compensation awards includes an estimate for forfeitures and is recognized over the requisite service period of the options using the straight-line method. Prior to adoption of SFAS No. 123R, benefits of tax deductions in excess of recognized compensation costs were required to be reported as operating cash flows. SFAS No. 123R requires that they be recorded as a financing cash inflow rather than as a reduction of taxes paid. For the six months ended June 30, 2007, no net excess tax benefits were generated from option exercises. The Company evaluated the need to record a cumulative effect adjustment for estimated forfeitures upon the adoption of SFAS No. 123R and determined the amount to be insignificant. Pursuant to the income tax provisions

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included in SFAS 123R, the Company has elected the long method of computing its hypothetical APIC pool. The Company is in the process of computing the hypothetical excess tax benefits in additional paid-in capital as of the date of adoption of SFAS No. 123R. This analysis is not expected to result in a material change to BioMarin s financial statements.

Stock-based compensation expense for the three months ended June 30, 2007 totaled $4.3 million, of which $2.6 million was included in selling, general and administrative expense, $1.6 million was included in research and development expense and $0.1 million of stock-based compensation was included in cost of goods sold. Stock-based compensation expense for the three months ended June 30, 2006 totaled $2.1 million, of which $1.2 million was included in selling, general and administrative expense, $0.9 million was included in research and development expense and $0 was included in cost of goods sold. Stock-based compensation of $0.3 million and $0.6 million was capitalized into Naglazyme inventory for the three months ended June 30, 2006 and 2007, respectively, and will be recognized as cost of goods sold when the related product is sold.

Stock-based compensation expense for the six months ended June 30, 2007 totaled $7.8 million, of which $4.6 million was included in selling, general and administrative expense, $2.9 million was included in research and development expense and $0.3 million of stock-based compensation was included in cost of goods sold. Stock-based compensation expense for the six months ended June 30, 2006 totaled $3.8 million, of which, $2.0 million was included in selling, general and administrative expense, $1.8 million was included in research and development expense and $0 was included in cost of goods sold. Stock-based compensation of $0.7 million and $1.0 million was capitalized into Naglazyme inventory for the six months ended June 30, 2006 and 2007, respectively, and will be recognized as cost of goods sold when the related product is sold.

Share Incentive Plan

BioMarin s 2006 Share Incentive Plan, which was approved in June 2006 and replaces the Company s previous stock option plans, provides for grants of options to employees to purchase common stock at the fair market value of such shares on the grant date, as well as other forms of equity compensation. As of June 30, 2007, awards issued under the 2006 Share Incentive Plan include both stock options and restricted stock units. Stock option awards generally vest over a four-year period on a cliff basis six months after the grant date and then monthly thereafter. The term of the outstanding options is generally ten years. Options assumed under past business acquisitions generally vest over periods ranging from immediately upon grant to five years from the original grant date and have terms ranging from two to ten years. Restricted stock units granted to employees generally vest in a straight-line, annually over a four-year period after the grant date. Restricted stock units granted to directors generally vest in full one year after the grant date.

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 table 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 June 30, 2007. The expected volatility of stock options is based upon proportionate weightings of the historical volatility of BioMarin stock and the implied volatility of traded options on the Company s stock for fiscal periods in which there is sufficient trading volume in options on the Company s 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 BioMarin has not paid any cash dividends since inception and does not intend to pay any cash dividends in the foreseeable future.

	Three Months Ended June 30,		Six Months Ended June 30,	
Stock Option Valuation Assumptions	**2006**	**2007**	**2006**	**2007**
Expected volatility	53.81%	49.25%	53.81-57.87%	48.28-49.25%
Dividend yield	0.0%	0.0%	0.0%	0.0%

Expected life	5.0 years	5.4 years	4.9-5.0 years	5.2-5.4 years
Risk-free interest rate	5.1%	5.1%	4.4-5.1%	4.7-5.1%

The Company recorded $3.5 million and $6.8 million of compensation expense related to current period vesting of stock options for the three and six months ended June 30, 2007, respectively, recognized in accordance with SFAS No. 123R, and recorded $2.0 million and $3.6 million of compensation expense related to stock options for the three and six months ended June 30, 2006. As of June 30, 2007, there was $50.9 million of total unrecognized compensation cost related to unvested stock options. These costs are expected to be recognized over a weighted average period of 3.2 years.

A summary of stock option activity under all plans, including plans that were suspended upon adoption of the 2006 Share Incentive Plan, for the six months ended June 30, 2007 is presented as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value of Options Granted	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2006	10,374,194	$ 11.75			
Granted	2,411,475	$ 17.35	$ 8.79		
Exercised	(359,939)	$ 7.29			$ 3,722
Expired and Forfeited	(238,560)	$ 14.35			
Balance as of June 30, 2007	12,187,170	$ 12.93		7.9	$ 62,068
Options expected to vest as of June 30, 2007	5,693,301	$ 14.74		9.2	$ 18,267
Exercisable as of June 30, 2007	5,168,801	$ 10.48		6.2	$ 39,549

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The aggregate intrinsic value for outstanding options is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock as of the end of the period. There were 11,735,377 options that were in-the-money at June 30, 2007. The aggregate intrinsic value of options exercised was determined as of the date of option exercise.

An initial option is granted to each new outside member of BioMarin s Board of Directors to purchase 30,000 shares of common stock at the fair value on the date of the grant. Until January 2007, on each anniversary date of becoming a director, each outside member was granted options to purchase 30,000 shares of common stock at the fair market value on such date. Effective June 7, 2007, on the date of each annual meeting of stockholders, other than newly elected directors, each outside director is granted options for the purchase of 15,000 shares of common stock and 2,500 restricted stock units. The options vest over one year and have a term of ten years. The restricted stock units vest on the anniversary of the date of grant.

As of June 30, 2007, the options outstanding consisted of the following:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$ 3.50 to 7.00	1,898,385	6.5	$ 5.95	1,327,012	$ 5.86
7.01 to 10.50	2,036,538	6.4	8.68	1,616,820	8.64
10.51 to 14.00	2,897,361	7.7	12.22	1,348,346	12.25
14.01 to 17.50	2,881,721	9.5	16.86	319,788	15.73
17.51 to 21.00	2,263,165	9.3	17.69	346,835	18.00
21.01 to 24.50	210,000	2.9	22.00	210,000	22.00
	12,187,170			5,168,801	

A summary of non-vested restricted stock unit activity under the plan for the six months ended June 30, 2007 is presented as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested units as of December 31, 2006		$
Granted	114,125	17.33
Vested		
Forfeited		
Non-vested units as of June 30, 2007	114,125	$ 17.33

The Company recorded $36,000 of compensation expense related to restricted stock units for both the three and six months ended June 30, 2007, recognized in accordance with SFAS No. 123R. There were no restricted stock unit grants prior to the second quarter of 2007 and therefore no compensation expense was recognized related to restricted stock units in prior periods. As of June 30, 2007, there was $1.8 million of total unrecognized compensation cost related to unvested restricted stock units. These costs are expected to be recognized over a weighted average period of 3.6 years.

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At June 30, 2007, an aggregate of approximately 12.1 million unissued shares were authorized for future issuance under the Company s stock plans, which include shares issuable under the Company s 2006 Share Incentive Plan and the Company s Employee Stock Purchase Plan. Awards under the 2006 Share Incentive Plan that expire or are cancelled without delivery of shares generally become available for issuance under the plan. Awards that expire or are cancelled under the Company s suspended 1997 Stock Plan or 1998 Director Option Plan may not be reissued.

Employee Stock Purchase Plan

Under BioMarin s Employee Stock Purchase Plan, which was approved on June 21, 2006 and replaces the Company s previous plan, employees meeting specific employment qualifications are eligible to participate and can purchase shares on established dates semi-annually through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or each purchase date of the offering period. Each offering period will span up to two (2) years. The Employee Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions for up to 10% of qualified compensation, up to an annual limit of $25,000. The Employee Stock Purchase Plan has been treated as a compensatory plan. The Company recorded compensation expense of $0.6 million and $0.7 million related to the Employee Stock Purchase Plan in the three and six months ended June 30, 2007, and recorded $0.1 million and $0.2 million of compensation expense in the three and six months ended June 30, 2006. In the second quarter of 2007, the Company corrected the estimated number of shares to be purchased under the Employee Stock Purchase Plan, which increased stock-based compensation expense by $0.3 million. The Company determined that the impact of the adjustment was not material to prior periods or to the second quarter of 2007.

The fair value of each award is estimated on the date of grant using the Black-Scholes valuation model and the assumptions noted in the table below. The expected volatility of Employee Stock Purchase Plan shares is based on the implied volatility of traded options on the Company s stock for periods in which there is sufficient trading volume in those options. Otherwise, historical volatility is utilized. 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 BioMarin has not paid any cash dividends since inception and does not intend to pay any cash dividends in the foreseeable future.

	Three and Six Months Ended June 30,	
Employee Stock Purchase Plan	**2006**	**2007**
Expected volatility	44% to 55%	44% to 54%
Dividend yield	0.0%	0.0%
Expected life	6-24 months	6-24 months
Risk-free interest rate	3.9 to 4.9%	4.3% to 5.2%

(4) SUBLICENSE OF NORTH AMERICAN ORAPRED RIGHTS

In March 2006, the Company entered into a license agreement with Sciele for the continued sale and commercialization of Orapred and other Orapred formulations then under development, including Orapred ODT. Through the agreement, Sciele acquired exclusive rights to market these products in North America, and BioMarin retained exclusive rights to market these products outside of North America. BioMarin and Sciele are individually responsible for the costs of commercializing the products within their respective territories. The third party will also pay BioMarin royalties on its net sales of these products. BioMarin will also transfer the North American intellectual property to Sciele in August 2009, following the purchase of the stock of Ascent Pediatrics from Medicis.

Pursuant to the agreement, Sciele paid BioMarin $2.5 million as consideration for executing the agreement, and agreed to make additional milestone payments of $15.5 million based on the approval and successful commercial launch of Orapred ODT, of which $11.5 million were received during 2006. An additional milestone of $4.0 million was received in June 2007 related to the one-year anniversary of FDA approval of Orapred ODT. During the three and six months ended June 30, 2007, the Company recognized $0.4 million and $0.8 million, respectively, in

royalty revenues from Orapred products sold by the sublicense, and recognized $42,000 and $0.1 million in royalty revenues during the three and six months ended June 30, 2006, respectively.

(5) ACQUIRED INTANGIBLE ASSETS AND GOODWILL

(a) Acquired Intangible Assets

Acquired intangible assets relate to the Ascent Pediatrics transaction completed during May 2004 and consist of the Orapred product technology as of June 30, 2007. The gross and net carrying value of the Orapred product technology as of June 30, 2007 were as follows (in thousands):

Gross value	$ 20,437
Accumulated amortization	(10,967)
Net carrying value	$ 9,470

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Upon execution of the sublicense of the North American rights of Orapred in March 2006, which was determined to be a triggering event according to SFAS No. 144, the Company performed an impairment test and determined that no impairment of intangible assets existed as of March 31, 2006. No triggering events were identified during the first six months of 2007.

The Orapred product technology is being amortized on a straight-line basis over its revised estimated useful life of 3.5 years. The estimated useful life was revised from 15 years following the execution of the sublicense for the North American rights to Orapred, which includes an asset transfer of the underlying intangible assets in August 2009, representing the revised useful life of the asset. The estimated amortization expense associated with the revised estimated useful life of the Orapred product technology for each of the succeeding three years is as follows (in thousands):

	As of June 30, 2007
Remainder of 2007	$ 2,185
2008	4,371
2009	2,914
Total	$ 9,470

Amortization expense for the three and six months ended June 30, 2007 was $1.1 million and $2.2 million, respectively, and was $1.1 million and $1.5 million, respectively, for the three and six months ended June 30, 2006.

(b) Goodwill

Goodwill as of June 30, 2007 relates to the Ascent Pediatrics transaction completed during May 2004. The aggregate amount of goodwill acquired in the transaction was approximately $21.3 million. Using the reporting unit basis required by SFAS No. 142, *Goodwill and Other Intangible Assets* , the Company completed an impairment test during March 2006, upon execution of the sublicense of North American rights, which was determined to be a triggering event according to SFAS No. 142. The Company determined that no impairment of goodwill existed as of March 2006. Following the sublicense of North American rights of Orapred in March 2006, the Company has concluded it only has one reporting unit. Whether or not goodwill will be impaired in the future is dependent upon the future estimated fair value of the Company. No triggering events were identified during the first or second quarter of 2007.

(6) JOINT VENTURE

(a) Joint Venture Financial Data

The results of the joint venture s operations for the three and six months ended June 30, 2006 and 2007, are presented in the table below (in thousands). Equity in the Income of BioMarin/Genzyme LLC represents the Company s 50% share of the joint venture s income. The joint venture s results and summarized assets and liabilities as presented below give effect to the difference in inventory cost basis between the Company and the joint venture. The difference in basis primarily represents the difference in inventory capitalization policies between the joint venture and the Company. The Company began capitalizing Aldurazyme inventory costs in May 2003 after regulatory approval was obtained. The joint venture began capitalizing Aldurazyme inventory costs in January 2002 when inventory production for commercial sale began. The difference in inventory capitalization policies resulted in greater operating expense recognized by the Company prior to regulatory approval compared to the joint venture. Correspondingly, this results in less cost of goods sold recognized by the Company when the previously expensed

product is sold by the joint venture and less operating expenses when this previously expensed product is used in clinical trials. The difference will be eliminated when all of the product produced prior to obtaining regulatory approval has been sold or used in clinical trials. The majority of the difference has been eliminated as of June 30, 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Net product sales	$ 23,530	$ 29,126	$ 44,862	$ 55,948
Cost of goods sold	5,384	6,582	11,007	12,884
Gross profit	18,146	22,544	33,855	43,064
Operating expenses	8,799	9,586	17,066	17,952
Income from operations	9,347	12,958	16,789	25,112
Other income	143	142	301	313
Net income	$ 9,490	$ 13,100	$ 17,090	$ 25,425
Equity in the income of BioMarin/Genzyme LLC	$ 4,745	$ 6,550	$ 8,545	$ 12,713

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At June 30, 2007, the summarized assets and liabilities of the joint venture and the components of the Company s investment in the joint venture are as follows (in thousands):

	December 31, 2006	June 30, 2007
Assets	$ 71,192	$ 75,116
Liabilities	(8,278)	(8,577)
Net equity	$ 62,914	$ 66,539
Investment in BioMarin/Genzyme LLC (50% share of net equity)	$ 31,457	$ 33,269

&nbs