Sarepta Therapeutics, Inc.
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 001-14895

SAREPTA THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**93-0797222**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

215 First Street, Suite 415

Cambridge, MA	**02142**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (617) 274-4000

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 (Check one):

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock with $0.0001 par value	**40,923,746**
(Class)	**(Outstanding as of July 31, 2014)**

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SAREPTA THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	As of June 30, 2014	As of December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 102,754	$ 256,965
Short-term investments	176,785	
Accounts receivable	5,226	3,530
Restricted investments	4,000	7,250
Other current assets	15,906	3,061
Total Current Assets	304,671	270,806
Restricted investments	647	647
Property and equipment, net of accumulated depreciation and amortization of $17,945 and $17,328 as of June 30, 2014 and December 31, 2013, respectively	20,163	15,049
Patent costs, net of accumulated amortization of $1,853 and $1,622 as of June 30, 2014 and December 31, 2013, respectively	5,387	5,042
Other assets	6,441	25
Total Assets	$ 337,309	$ 291,569
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 1,309	$ 8,080
Accrued expenses	13,839	14,601
Current portion of long-term debt	96	92
Warrant liability	9,826	9,006
Deferred revenue	3,303	3,299
Other liabilities	1,031	888
Total Current Liabilities	29,404	35,966

Long-term debt	1,525	1,576
Deferred rent and other long-term liabilities	6,459	6,835
Total Liabilities	37,388	44,377
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $.0001 par value, 3,333,333 shares authorized; none issued and outstanding		
Common stock, $.0001 par value, 50,000,000 shares authorized; 40,799,692 and 37,751,920 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	4	4
Additional paid-in capital	905,335	790,424
Accumulated other comprehensive loss	(35)	
Accumulated deficit	(605,383)	(543,236)
Total Stockholders Equity	299,921	247,192
Total Liabilities and Stockholders Equity	$ 337,309	$ 291,569

See accompanying notes to unaudited condensed consolidated financial statements.

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SAREPTA THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue from research contracts and other grants	$ 2,583	$ 2,951	$ 8,671	$ 7,425
Operating expenses:				
Research and development	20,641	12,984	41,547	26,746
General and administrative	12,213	7,054	22,516	13,181
Operating loss	(30,271)	(17,087)	(55,392)	(32,502)
Other income (loss):				
Interest income (expense) and other, net	181	(19)	280	218
Loss on change in warrant valuation	(3,784)	(1,945)	(7,035)	(28,851)
Total other loss	(3,603)	(1,964)	(6,755)	(28,633)
Net loss	$ (33,874)	$ (19,051)	$ (62,147)	$ (61,135)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities	24		(35)	
Total other comprehensive income (loss)	24		(35)	
Comprehensive loss	$ (33,850)	$ (19,051)	$ (62,182)	$ (61,135)
Net loss per share basic and diluted	$ (0.85)	$ (0.60)	$ (1.60)	$ (1.92)
Weighted average number of common stock outstanding for computing basic and diluted net loss per share	39,862	31,984	38,847	31,899

See accompanying notes to unaudited condensed consolidated financial statements.

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SAREPTA THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Six Months Ended June 30,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$ (62,147)	$ (61,135)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	1,483	711
Amortization of premium on available-for-sale securities	1,127	
Loss on abandonment of patents	52	334
Stock-based compensation	9,929	3,989
Loss on change in warrant valuation	7,035	28,851
Changes in operating assets and liabilities, net:		
Net (increase) decrease in accounts receivable and other assets	(20,957)	549
Net decrease in accounts payable, accrued expenses and other liabilities	(4,291)	(294)
Net cash used in operating activities	(67,769)	(26,995)
Cash flows from investing activities:		
Release and maturity of restricted investments	3,250	
Purchase of restricted investments		(7,807)
Purchase of property and equipment	(9,841)	(435)
Patent costs	(628)	(931)
Purchase of available-for-sale securities	(226,616)	
Maturity of available-for-sale securities	48,669	
Net cash used in investing activities	(185,166)	(9,173)
Cash flows from financing activities:		
Proceeds from exercise of options and warrants and the sale of common stock, net of offering costs	98,771	4,915
Repayments of long-term debt	(47)	(45)
Other financing activities, net		(178)
Net cash provided by financing activities	98,724	4,692
Decrease in cash and cash equivalents	(154,211)	(31,476)
Cash and cash equivalents:		
Beginning of period	256,965	187,661

End of period	$	102,754	$	156,185
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	40	$	102
Supplemental schedule of non-cash investing activities and financing activities:				
Issuance of common stock in satisfaction of warrants and other liabilities	$	6,215	$	14,928
Tenant improvements paid by landlord	$	65	$	
Property and equipment included in accrued expenses	$	422	$	
Receivable for warrants exercised	$		$	2,624

See accompanying notes to unaudited condensed consolidated financial statements.

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SAREPTA THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BUSINESS AND BASIS OF PRESENTATION

Business

Sarepta Therapeutics, Inc. and its wholly-owned subsidiaries (Sarepta or the Company) is a biopharmaceutical company focused on the discovery and development of unique RNA-based therapeutics for the treatment of rare and infectious diseases. Applying its proprietary platform technologies, the Company is able to target a broad range of diseases and disorders through distinct RNA-based mechanisms of action. The Company is focused on advancing the development of its Duchenne muscular dystrophy (DMD) drug candidates, including its lead product candidate, eteplirsen, for which the Company is currently conducting an ongoing open label extension study following completion of its initial Phase IIb clinical trials. The Company is also developing therapeutics for the treatment of infectious diseases.

The Company has not generated any material revenue from product sales to date and there can be no assurance that revenue from product sales will be achieved. Even if the Company does achieve revenue from product sales, it is likely to continue to incur operating losses in the near term.

As of June 30, 2014, the Company had $284.2 million of cash, cash equivalents and investments, consisting of $102.8 million of cash and cash equivalents, $176.8 million of short-term investments and $4.6 million of restricted investments. The Company believes that its balance of cash, cash equivalents and investments is sufficient to fund its current operational plan for the next twelve months. The government contract under which the Marburg drug candidate was being developed expired in July 2014 and the Company is currently evaluating options to continue advancing its Marburg candidate and other infectious disease research and development efforts. The Company may pursue additional cash resources through public or private financings, seek additional government contracts and establish collaborations with or license its technology to other companies.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), reflect the accounts of Sarepta Therapeutics, Inc. and its wholly-owned subsidiaries. All intercompany transactions between and among its consolidated subsidiaries have been eliminated. Management has determined that the Company operates in one segment: the development of pharmaceutical products on its own behalf or in collaboration with others. The information included in this quarterly report on Form 10-Q should be read in conjunction with the Company s consolidated financial statements and the accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Estimates and Uncertainties

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenue, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the valuation of stock-based awards and liability classified warrants, research and development expenses and revenue recognition.

Reclassification

The Company has revised the presentation as well as the caption of certain current liabilities within the unaudited condensed consolidated balance sheets to conform to the current period presentation. Accrued liabilities of $9.6 million as of December 31, 2013 is reclassified from accounts payable and grouped with accrued employee compensation of $5.0 million. Accrued liabilities and accrued employee compensation are presented as accrued expenses on the unaudited condensed consolidated balance sheets. This revision had no impact on total current liabilities or total liabilities.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12 which requires that companies that issue stock-based awards treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. ASU No. 2014-12 is effective for fiscal years after December 15, 2015, with early adoption permitted. The Company has elected to adopt this ASU early but does not expect the adoption of this guidance to have a material effect on its consolidated financial statements as the performance targets of the Company s stock-based awards with performance conditions must be achieved prior to the end of the requisite service period.

In June 2014, the FASB issued ASU No. 2014-10, which eliminates the concept of a development stage entity (DSE), in its entirety from U.S. GAAP. Under existing guidance, DSEs are required to report incremental information, including inception-to-date financial information, in their financial statements. A DSE is an entity devoting substantially all of its efforts to establishing a new business and for which either planned principal operations have not yet commenced or have commenced but there have been no significant revenues generated from that business. Entities classified as DSEs will no longer be subject to these incremental reporting requirements after adopting ASU No. 2014-10. ASU No. 2014-10 is effective for fiscal years beginning after December 15, 2014, with early adoption permitted. Retrospective application is required for the elimination of incremental DSE disclosures. Prior to the issuance of ASU No. 2014-10, the Company had met the definition of a DSE since its inception. The Company has elected to adopt this ASU early and, therefore, has eliminated the incremental disclosures previously required of DSEs, starting with this Quarterly Report on Form 10-Q.

In May 2014, the FASB issued ASU No. 2014-09, which amends the guidance for accounting for revenue from contracts with customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition,* and creates a new Topic 606, *Revenue from Contracts with Customers*. Under the new guidance, a company is required to recognize revenue when it transfers goods or renders services to customers at an amount that it expects to be entitled to in exchange for these goods or services. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption not permitted. Two adoption methods are permitted: retrospectively to all prior reporting periods presented, with certain practical expedients permitted; or retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. The Company has not yet determined which adoption method it will utilize or the effect that the adoption of this guidance will have on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, which amends guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity s operations and financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosure requirements for individually significant dispositions that do not qualify as discontinued operations. This guidance is effective prospectively for fiscal years beginning after

December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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3. ACCOUNTS RECEIVABLE

The Company s accounts receivable primarily arise from government research contracts and other grants. They are generally stated at invoiced amount and do not bear interest. Because the accounts receivable are primarily from government agencies and historically no amounts have been written off, an allowance for doubtful accounts receivable is not considered necessary. As of June 30, 2014 and December 31, 2013, the accounts receivable balance included unbilled receivables of $3.9 million and $2.4 million, respectively. Approximately $2.5 million of the unbilled receivables as of June 30, 2014 are subject to government audit and will not be collected until the completion of the audit.

4. FAIR VALUE MEASUREMENTS

The Company has certain financial assets and liabilities that are recorded at fair value which have been classified as Level 1, 2 or 3 within the fair value hierarchy as described in the accounting standards for fair value measurements.

Level 1 quoted prices for identical instruments in active markets;

Level 2 quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 valuations derived from valuation techniques in which one or more significant value drivers are unobservable.

The tables below present information about the Company s financial assets and liabilities that are measured and carried at fair value and indicate the level within the fair value hierarchy of the valuation techniques it utilizes to determine such fair value:

	Fair Value Measurement as of June 30, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$ 277	$ 277	$	$
Commercial paper	20,650		20,650	
Government and government agency bonds	92,178		92,178	
Corporate bonds	71,207		71,207	
Certificates of deposit	4,647	4,647		
Total assets	$ 188,959	$ 4,924	$ 184,035	$

	Fair Value Measurement as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$ 185,000	$ 185,000	$	$
Certificates of deposit	7,897	7,897		
Total assets	$ 192,897	$ 192,897	$	$

	Fair Value Measurement as of June 30, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Warrants	$ 9,826	$	$	$ 9,826
Total liabilities	$ 9,826	$	$	$ 9,826

	Fair Value Measurement as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Warrants	$ 9,006	$	$	$ 9,006
Total liabilities	$ 9,006	$	$	$ 9,006

The Company s assets with fair value categorized as Level 1 within the fair value hierarchy include money market funds and certificates of deposit. Money market funds are publicly traded mutual funds.

The Company s assets with fair value categorized as Level 2 within the fair value hierarchy consist of commercial paper, government and government agency bonds and corporate bonds. These assets have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, through income-based approaches utilizing market observable data.

The Company s liabilities with fair value categorized as Level 3 within the fair value hierarchy consist of warrants issued in January and August 2009. The fair value of these liabilities is determined using the Black-Scholes-Merton option-pricing model, which requires the use of significant judgment and estimates for the inputs in the model. For additional information related to the determination of fair value of warrants and a reconciliation of changes in fair value, please read *Note 6, Warrants* of the unaudited condensed consolidated financial statements.

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts reported for long-term debt approximate fair value based on market activity for other debt instruments with similar characteristics and comparable risk.

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5. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

It is the Company s policy to mitigate credit risk in its financial assets by maintaining a well-diversified portfolio that limits the amount of exposure as to maturity and investment type. The following tables summarize the Company s cash, cash equivalents and short-term investments for each of the periods indicated:

	As of June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
		(in thousands)		
Cash and money market funds	$ 95,504	$	$	$ 95,504
Commercial paper	20,649	1		20,650
Government and government agency bonds	92,198	3	(23)	92,178
Corporate bonds	71,223	5	(21)	71,207
Total	$ 279,574	$ 9	$ (44)	$ 279,539
As reported:				
Cash and cash equivalents	102,754			102,754
Short-term investments	176,820	9	(44)	176,785
Total	$ 279,574	$ 9	$ (44)	$ 279,539

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
		(in thousands)		
Cash and money market funds	$ 256,965	$	$	$ 256,965
Total	$ 256,965	$	$	$ 256,965
As reported:				
Cash and cash equivalents	$ 256,965	$	$	$ 256,965
Total	$ 256,965	$	$	$ 256,965

6. WARRANTS

The Company has periodically issued warrants in connection with certain common stock offerings. The warrants issued in January and August 2009 are classified as liabilities as opposed to equity due to their settlement terms which require settlement in registered shares. These warrants are non-cash liabilities and the Company is not required to expend any cash to settle these liabilities.

The outstanding warrants classified as liabilities are recorded on the unaudited condensed consolidated balance sheets and are adjusted to fair value at each financial reporting period, with changes in the fair value being recorded as Loss on change in warrant valuation in the unaudited condensed consolidated statements of operations and comprehensive loss. Fair value is determined using the Black-Scholes-Merton option-pricing model, which requires the use of significant judgment and estimates for the inputs used in the model.

The following table reflects the assumptions for each of the periods indicated:

	As of June 30, 2014	As of December 31, 2013
Risk-free interest rate (1)	Less than 0.1%	0.1%
Expected dividend yield (2)	0%	0%
Expected lives (3)	0.1 0.2 years	0.6 0.7 years
Expected volatility (4)	48.2 62.1%	95.5%
Shares underlying warrants classified as liabilities	501,494	791,508
Market value of stock at beginning of the period	$20.37	$25.80
Market value of stock at end of the period	$29.79	$20.37

(1) The risk-free interest rate is estimated using an average of U.S. Treasury bill interest rates that correlate to the prevailing interest rates at the valuation date.
(2) The expected dividend yield is zero as the Company has not paid any dividends to date and does not expect to pay dividends prior to the expiration of the warrants.
(3) The expected lives are based on the remaining contractual lives of the related warrants at the valuation date.
(4) The expected volatility is estimated using implied volatility in exchange-traded options associated with the Company s common stock.

The amounts estimated according to the Black-Scholes-Merton option-pricing model may not be indicative of the actual values realized upon the exercise of these warrants by the holders.

The following table summarizes the reconciliation of the change in value of the Company s liability classified warrants for each of the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance at beginning of the period	$ 9,213	$ 91,077	$ 9,006	$ 65,193
Increase in value of warrants	3,784	1,945	7,035	28,851
Reclassification to stockholders equity upon exercise of warrants	(3,171)	(13,906)	(6,215)	(14,928)
Balance at end of the period	$ 9,826	$ 79,116	$ 9,826	$ 79,116

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The following table summarizes the Company s warrant activity for each of the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Warrants outstanding at beginning of the period	633,740	$ 9.92	3,093,676	$ 8.49	791,508	$ 10.50	3,127,618	$ 8.48
Exercised	(132,246)	8.87	(464,753)	8.94	(290,014)	9.80	(498,695)	8.89
Warrants outstanding at end of the period	501,494	$ 10.20	2,628,923	$ 8.41	501,494	$ 10.20	2,628,923	$ 8.41
Warrants exercisable at end of the period	501,494	$ 10.20	2,628,923	$ 8.41	501,494	$ 10.20	2,628,923	$ 8.41

The following table summarizes the Company s warrants outstanding at June 30, 2014:

Issue Date	Exercise Price	Outstanding Warrants	Expiration Date
1/30/2009	$ 6.96	65,325	7/30/2014
8/25/2009	$ 10.68	436,169	8/31/2014

7. ACCRUED EXPENSES

The following table summarizes the Company s accrued expenses for each of the periods indicated:

	As of June 30, 2014	As of December 31, 2013
	(in thousands)	
Accrued contract manufacturing costs	$ 2,941	$ 1,414
Accrued facility-related costs	556	2,843
Accrued contract research costs	2,240	2,785
Accrued employee compensation costs	3,932	5,048
Accrued professional fees	3,440	1,235
Others	730	1,276
Total accrued expenses	$ 13,839	$ 14,601

8. EQUITY FINANCING

On April 29, 2014, the Company sold 2,650,000 shares of common stock at an offering price of $38.00 per share. The Company received aggregate net proceeds of approximately $94.5 million, after deducting the underwriting discounts and offering related transaction costs.

In January 2013, the Company sold approximately 87,000 shares of common stock through its At-The-Market offering that originally commenced in September 2012 (the 2012 ATM). The sales in January 2013 generated $2.1 million in net proceeds and fully exhausted the sales of stock available under the 2012 ATM sales agreement.

9. GOVERNMENT CONTRACTS

The Company recognizes revenue from U.S. and European Union (E.U.) government research contracts and other grants during the period in which the related expenditures are incurred and presents revenue and related expenses gross in the unaudited condensed consolidated statements of operations and comprehensive loss. In the periods presented, substantially all of the revenue generated by the Company was derived from government research contracts.

The following table summarizes the revenue for each of the Company s contracts with the U.S. and E.U. governments for each of the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
July 2010 Contract *(Ebola and Marburg IV)*	$ 1,709	$ 2,076	$ 5,773	$ 4,690
August 2012 Contract (*Intramuscular*)		439		2,245
November 2012 SKIP-NMD Agreement *(DMD)*	24	9	1,389	63
July 2013 Children s National Medical Center *(DMD)*			659	
Carolinas Medical Center Agreement (DMD)	850		850	
Other Agreements		427		427
Total	$ 2,583	$ 2,951	$ 8,671	$ 7,425

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July 2010 Contract (Ebola and Marburg Intravenous administration)

In July 2010, the Company was awarded the Department of Defense (DoD) contract managed by its Joint Project Manager Medical Countermeasure Systems (JPM-MCS) program for the advanced development of its hemorrhagic fever virus therapeutic candidates, AVI-6002 and AVI-6003, against Ebola and Marburg viruses, respectively. In February 2012, the Company announced that it received permission from the U.S. Food and Drug Administration (FDA) to proceed with a single oligomer from AVI-7288, one of the two components that make up AVI-6003, as the lead product candidate against Marburg virus infection. In August 2012, the Company received a stop-work order related to the Ebola virus portion of the contract and, in October 2012, the DoD terminated the Ebola portion of the contract for the convenience of the government due to government funding constraints.

The Marburg portion of the contract is structured into four segments and has an aggregate remaining period of performance spanning approximately four years if the DoD exercises its options for all segments. Activities under the first segment began in July 2010 and included preclinical studies and Phase I studies in healthy volunteers. In February 2014, the Company announced positive safety results from the Phase I multiple ascending dose study of AVI-7288. However, in July 2014, the contract expired.

For the three months ended June 30, 2014 and 2013, the Company recognized $1.7 million and $2.1 million, respectively, as revenue under this agreement. For the six months ended June 30, 2014 and 2013, the Company recognized $5.8 million and $4.7 million, respectively, as revenue under this agreement. Due to the expiration of the contract, only revenue for contract finalization, if any, is expected in the future.

August 2012 Agreement (Intramuscular)

In August 2012, the Company was awarded a contract from the JPM-MCS program. The contract was for approximately $3.9 million to evaluate the feasibility of an intramuscular route of administration using AVI-7288, the Company s candidate for treatment of Marburg virus. The period of performance for this contract concluded in the third quarter of 2013. Accordingly, no revenue was recognized since the conclusion of the contract. For the three and six months ended June 30, 2013, the Company recognized $0.4 million and $2.2 million, respectively, as revenue under this agreement.

European Union SKIP-NMD Agreement (DMD)

In November 2012, the Company entered into an agreement for a collaborative research project partially funded by the E.U. Health Innovation. The agreement provides for approximately $2.5 million for research in certain development and study related activities for a DMD therapeutic. For each of the three months ended June 30, 2014 and 2013, the Company recognized less than $100 thousand as revenue under this agreement. For the six months ended June 30, 2014 and 2013, the Company recognized $1.4 million and less than $100 thousand, respectively, as revenue under this agreement. The majority of the revenue under this contract has been recognized as of June 30, 2014 and only revenue for contract finalization, if any, is expected in the future.

July 2013 Children s National Medical Center (CNMC) Agreement (DMD)

In July 2013, the Company entered into an agreement totaling $1.3 million to provide drug products to CNMC to conduct research related to one of the Company s DMD programs. No revenue was recognized under this agreement for the three months ended June 30, 2014 or the three and six months ended June 30, 2013. For the six months ended June 30, 2014, the Company recognized revenue of $0.7 million. Revenue under this agreement was fully recognized as of March 31, 2014.

Carolinas Medical Center (CMC) Agreement (DMD)

The Company entered into a collaboration agreement with CMC to co-develop one of the Company s DMD programs. Under the agreement, CMC was obligated to reimburse certain preclinical costs incurred by the Company. All preclinical work was completed and the Company recognized revenue of $0.9 million for the three and six months ended June 30, 2014.

10. STOCK-BASED COMPENSATION

The Company s equity incentive plans allow for the granting of a variety of stock awards. To date, the Company has granted stock options, restricted stock awards, restricted stock units and stock appreciation rights. The fair value of stock awards, with consideration given to estimated forfeitures, is recognized as compensation expense on a straight-line basis over the vesting period of the grants.

Stock Options

The Company has granted stock options with both service- and performance-based criteria. In general, stock options granted vest over four years and have a ten-year term. Through the filing of an Investigational New Drug (IND) application during the period, 20% of performance awards were triggered to be eligible to vest subject to the remaining service conditions of the awards. Accordingly, the Company has recognized approximately $0.6 million in stock-based compensation expense related to the options with performance-based criteria.

The following table summarizes the Company s stock option activity for each of the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Grants outstanding at beginning of the period	5,273,338	$ 24.27	2,694,678	$ 13.35	4,190,367	$ 23.46	2,522,522	$ 11.76
Granted	117,770	33.75	1,511,850	34.95	1,303,035	27.45	1,754,170	34.10
Exercised	(26,025)	14.64	(55,157)	7.63	(74,604)	11.87	(119,547)	8.35
Canceled or expired	(136,710)	23.11	(175,182)	9.43	(190,425)	25.13	(180,956)	9.60
Grants outstanding at end of the period	5,228,373	24.56	3,976,189	$ 21.82	5,228,373	24.56	3,976,189	$ 21.82
Grants exercisable at end of the period	1,642,252	17.75	714,247	$ 11.81	1,642,252	17.75	714,247	$ 11.81

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The fair values of stock options granted during the periods presented were measured on the date of grant using the Black-Scholes-Merton option-pricing model, with the following assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate (1)	1.5 1.7%	0.7 1.4%	1.5 1.7%	0.7 1.4%
Expected dividend yield (2)	0%	0%	0%	0%
Expected lives (3)	4.9 years	5.0 years	4.9 years	5.0 years
Expected volatility (4)	93.0%	80.0 84.1%	93.0 95.4%	80.0 84.1%

(1) The risk-free interest rate is estimated using an average of Treasury bill interest rates over a historical period commensurate with the expected term of the option that correlates to the prevailing interest rates at the time of grant.
(2) The expected dividend yield is zero as the Company has not paid any dividends to date and does not expect to pay dividends in the future.
(3) The expected lives are estimated using expected and historical exercise behavior.
(4) The expected volatility is estimated using a blend of calculated volatility of the Company s common stock over a historical period and implied volatility in exchange-traded options of the Company s common stock.

The amounts estimated according to the Black-Scholes-Merton option-pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

Restricted Stock Awards (RSA)

The Company grants RSAs to members of its board of directors. The weighted-average grant date fair value of RSAs is based on the market price of the Company s common stock on the date of grant. The fair value is amortized to stock-based compensation expense on a straight-line basis over the vesting period of the grants. The following table summarizes the Company s RSA activity for each of the periods indicated:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2014		2013	2014		2013
	Shares	Weighted Average Grant Date Fair Value				