STEMCELLS INC
Form 10-Q
August 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended: June 30, 2011
Commission File Number: 0-19871
STEMCELLS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	94-3078125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No)

7707 Gateway Blvd
Newark, CA 94560

(Address of principal executive offices including zip code)
(510) 456-3100

(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 twelve months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

At August 2, 2011, there were 13,879,893 shares of Common Stock, $.01 par value, issued and outstanding.

STEMCELLS, INC.
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NOTE REGARDING REFERENCES TO US AND OUR COMMON STOCK

Throughout this Form 10-Q, the words we, us, our, and StemCells refer to StemCells, Inc., including our directly an indirectly wholly-owned subsidiaries. Common stock refers to the common stock, $.01 par value, of StemCells, Inc.

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PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
STEMCELLS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,533,645	$ 19,707,821
Marketable securities, current	9,123,188	190,804
Trade receivables	81,838	118,890
Other receivables	433,899	151,144
Prepaid assets	591,390	610,980
Other assets, current	489,039	389,039
Total current assets	17,252,999	21,168,678
Property, plant and equipment, net	2,248,319	2,626,821
Other assets, non-current	1,930,418	1,931,871
Goodwill	1,959,642	1,877,315
Other intangible assets, net	2,930,052	2,996,888
Total assets	$ 26,321,430	$ 30,601,573
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,350,309	$ 1,098,962
Accrued expenses and other current liabilities	1,666,914	2,828,168
Accrued wind-down expenses, current	1,406,465	1,310,571
Deferred revenue, current	23,593	45,885
Capital lease obligation, current	52,749	67,847
Deferred rent, current	2,584	
Bonds payable, current	183,750	176,250
Total current liabilities	4,686,364	5,527,683
Capital lease obligation, non-current		17,979
Bonds payable, non-current	430,000	522,500
Fair value of warrant liability	1,868,745	6,671,929
Deposits and other long-term liabilities	291,807	276,439
Accrued wind-down expenses, non-current	1,363,353	1,989,800
Deferred rent, non-current	714,667	1,227
Deferred revenue, non-current	104,974	113,387
Total liabilities	9,459,910	15,120,944
Commitments and contingencies (Note 7)		
Stockholders equity:		
Common stock, $0.01 par value; 75,000,000 shares authorized; issued and outstanding 13,865,574 at June 30, 2011 and 12,731,287 at	1,386,557	1,273,128

December 31, 2010*		
Additional paid-in capital	336,327,613	325,359,265
Accumulated deficit	(321,053,914)	(311,271,486)
Accumulated other comprehensive income	201,264	119,722
Total stockholders equity	16,861,520	15,480,629
Total liabilities and stockholders equity	$ 26,321,430	$ 30,601,573

See Notes to Condensed Consolidated Financial Statements.

* Adjusted for the 1-for-10 reverse stock split as discussed in Note 1

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STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(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
Revenue:				
Revenue from licensing agreements and grants	$ 49,257	$ 171,550	$ 121,349	$ 285,399
Revenue from product sales	184,840	72,581	334,215	189,005
Total revenue	234,097	244,131	455,564	474,404
Cost of product sales	52,365	24,862	106,889	68,624
Gross profit	181,732	219,269	348,675	405,780
Operating expenses:				
Research and development	5,053,834	4,858,228	10,579,511	9,895,742
Selling, general and administrative	2,103,262	2,286,678	4,178,991	4,871,420
Wind-down expenses	114,918	125,833	190,055	291,168
Total operating expenses	7,272,014	7,270,739	14,948,557	15,058,330
Loss from operations	(7,090,282)	(7,051,470)	(14,599,882)	(14,652,550)
Other income (expense):				
Realized gain on sale of marketable securities	83,750		83,750	
Change in fair value of warrant liability	3,020,228	2,440,370	4,803,183	3,956,719
Interest income	6,446	13,309	7,818	13,903
Interest expense	(19,793)	(25,054)	(40,000)	(50,554)
Other expense	(35,542)	12,498	(37,297)	(1,940)
Total other income (expense), net	3,055,089	2,441,123	4,817,454	3,918,128
Net loss	$ (4,035,193)	$ (4,610,347)	$ (9,782,428)	$ (10,734,422)
Basic and diluted net loss per share*	$ (0.29)	$ (0.38)	$ (0.71)	$ (0.90)
Shares used to compute basic and diluted loss per share*	13,802,372	11,990,573	13,741,481	11,943,505

See Notes to Condensed Consolidated Financial Statements.

* Adjusted for the 1-for-10 reverse stock split as discussed in Note 1

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STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (9,782,428)	$ (10,734,422)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	612,233	789,911
Stock-based compensation	1,948,727	2,122,513
Gain on sale of marketable securities	(83,750)	
Loss on disposal of fixed assets	32,093	1,766
Write-down of fixed assets		62,807
Change in fair value of warrant liability	(4,803,183)	(3,956,719)
Changes in operating assets and liabilities:		
Other receivables	(281,680)	(10,016)
Trade receivables	42,834	260,139
Prepaid and other current assets	(77,282)	(134,510)
Other assets, non-current	3,187	(14,616)
Accounts payable and accrued expenses	(896,382)	(1,636,661)
Accrued wind-down expenses	(530,553)	(413,798)
Deferred revenue	(30,807)	(22,811)
Deferred rent	716,024	(59,756)
Net cash used in operating activities	(13,130,967)	(13,746,173)
Cash flows from investing activities:		
Purchase of marketable securities	(9,725,332)	
Proceeds from the sale of marketable securities	758,206	
Purchases of property, plant and equipment	(116,582)	(509,064)
Proceeds from sale of property, plant and equipment	42,427	
Net cash used in investing activities	(9,041,281)	(509,064)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	9,524,758	7,015,322
Proceeds from the exercise of stock options	2,386	18,936
Payments related to net share issuance of stock based awards	(394,096)	(476,559)
Repayment of capital lease obligations	(33,078)	(36,530)
Repayment of bonds payable	(85,000)	(77,500)
Net cash provided by financing activities	9,014,970	6,443,669
Decrease in cash and cash equivalents	(13,157,278)	(7,811,568)
Effects of foreign exchange rate changes on cash	(16,898)	(40,905)
Cash and cash equivalents, beginning of period	19,707,821	38,617,977
Cash and cash equivalents, end of period	$ 6,533,645	$ 30,765,504

Supplemental disclosure of cash flow information:				
Interest paid	$	40,000	$	50,554

See Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2011 and 2010

Note 1. Summary of Significant Accounting Policies

Nature of Business

StemCells, Inc., a Delaware corporation, is a biopharmaceutical company that operates in one segment, the research, development, and commercialization of stem cell therapeutics and related technologies.

The accompanying financial data as of and for the three and six months ended June 30, 2011 and 2010 have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to these rules and regulations. The December 31, 2010 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. However, we believe that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

We have incurred significant operating losses since inception. We expect to incur additional operating losses over the foreseeable future. We have very limited liquidity and capital resources and must obtain significant additional capital and other resources in order to provide funding for our product development efforts, the acquisition of technologies, businesses and intellectual property rights, preclinical and clinical testing of our products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, selling, general and administrative expenses and other working capital requirements. We rely on our cash reserves, proceeds from equity and debt offerings, proceeds from the transfer or sale of intellectual property rights, equipment, facilities or investments, government grants and funding from collaborative arrangements, to fund our operations. If we exhaust our cash reserves and are unable to obtain adequate financing, we may be unable to meet our operating obligations and we may be required to initiate bankruptcy proceedings. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Reverse Stock Split

We effected a 1-for-10 reverse stock split on July 6, 2011. As a result of the reverse stock split, the outstanding shares of common stock issued and outstanding were reduced from approximately 139 million to 13.9 million. Concurrent with the reverse stock split, we reduced the authorized number of common shares from 250 million to 75 million. The reverse stock split will proportionately reduce all issued and outstanding shares of our common stock, as well as common stock underlying stock options, warrants and other common stock based equity grants outstanding immediately prior to the effectiveness of the reverse stock split. The exercise price on outstanding equity based-grants will proportionately increase, while the number of shares available under our equity-based plans will also be proportionately reduced. Share and per share data (except par value) for the periods presented reflect the effects of this reverse stock split. References to numbers of shares of common stock and per share data in the accompanying financial statements and notes thereto have been adjusted to reflect the reverse stock split on a retroactive basis.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of StemCells, Inc., and our wholly-owned subsidiaries, including StemCells California, Inc., Stem Cell Sciences Holdings Ltd; and Stem Cell Sciences (UK) Ltd. All significant intercompany accounts and transactions have been eliminated.

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Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Significant estimates include the following:

- the grant date fair value of stock-based awards recognized as compensation expense (see Note 5, Stock-Based Compensation);
- accrued wind-down expenses (see Note 6, Wind-Down Expenses);
- the fair value of warrants recorded as a liability (see Note 8, Warrant Liability); and
- the fair value of goodwill and other intangible assets (see Note 4, Goodwill and Other Intangible Assets).

Financial Instruments

Cash and Cash Equivalents

Cash equivalents are money market accounts, money market funds and investments with maturities of 90 days or less from the date of purchase.

Marketable Securities

Our existing marketable securities are designated as available-for-sale securities. These securities are carried at fair value (see Note 2, Financial Instruments), with the unrealized gains and losses reported as a component of stockholders equity. Management determines the appropriate designation of its investments (current or non-current) in marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. The cost of securities sold is based upon the specific identification method.

If the estimated fair value of a security is below its carrying value, we evaluate whether we have the intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery to the cost of the investment, and whether evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Other-than-temporary declines in estimated fair value of all marketable securities are charged to Other income (expense), net in the accompanying condensed consolidated statements of operations. No such impairment was recognized during the six months ended June 30, 2011 or 2010.

Trade and Other Receivables

Our receivables generally consist of interest income on our financial instruments, revenue from licensing agreements and grants, revenue from product sales, and rent from our sub-lease tenants.

Warrant Liability

Authoritative accounting guidance prescribes that warrants issued under contracts that could require net-cash settlement should be classified as liabilities and contracts that only provide for settlement in shares should be classified as equity. In order for a contract to be classified as equity, specific conditions must be met. These conditions are intended to identify situations in which net cash settlement could be forced upon the issuer. We issued warrants as part of both our November 2008 and November 2009 financings (see Note 8, Warrant Liability). As the contracts include the possibility of net-cash settlement, we are required to classify the fair value of the warrants issued as a liability, with subsequent changes in fair value to be recorded as income (loss) on change in fair value of warrant liability. We use the Black-Scholes-Merton (Black-Scholes) option pricing model to estimate fair value of warrants issued. In using this model, we make certain assumptions about risk-free interest rates, dividend yields, volatility and expected term of the warrants. Risk-free interest rates are derived from the yield on U.S. Treasury debt securities. Dividend yields are based on our

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historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of our common stock as traded on NASDAQ. The expected term of the warrants is based on the time to expiration of the warrants from the date of measurement.

Goodwill and Other Intangible Assets

Goodwill and intangible assets are primarily from a business acquisition accounted for under the purchase method. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. We test goodwill for impairment on an annual basis or more frequently if we believe indicators of impairment exist. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited. Intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Prior to fiscal year 2001, we capitalized certain patent costs, which are being amortized over the estimated lives of the patents and would be expensed at the time such patents are deemed to have no continuing value. Since 2001, all patent costs are expensed as incurred. License costs are capitalized and amortized over the estimated life of the license agreement.

Revenue Recognition

We currently recognize revenue resulting from the licensing and use of our technology and intellectual property, from government grants, and from product sales. Licensing agreements may contain multiple elements, such as upfront fees, payments related to the achievement of particular milestones and royalties. Revenue from upfront fees for licensing agreements that contain multiple elements are generally deferred and recognized on a straight-line basis over the term of the agreement. Fees associated with substantive at risk performance-based milestones are recognized as revenue upon completion of the scientific or regulatory event specified in the agreement, and royalties received are recognized as earned. Revenue from licensing agreements are recognized net of a fixed percentage due to licensors as royalties. Grant revenue from government agencies are funds received to cover specific expenses and are recognized as earned upon either the incurring of reimbursable expenses directly related to the particular research plan or the completion of certain development milestones as defined within the terms of the relevant collaborative agreement or grant. Revenue from product sales are recognized when the product is shipped and the order fulfilled.

Stock-Based Compensation

Compensation expense for stock-based payment awards to employees is based on their grant date fair value as calculated and amortized over their vesting period. See Note 5, Stock-Based Compensation for further information.

We use the Black-Scholes model to calculate the fair value of stock-based awards.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed based on the weighted average number of shares of common stock and other dilutive securities. To the extent these securities are anti-dilutive, they are excluded from the calculation of diluted earnings per share. Share and per share amounts have been adjusted to reflect the one-for-ten reverse stock split effected in July 2011.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Net loss	$ (4,035,193)	$ (4,610,347)	$ (9,782,428)	$(10,734,422)
Weighted average shares outstanding used to compute basic and diluted net loss per share	13,802,372	11,990,573	13,741,481	11,943,505
Basic and diluted net loss per share	$ (0.29)	$ (0.38)	$ (0.71)	$ (0.90)

The following outstanding potentially dilutive common stock equivalents were excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive as of June 30.

	2011	2010
Options	996,463	1,149,899
Restricted stock units	341,874	488,839
Warrants	1,434,483	1,434,483
Total	2,772,820	3,073,221

Comprehensive Loss

Comprehensive loss is comprised of net losses and other comprehensive loss or income (OCL). OCL includes certain changes in stockholders equity that are excluded from net losses. Specifically, we include in OCL changes in unrealized gains and losses on our marketable securities and unrealized gains and losses on foreign currency translations. Accumulated other comprehensive income was $201,264 as of June 30, 2011 and $119,722 as of December 31, 2010.

The activity in OCL was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net loss	$ (4,035,193)	$ (4,610,347)	$ (9,782,428)	$ (10,734,422)
Net change in unrealized gains and losses on marketable securities	(101,793)	(31,769)	(118,492)	(72,034)
Net change in unrealized gains and losses on foreign currency translations	6,704	(96,462)	200,034	(406,680)
Comprehensive loss	$ (4,130,282)	$ (4,738,578)	$ (9,700,886)	$ (11,213,136)

Recent Accounting Pronouncements

In May 2011, the FASB issued additional authoritative guidance relating to fair value measurement and disclosure requirements. For fair value measurements categorized in Level 3 of the fair value hierarchy, the new guidance requires (1) disclosure of quantitative information about unobservable inputs; (2) a description of the valuation processes used by the entity; and (3) a qualitative discussion about the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. Entities must report the level in the fair value hierarchy of assets and liabilities that are not recorded at fair value in the statement of financial position but for which fair value is disclosed. The new requirements clarify that the concepts of highest and best use and valuation premise only apply to measuring the fair value of nonfinancial assets. The new requirements also specify that in the absence of a Level 1 input, a reporting entity should incorporate a premium or a discount in a fair value measurement if a market participant would take into account such an input in pricing and asset or liability. Additionally, the new guidance introduces an option to measure certain financial assets and financial liabilities with offsetting positions on a net basis if certain criteria are met. For public entities, these new requirements become effective for interim and annual periods beginning after December 15, 2011. It is applicable to our fiscal year beginning January 1, 2012. We do not expect this new guidance to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new accounting guidance which eliminates the current option to present other comprehensive income and its components in the statement of changes in equity. However, under the new guidance, comprehensive income and its components must still be presented under one of two new alternatives. Under the first alternative, the components of other comprehensive income and the components of net income may be presented in one continuous statement referred to as the statement of comprehensive income. Under the second alternative, a statement of other comprehensive income would immediately follow the statement of net income and must be shown with equal prominence as the other primary financial statements. Under either alternative, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. For public entities, these new requirements will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively to all prior periods presented. It is applicable to our fiscal year beginning January 1, 2012. We do not expect this new guidance to have a material effect on our consolidated financial statements.

Note 2. Financial Instruments

The following table summarizes the fair value of our cash, cash equivalents and available-for-sale marketable securities held in our current investment portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2011				
Cash	$ 846,396	$	$	$ 846,396
Cash equivalents	5,687,249			5,687,249
Marketable debt securities, current	9,125,333		(2,145)	9,123,188
Total cash, cash equivalents, and marketable securities	$ 15,658,978		$ (2,145)	$ 15,656,833
December 31, 2010				
Cash	$ 1,001,868	$	$	$ 1,001,868
Cash equivalents	18,705,953			18,705,953
Marketable equity securities, current	74,456	116,348		190,804
Total cash, cash equivalents, and marketable securities	$ 19,782,277	$ 116,348	$	$ 19,898,625

Gross unrealized gains and losses on cash equivalents were not significant at June 30, 2011 and December 31, 2010. At June 30, 2011, our cash equivalents were primarily money market funds consisting mainly of U.S. Treasury debt securities.

Our investment in marketable debt securities, are short term investments that consist primarily of commercial paper and corporate debt securities,

Our investment in marketable equity securities consists of ordinary shares of ReNeuron Group Plc (ReNeuron), a publicly listed U.K. corporation. In July 2005, we entered into an agreement with ReNeuron under which we granted ReNeuron a license that allows ReNeuron to exploit its c-mycER conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron s technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party s patent rights prior to the effective date of the agreement. In July and August 2005, we received approximately 8,836,000 ordinary shares of ReNeuron common stock, net of approximately 104,000 shares that were transferred to NeuroSpheres, Ltd., an Alberta corporation (NeuroSpheres), and subsequently, as a result of certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,075,000. We recognized approximately $716,000 as realized gain from this transaction. In the first quarter of 2009, we sold 2,900,000 shares of ReNeuron and received net proceeds of approximately $510,000 for a realized gain of approximately $398,000. In the second quarter of 2011, we sold our remaining 1,921,924 shares of ReNeuron and received net proceeds of approximately $158,000 for a realized gain of approximately $84,000. As of June 30, 2011, we no longer hold any shares of ReNeuron.

Note 3. Fair Value Measurement

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 Directly or indirectly observable inputs other than in Level 1, that include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3 Unobservable inputs which are supported by little or no market activity that reflects the reporting entity s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

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The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Our cash equivalents, marketable securities, bonds payable and warrant liability are classified within Level 1 or Level 2. This is because our cash equivalents and marketable securities are valued primarily using quoted market prices, our bonds payable are valued using alternative pricing sources and models utilizing market observable inputs and our warrant liability is valued using an option pricing model that uses assumptions with observable inputs such as risk-free interest rates that are derived from the yield on U.S. Treasury debt securities, volatility and price based on our common stock as traded on NASDAQ.

We currently do not have any Level 3 financial assets or liabilities.

The following table presents financial assets and liabilities measured at fair value:

	Fair Value Measurement at Reporting Date Using		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**As of June 30, 2011**
Financial assets			
Cash equivalents:			
Money market funds	$ 5,687,249	$	$ 5,687,249
Marketable securities:			
Debt securities	9,123,188		9,123,188
Total financial assets	$ 14,810,437	$	$ 14,810,437
Financial liabilities			
Bond payable	$	$ 613,750	$ 613,750
Warrant liability		1,868,745	1,868,745
Total financial liabilities	$	$ 2,482,495	