BIOMARIN PHARMACEUTICAL INC
Form 10-Q
August 01, 2011
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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, 2011**

**Or**

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

**For the transition period from to .**

**Commission File Number: 000-26727**

# BioMarin Pharmaceutical Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **68-0397820** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **105 Digital Drive, Novato, California** | **94949** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(415) 506-6700**

**Registrant s telephone number including area code**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

**Applicable only to corporate issuers:**

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 111,827,290 shares of common stock, par value $0.001, outstanding as of July 15, 2011.

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**BIOMARIN PHARMACEUTICAL INC.**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

## BIOMARIN PHARMACEUTICAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

| | June 30, 2011 (Unaudited) | December 31, 2010 (1) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 112,956 | $ 88,079 |
| Short-term investments | 145,964 | 186,033 |
| Accounts receivable, net (allowance for doubtful accounts: $969 and $63, respectively) | 106,606 | 86,576 |
| Inventory | 112,299 | 109,698 |
| Other current assets | 36,286 | 33,874 |
| Total current assets | 514,111 | 504,260 |
| Investment in BioMarin/Genzyme LLC | 1,121 | 1,082 |
| Long-term investments | 153,206 | 128,171 |
| Property, plant and equipment, net | 216,496 | 221,866 |
| Intangible assets, net | 101,736 | 103,648 |
| Goodwill | 53,055 | 53,364 |
| Long-term deferred tax assets | 228,400 | 236,017 |
| Other assets | 12,267 | 14,215 |
| Total assets | $ 1,280,392 | $ 1,262,623 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 82,035 | $ 83,844 |
| Total current liabilities | 82,035 | 83,844 |
| Convertible debt | 377,520 | 377,521 |
| Other long-term liabilities | 88,532 | 84,001 |
| Total liabilities | 548,087 | 545,366 |
| Stockholders equity: | | |
| Common stock, $0.001 par value: 250,000,000 shares authorized at June 30, 2011 and December 31, 2010: 111,564,800 and 110,634,465 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 112 | 111 |
| Additional paid-in capital | 1,122,732 | 1,090,188 |
| Company common stock held by Nonqualified Deferred Compensation Plan | (3,903) | (1,965) |
| Accumulated other comprehensive income (loss) | (5,923) | 188 |
| Accumulated deficit | (380,713) | (371,265) |
| Total stockholders equity | 732,305 | 717,257 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 1,280,392 | $ 1,262,623 |

(1) December 31, 2010 balances were derived from the audited consolidated financial statements.

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

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**BIOMARIN PHARMACEUTICAL INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**Three and Six Months Ended June 30, 2011 and 2010**

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

**(Unaudited)**

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Net product revenues | $ 109,616 | $ 90,592 | $ 218,692 | $ 174,665 |
| Collaborative agreement revenues | 153 | 176 | 278 | 377 |
| Royalty and license revenues | 862 | 1,182 | 1,117 | 1,861 |
| Total revenues | 110,631 | 91,950 | 220,087 | 176,903 |
| **OPERATING EXPENSES:** | | | | |
| Cost of sales (excludes amortization of developed product technology) | 19,263 | 14,401 | 40,059 | 31,813 |
| Research and development | 52,909 | 35,649 | 97,889 | 65,746 |
| Selling, general and administrative | 41,015 | 37,277 | 82,089 | 71,277 |
| Intangible asset amortization and contingent consideration | (3,324) | 1,580 | (3,012) | 2,234 |
| Total operating expenses | 109,863 | 88,907 | 217,025 | 171,070 |
| **INCOME FROM OPERATIONS** | 768 | 3,043 | 3,062 | 5,833 |
| Equity in the loss of BioMarin/Genzyme LLC | (667) | (864) | (1,209) | (1,555) |
| Interest income | 798 | 1,035 | 1,580 | 2,225 |
| Interest expense | (2,072) | (2,635) | (4,213) | (5,064) |
| Net gain from sale of investments | 0 | 0 | 0 | 927 |
| **INCOME BEFORE INCOME TAXES** | (1,173) | 579 | (780) | 2,366 |
| Provision for income taxes | 3,904 | 1,056 | 8,668 | 1,692 |
| **NET INCOME (LOSS)** | $ (5,077) | $ (477) | $ (9,448) | $ 674 |
| **NET INCOME (LOSS) PER SHARE, BASIC** | $ (0.05) | $ (0.00) | $ (0.09) | $ 0.01 |
| **NET INCOME (LOSS) PER SHARE, DILUTED** | $ (0.05) | $ (0.01) | $ (0.09) | $ 0.01 |
| Weighted average common shares outstanding, basic | 111,114 | 101,712 | 110,884 | 101,431 |
| Weighted average common shares outstanding, diluted | 111,114 | 101,834 | 110,884 | 104,347 |

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

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**BIOMARIN PHARMACEUTICAL INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Six Months Ended June 30, 2011 and 2010**

**(In thousands of U.S. dollars)**

**(Unaudited)**

| | Six Months Ended June 30, 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income (loss) | $ (9,448) | $ 674 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,116 | 11,987 |
| Amortization of discount on investments | 2,053 | 2,501 |
| Equity in the loss of BioMarin/Genzyme LLC | 1,209 | 1,555 |
| Stock-based compensation | 20,937 | 18,233 |
| Net gain from sale of investments | 0 | (927) |
| Deferred income taxes | 6,993 | 0 |
| Excess tax benefit from stock option exercises | (28) | (13) |
| Unrealized foreign exchange (gain) loss on forward contracts | 2,117 | (1,475) |
| Changes in the fair value of contingent acquisition consideration payable | (4,624) | 1,453 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (20,030) | (4,142) |
| Inventory | (2,601) | (5,116) |
| Other current assets | (3,258) | 1,287 |
| Other assets | 1,749 | (2,646) |
| Accounts payable and accrued liabilities | (2,687) | 1,753 |
| Other long-term liabilities | 569 | 347 |
| Net cash provided by operating activities | 10,067 | 25,471 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | (8,151) | (29,348) |
| Maturities and sales of investments | 145,639 | 50,682 |
| Purchase of available-for-sale investments | (132,565) | (89,472) |
| Business acquisitions, net of cash acquired | 0 | (14,124) |
| Investments in BioMarin/Genzyme LLC | (1,248) | (1,465) |
| Net cash provided by (used in) investing activities | 3,675 | (83,727) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from Employee Stock Purchase Plan (ESPP) and exercise of stock options | 11,578 | 13,166 |
| Excess tax benefit from stock option exercises | 28 | 13 |
| Payment of contingent acquisition consideration payable | 0 | (6,230) |
| Repayment of capital lease obligations | (471) | (85) |
| Net cash provided by financing activities | 11,135 | 6,864 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 24,877 | (51,392) |

| | | |
|---|---|---|
| Cash and cash equivalents: | | |
| Beginning of period | $ 88,079 | $ 167,171 |
| End of period | $ 112,956 | $ 115,779 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURES:** | | |
| Cash paid for interest, net of interest capitalized into fixed assets | $ 3,683 | $ 4,524 |
| Cash paid for income taxes | 2,298 | 1,183 |
| Stock-based compensation capitalized into inventory | 2,479 | 2,324 |
| Depreciation capitalized into inventory | 2,002 | 1,679 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURES FROM INVESTING AND FINANCING ACTIVITIES:** | | |
| Changes in accrued liabilities related to fixed assets | $ (1,896) | $ 5,790 |
| Equipment acquired through capital leases | 366 | 0 |

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

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011**

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

**(Unaudited)**

**(1) NATURE OF OPERATIONS AND BUSINESS RISKS**

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

Through June 30, 2011, the Company had accumulated losses of approximately $380.7 million. Management believes that the Company s cash, cash equivalents and short-term and long-term investments at June 30, 2011 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 enters into potential licenses and other acquisitions of complementary technologies, products or companies, the Company may need additional capital. The Company expects to continue to finance net future cash needs that exceed its operating activities primarily through its current cash, cash equivalents, short-term and long-term investments, and to the extent necessary, through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners.

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

**(2) BASIS OF PRESENTATION**

The accompanying Condensed Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended December 31, 2010 included in the Company s Annual Report on Form 10-K filed with the SEC on February 24, 2011.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011.

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

***Significant Accounting Policies***

There have been no material changes to the Company s significant accounting policies during the six months ended June 30, 2011, as compared to the significant accounting policies disclosed in Note 2 of the Company s Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2010.

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

***Reclassifications***

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

**(3) RECENT ACCOUNTING PRONOUNCEMENTS**

On January 1, 2011, the Company adopted Accounting Standards Updates 2010-13 and 2010-17, *Multiple Deliverable Revenue Arrangements* (ASU 2010-13) and *Revenue Recognition Milestone Method* (ASU 2010-17); the adoption of these accounting principles did not have an impact on the Company s consolidated financial statements.

There have been no new recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2011, as compared to the recent accounting pronouncements described in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, that are of significance, or potential significance, to the Company.

**(4) SHORT-TERM AND LONG-TERM INVESTMENTS**

All investments were classified as available-for-sale at June 30, 2011 and December 31, 2010. The principal amounts of short-term and long-term investments by contractual maturity are summarized in the tables below:

| | Contractual Maturity Date For the Years Ending December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | Total Book Value at June 30, 2011 | Unrealized Gain | Aggregate Fair Value at June 30, 2011 |
| Certificates of deposit | $ 12,555 | $ 34,414 | $ 13,253 | $ 0 | $ 60,222 | $ 14 | $ 60,236 |
| Commercial paper | 31,722 | 3,985 | 0 | 0 | 35,707 | 18 | 35,725 |
| Corporate securities | 24,744 | 89,391 | 21,907 | 3,100 | 139,142 | 690 | 139,832 |
| U.S. Government agency securities | 10,003 | 23,797 | 21,533 | 8,010 | 63,343 | 34 | 63,377 |
| Total | $ 79,024 | $ 151,587 | $ 56,693 | $ 11,110 | $ 298,414 | $ 756 | $ 299,170 |

| | Contractual Maturity Date For the Years Ending December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | Total Book Value at December 31, 2010 | Unrealized Gain | Aggregate Fair Value at December 31, 2010 |
| Certificates of deposit | $ 29,844 | $ 22,748 | $ 3,093 | $ 55,685 | $ 8 | $ 55,693 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial paper | 27,439 | 0 | 0 | 27,439 | 18 | 27,457 |
| Corporate securities | 80,062 | 63,046 | 8,809 | 151,917 | 598 | 152,515 |
| U.S. Government agency securities | 48,480 | 28,021 | 2,000 | 78,501 | 38 | 78,539 |
| Total | $ 185,825 | $ 113,815 | $ 13,902 | $ 313,542 | $ 662 | $ 314,204 |

The Company completed an evaluation of its investments and determined that it did not have any other-than-temporary impairments as of June 30, 2011. The investments are placed in financial institutions with strong credit ratings and management expects full recovery of the carrying amounts.

The aggregate amounts of unrealized losses and related fair value of investments with unrealized losses as of June 30, 2011 and December 31, 2010 were as follows:

| | **Less Than 12 Months To Maturity** | | **12 Months or More To Maturity** | | **Totals at June 30, 2011** | |
|---|---|---|---|---|---|---|
| | **Aggregate Fair Value** | **Unrealized Losses** | **Aggregate Fair Value** | **Unrealized Losses** | **Aggregate Fair Value** | **Unrealized Losses** |
| Certificates of deposit | $ 8,861 | $ (4) | $ 10,622 | $ (4) | $ 19,483 | $ (8) |
| Commercial paper | 1,996 | (1) | 0 | 0 | 1,996 | (1) |
| Corporate securities | 8,480 | (7) | 4,750 | (8) | 13,230 | (15) |
| U.S. Government agency securities | 0 | 0 | 12,029 | (5) | 12,029 | (5) |
| Total | $ 19,337 | $ (12) | $ 27,401 | $ (17) | $ 46,738 | $ (29) |

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

| | Less Than 12 Months To Maturity | | 12 Months or More To Maturity | | Totals at December 31, 2010 | |
|---|---|---|---|---|---|---|
| | Aggregate Fair Value | Unrealized Losses | Aggregate Fair Value | Unrealized Losses | Aggregate Fair Value | Unrealized Losses |
| Certificates of deposit | $ 13,283 | $ (21) | $ 1,678 | $ (1) | $ 14,961 | $ (22) |
| Commercial paper | 7,486 | (1) | 0 | 0 | 7,486 | (1) |
| Corporate securities | 19,606 | (7) | 18,437 | (68) | 38,043 | (75) |
| U.S. Government agency securities | 0 | 0 | 16,463 | (33) | 16,463 | (33) |
| Total | $ 40,375 | $ (29) | $ 36,578 | $ (102) | $ 76,953 | $ (131) |

**(5) PROPERTY, PLANT AND EQUIPMENT**

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

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Leasehold improvements | $ 40,482 | $ 40,196 |
| Building and improvements | 138,234 | 138,025 |
| Manufacturing and laboratory equipment | 68,535 | 59,711 |
| Computer hardware and software | 43,974 | 37,651 |
| Furniture and equipment | 6,995 | 6,573 |
| Land | 10,056 | 10,056 |
| Construction-in-progress | 7,948 | 14,729 |
| | $ 316,224 | $ 306,941 |
| Less: Accumulated depreciation | (99,728) | (85,075) |
| Total property, plant and equipment, net | $ 216,496 | $ 221,866 |

On June 22, 2011 the Company entered into an asset purchase agreement (Asset Purchase Agreement) with Pfizer Biotechnology Ireland (Pfizer) to acquire a bulk biologics manufacturing plant located in Shanbally, County Cork, Ireland (Facility). Pursuant to the Asset Purchase Agreement, BioMarin Ireland has agreed to purchase the Facility for a price of $48.5 million. The closing of the purchase under the terms of the Asset Purchase Agreement is subject to customary closing conditions, including the transfer of the environmental license from the Irish Environmental Protection Agency, and is expected to be completed in the third quarter of 2011.

Depreciation expense during the three and six months ended June 30, 2011 was $7.4 million and $14.7 million, respectively, of which $1.0 million and $2.0 million was capitalized into inventory, respectively. Depreciation expense during the three and six months ended June 30, 2010 was $5.2 million and $10.1 million, respectively, of which $0.8 million and $1.7 million was capitalized into inventory, respectively.

Capitalized interest related to the Company s property, plant and equipment purchases for both the three and six months ended June 30, 2011 was $20, compared to the three and six months ended June 30, 2010 when capitalized interest was $0.3 million and $0.7 million, respectively.

**(6) INVENTORY**

Inventory consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Raw materials | $ 14,159 | $ 11,174 |
| Work-in-process | 53,302 | 65,336 |
| Finished goods | 44,838 | 33,188 |
| Total inventory | $ 112,299 | $ 109,698 |

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

Inventory as of June 30, 2011 and December 31, 2010 includes $12.6 million and $14.8 million, respectively, of Naglazyme product manufactured in the Company s recently expanded production facility. The Company s expansion of its manufacturing facility, as for any new manufacturing facility or process, is required to be approved by the U.S. Food and Drug Administration (FDA) and similar ex-US regulatory agencies before the product manufactured in this facility can be sold commercially. As of June 30, 2011, the expanded facility and new process have not been approved by the FDA or any other regulatory agency; however, the Company expects to receive FDA approval in early 2012 and realize the costs of the remaining Naglazyme pre-qualification inventories through future sales.

**(7) SUPPLEMENTAL BALANCE SHEET INFORMATION**

Other current assets consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Non-trade receivables | $ 4,614 | $ 7,308 |
| Prepaid expenses | 14,431 | 8,452 |
| Foreign currency exchange forward contract asset | 0 | 1,221 |
| Current deferred tax assets | 16,658 | 16,658 |
| Other | 583 | 235 |
| Total other current assets | $ 36,286 | $ 33,874 |

Intangible assets, net consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Intangible assets: | | |
| Finite-lived intangible assets | $ 37,242 | $ 37,242 |
| Indefinite-lived intangible assets | 70,396 | 70,396 |
| Gross intangible assets: | 107,638 | 107,638 |
| Less: Accumulated amortization | (5,902) | (3,990) |
| Net carrying value | $ 101,736 | $ 103,648 |

Accounts payable and accrued liabilities consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Accounts payable | $ 7,252 | $ 4,956 |
| Accrued accounts payable | 19,920 | 24,410 |
| Accrued vacation expense | 6,897 | 5,629 |
| Accrued compensation expense | 11,671 | 15,913 |
| Accrued taxes payable | 112 | 529 |
| Accrued interest expense | 1,650 | 1,804 |
| Accrued royalties payable | 6,390 | 5,362 |
| Other accrued operating expenses | 5,669 | 4,330 |
| Accrued rebates payable | 6,171 | 5,899 |
| Current portion of contingent acquisition consideration payable | 3,000 | 8,794 |
| Value added taxes payable | 4,076 | 2,950 |
| Current portion of foreign currency exchange forward contract liability | 6,080 | 1,673 |
| Other | 3,147 | 1,595 |
| Total accounts payable and accrued liabilities | $ 82,035 | $ 83,844 |

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

Other long-term liabilities consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Long-term portion of deferred rent | $ 991 | $ 957 |
| Long-term portion of contingent acquisition consideration payable | 35,786 | 34,924 |
| Long-term portion of deferred compensation liability | 7,431 | 5,213 |
| Long-term income taxes payable | 5,839 | 5,584 |
| Deferred tax liabilities | 36,517 | 36,517 |
| Other | 1,968 | 806 |
| Total other long-term liabilities | $ 88,532 | $ 84,001 |

**(8) DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES**

The Company uses hedging contracts to manage the risk of its overall exposure to fluctuations in foreign currency exchange rates. The Company considers all of its designated hedging instruments to be cash flow hedges.

***Foreign Currency Exchange Rate Exposure***

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

The Company designates certain of these forward foreign currency exchange contracts as hedging instruments and enters into some forward foreign currency exchange contracts that are considered to be economic hedges that are not designated as hedging instruments. Whether designated or undesignated, these forward foreign currency exchange contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from Naglazyme and Firdapse product revenues, Aldurazyme royalty revenues and net asset or liability positions designated in currencies other than the U.S. dollar. The fair values of forward foreign currency exchange contracts are estimated using current interest rates and take into consideration the current creditworthiness of the counterparties or the Company, as applicable. Details of the specific instruments used by the Company to hedge its exposure to foreign currency exchange rate fluctuations follow below. See Note 10 for additional discussion regarding the fair value of forward foreign currency exchange contracts.

At June 30, 2011, the Company had 115 forward foreign currency exchange contracts outstanding to sell a total of 71.1 million Euros with expiration dates ranging from July 2011 through December 2012. These hedges were entered into to protect against the fluctuations in Euro denominated Naglazyme, Firdapse and Aldurazyme revenues. The Company has formally designated these forward foreign currency exchange contracts as cash flow hedges and expects them to be highly effective within the meaning of Financial Accounting Standards Board Accounting Standards Codification Subtopic 815-30, *Derivatives and Hedging- Cash Flow Hedges,* in offsetting fluctuations in revenues denominated in Euros related to changes in the foreign currency exchange rates.

The Company also enters into forward foreign currency exchange contracts that are not designated as hedges for accounting purposes. The changes in fair value of these forward foreign currency exchange contracts are included as a part of selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. At June 30, 2011, separate from the 115 contracts discussed above, the Company had one outstanding forward foreign currency exchange contract to sell 24.9 million Euros that was not designated as a hedge for accounting purposes.

The maximum length of time over which the Company is hedging its exposure to the reduction in value of forecasted foreign currency cash flows through forward foreign currency exchange contracts is through December 2012. Over the next twelve months, the Company expects to reclassify $6.3 million from accumulated other comprehensive income to earnings as related forecasted revenue transactions occur.

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

At June 30, 2011 and December 31, 2010, the fair value carrying amounts of the Company s derivative instruments were as follows:

| | Asset Derivatives June 30, 2011 | | Liability Derivatives June 30, 2011 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| **Derivatives designated as hedging instruments** | | | | |
| Forward foreign currency exchange contracts | Other current assets | $ 0 | Accounts payable and accrued liabilities | $ 5,981 |
| Forward foreign currency exchange contracts | Other assets | 0 | Other long-term liabilities | 185 |
| Total | | $ 0 | | $ 6,166 |
| **Derivatives not designated as hedging instruments** | | | | |
| Forward foreign currency exchange contracts | Other current assets | $ 0 | Accounts payable and accrued liabilities | $ 99 |
| Total | | $ 0 | | $ 99 |
| Total derivative contracts | | $ 0 | | $ 6,265 |

| | Asset Derivatives December 31, 2010 | | Liability Derivatives December 31, 2010 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| **Derivatives designated as hedging instruments** | | | | |
| Forward foreign currency exchange contracts | Other current assets | $ 1,221 | Accounts payable and accrued liabilities | $ 1,596 |
| Forward foreign currency exchange contracts | Other assets | 275 | Other long-term liabilities | 0 |
| Total | | $ 1,496 | | $ 1,596 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | | | |
| Forward foreign currency exchange contracts | Other current assets | $ | 0 | Accounts payable and accrued liabilities | $ | 77 |
| Total | | $ | 0 | | $ | 77 |
| Total derivative contracts | | $ | 1,496 | | $ | 1,673 |

The effect of the Company s derivative instruments on the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2011 and 2010 was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Derivatives Designated as Hedging Instruments** | | | | |
| Net gain (loss) recognized in Other Comprehensive Income (OCI) (1) | $ (372) | $ 6,178 | $ (6,208) | $ 10,236 |
| Net gain (loss) reclassified from accumulated OCI into income (2) | (1,994) | 1,835 | (2,114) | 2,109 |
| Net gain (loss) recognized in income (3) | (177) | 234 | 148 | 320 |
| **Derivatives Not Designated as Hedging Instruments** | | | | |
| Net gain (loss) recognized in income (4) | $ (923) | $ 1,946 | (2,731) | 3,263 |

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

At June 30, 2011 and December 31, 2010, accumulated other comprehensive income/loss associated with foreign currency forward contracts qualifying for hedge accounting treatment was a loss of $6.5 million and $0.2 million, respectively.

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

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

**(9) CONVERTIBLE DEBT**

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

In connection with the placement of the 2017 Notes, the Company paid approximately $8.5 million in offering costs, which have been deferred and are included in other assets. The deferred offering costs are being amortized as interest expense over the life of the debt and in each of the three and six months ended June 30, 2011 and 2010, the Company recognized amortization of expense of $0.2 million and $0.4 million, respectively.

In March 2006, the Company sold $172.5 million of senior subordinated convertible notes due 2013 (the 2013 Notes). The debt was issued at face value and bears interest at the rate of 2.5% per annum, payable semi-annually in cash. The debt is convertible, at the option of the holder, at any time prior to maturity or redemption, into shares of the Company s common stock at a conversion price of approximately $16.58 per share, subject to adjustment in certain circumstances. The debt does not include a call provision and the Company is unable to unilaterally redeem the debt prior to maturity on March 29, 2013. The Company also must repay the debt if there is a qualifying change in control or termination of trading of its common stock.

In connection with the placement of the 2013 Notes, the Company paid approximately $5.5 million in offering costs, which have been deferred and are included in other assets. The deferred offering costs are being amortized as interest expense over the life of the debt. The Company recognized amortization expense of approximately $60,000 and $121,000 for the three and six months ended June 30, 2011, respectively, compared to the three and six months ended June 30, 2010 when amortization expense was $0.2 million and $0.4 million, respectively. The decrease in amortization expense for the three and six months ended June 30, 2011, compared to the three and six months ended June 30, 2010 was attributed to the conversion of $119.6 million in aggregate principal of the 2013 Notes in November 2010.

In November 2010, the Company entered into separate agreements with nine of the existing holders of its 2013 Notes pursuant to which such holders converted $119.6 million in aggregate principal amount of the 2013 Notes into 7,213,379 shares of the Company s common stock. In addition to issuing the requisite number of shares of the Company s common stock pursuant to the 2013 Notes, the Company paid the holders future interest of approximately $7.2 million along with an aggregate of approximately $6.5 million related to varying cash premiums for agreeing to convert the 2013 Notes, which was recognized in total as debt conversion expense on the consolidated statement of operations for the year ended December 31, 2010. Additionally, the Company reclassified $1.3 million of deferred offering costs to additional paid-in capital in connection with the conversion of the notes.

Interest expense on the Company s convertible debt for the three and six months ended June 30, 2011 was $2.2 million and $4.4 million, respectively, compared to the three and six months ended June 30, 2010 when interest expense related to the Company s convertible debt was $2.6 million and $5.2 million, respectively. The decrease in interest expense related to the Company s convertible debt in the three and six months ended June 30, 2011, compared to the three and six months ended June 30, 2010 was attributed to the November 2010 conversion of $119.6 million in aggregate principal of the 2013 Notes.

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**BIOMARIN PHARMACEUTICAL INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**June 30, 2011**

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

**(Unaudited)**

## (10) FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities and foreign currency derivatives. The tables below present the fair value of these financial assets and liabilities determined using the following input levels at June 30, 2011 and December 31, 2010.

| | | Fair Value Measurements at June 30, 2011 | | |
|---|---|---|---|---|
| | Total | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets:** | | | | |
| Cash and cash equivalents | | | | |
| Overnight deposits | $ 98,192 | $ 98,192 | $ 0 | $ 0 |
| Money market instruments | 14,764 | 0 | 14,764 | 0 |
| Total cash and cash equivalents | $ 112,956 | $ 98,192 | $ 14,764 | $ 0 |
| Available-for-sale securities | | | | |
| Short-term | | | | |
| Certificates of deposit | $ 26,762 | $ 0 | $ 26,762 | $ 0 |
| Commercial paper | 35,725 | 0 | 35,725 | 0 |
| Corporate securities | 73,466 | 0 | 73,466 | 0 |
| U.S. Government agency securities | 10,011 | 0 | 10,011 | 0 |
| Long-term | | | | |
| Certificates of deposit | 33,474 | 0 | 33,474 | 0 |
| Commercial paper | 0 | 0 | 0 | 0 |
| Corporate securities | 66,366 | 0 | 66,366 | 0 |
| U.S. Government agency securities | 53,366 | 0 | 53,366 | 0 |
| Total available-for-sale securities | $ 299,170 | $ 0 | $ 299,170 | $ 0 |
| Deferred compensation asset (1) | 3,379 | 0 | 3,379 | 0 |
| Total assets | $ 415,505 | $ 98,192 | $ 317,313 | $ |
| **Liabilities:** | | | | |
| Deferred compensation liability (3) | $ 8,070 | $ 4,692 | $ 3,378 | $ 0 |
| Forward foreign currency exchange contract liability (2) | 6,265 | 0 | 6,265 | 0 |
| Contingent acquisition consideration payable ( | | | | |