STEMCELLS INC
Form 10-Q
August 09, 2010

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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, 2010
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)

3155 PORTER DRIVE
PALO ALTO, CA 94304

(Address of principal executive offices including zip code)
(650) 475-3100

(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 o 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 6, 2010, there were 127,204,695 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 ar 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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,765,504	$ 38,617,977
Marketable securities, current	124,962	196,995
Trade receivables	13,920	87,019
Other receivables	521,939	679,034
Prepaid assets	692,045	560,144
Total current assets	32,118,370	40,141,169
Property, plant and equipment, net	2,731,229	2,856,695
Other assets, non-current	2,537,500	2,525,185
Goodwill	1,823,039	2,019,679
Other intangible assets, net	3,183,502	3,647,596
Total assets	$ 42,393,640	$ 51,190,324
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 605,011	$ 890,582
Accrued expenses and other current liabilities	2,368,791	3,760,438
Accrued wind-down expenses, current	1,571,384	1,449,810
Deferred revenue, current	91,252	119,542
Capital lease obligation, current	64,547	68,000
Deferred rent, current	55,123	80,392
Bonds payable, current	168,750	161,250
Total current liabilities	4,924,858	6,530,014
Capital lease obligation, non-current	52,749	85,826
Bonds payable, non-current	613,750	698,750
Fair value of warrant liability	5,720,249	9,676,968
Deposits and other long-term liabilities	466,211	466,211
Accrued wind-down expenses, non-current	2,515,767	3,056,675
Deferred rent, non-current	16,113	50,600
Deferred revenue, non-current	121,800	130,213
Total liabilities	14,431,497	20,695,257
Commitments and contingencies (Note 8)		
Stockholders equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; issued and outstanding 127,160,886 at June 30, 2010 and 118,349,587 at December 31, 2009	1,271,609	1,183,495
Additional paid-in capital	323,536,882	314,944,784

Accumulated deficit	(296,762,357)	(286,027,935)
Accumulated other comprehensive income	(83,991)	394,723
Total stockholders equity	27,962,143	30,495,067
Total liabilities and stockholders equity	$ 42,393,640	$ 51,190,324

See Notes to Condensed Consolidated Financial Statements.

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STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenue:				
Revenue from licensing agreements and grants	$ 171,550	$ 144,851	$ 285,399	$ 201,453
Revenue from product sales	72,581	120,600	189,005	120,600
Total revenue	244,131	265,451	474,404	322,053
Cost of product sales	24,862	59,525	68,624	59,525
Gross profit	219,269	205,926	405,780	262,528
Operating expenses:				
Research and development	4,858,228	5,054,600	9,895,742	9,290,389
Selling, general and administrative	2,286,678	2,201,974	4,871,420	4,740,886
Wind-down expenses	125,833	340,064	291,168	545,500
Total operating expenses	7,270,739	7,596,638	15,058,330	14,576,775
Loss from operations	(7,051,470)	(7,390,712)	(14,652,550)	(14,314,247)
Other income (expense):				
Realized gain on sale of marketable securities				397,866
Change in fair value of warrant liability	2,440,370	102,517	3,956,719	(2,652,931)
Interest income	13,309	8,338	13,903	50,285
Interest expense	(25,054)	(29,074)	(50,554)	(57,250)
Other income (expense)	12,498	(57,424)	(1,940)	(71,634)
Total other income (expense), net	2,441,123	24,357	3,918,128	(2,333,664)
Net loss	$ (4,610,347)	$ (7,366,355)	$ (10,734,422)	$ (16,647,911)
Basic and diluted net loss per share	$ (0.04)	$ (0.07)	$ (0.09)	$ (0.17)
Shares used to compute basic and diluted loss per share	119,905,731	104,776,073	119,435,048	100,436,291

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2010	2009
Cash flows from operating activities:		
Net loss	$ (10,734,422)	$ (16,647,911)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	789,911	754,863
Stock-based compensation	2,122,513	2,038,757
Gain on sale of marketable securities		(397,868)
Loss on disposal of fixed assets	1,766	
Write-down of fixed assets	62,807	
Change in fair value of warrant liability	(3,956,719)	2,652,931
Changes in operating assets and liabilities:		
Other receivables	(10,016)	236,805
Trade receivables	260,139	231,182
Prepaid and other current assets	(134,510)	(199,428)
Other assets, non-current	(14,616)	(16,070)
Accounts payable and accrued expenses	(1,636,661)	(551,038)
Accrued wind-down expenses	(413,798)	(200,406)
Deferred revenue	(22,811)	(118,140)
Deferred rent	(59,756)	(166,501)
Net cash used in operating activities	(13,746,173)	(12,382,824)
Cash flows from investing activities:		
Proceeds from the sale of marketable securities		4,512,750
Payment of advances under notes receivable		(79,829)
Purchases of property, plant and equipment	(509,064)	(379,732)
Acquisition of other assets		(15,000)
Net cash provided by (used in) investing activities	(509,064)	4,038,189
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	7,015,322	14,987,348
Proceeds from the exercise of stock options	18,936	175,992
Proceeds from the exercise of warrants		331,501
Payments related to net share issuance of stock based awards	(476,559)	(380,548)
Proceeds from (repayment of) capital lease obligations	(36,530)	166,659
Repayment of bonds payable	(77,500)	(72,500)
Net cash provided by financing activities	6,443,669	15,208,452
Increase (decrease) in cash and cash equivalents	(7,811,568)	6,863,817
Effects of foreign exchange rate changes on cash	(40,905)	(146,333)
Cash and cash equivalents, beginning of period	38,617,977	30,042,986

Cash and cash equivalents, end of period	$ 30,765,504	$ 36,760,470
Supplemental disclosure of cash flow information:		
Interest paid	$ 50,554	$ 57,250
Supplemental schedule of non-cash investing and financing activities:		
Stock issued as part of our acquisition of the operations of SCS Plc (1)		$ 4,425,500
Forgiveness of principal and accrued interest on notes receivable (1)		$ 709,076

(1) On April 1, 2009, we acquired the operations of Stem Cell Sciences Plc (SCS). As consideration, we issued to SCS 2,650,000 shares of common stock with a closing price of $1.67 per share and waived certain commitments of SCS to repay approximately $709,000 in principal and accrued interest owed to us.

See Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2010 and 2009

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, 2010 and 2009 has 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, 2009 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, 2009.

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 investigative 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.

Principles of Consolidation

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

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 6, Stock-Based Compensation);
- accrued wind-down expenses (see Note 7, Wind-Down Expenses);
- the fair value of warrants recorded as a liability (see Note 9, Warrant Liability); and
- the fair value of goodwill and other intangible assets (see Note 5, Goodwill and Other Intangible Assets).

Financial Instruments

Cash and Cash Equivalents

Cash equivalents are money market accounts, money market funds and investments with an average maturity 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. No such impairment was recognized during the six months ended June 30, 2010 or 2009.

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 9, 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 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 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. Such 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 6, Stock-Based Compensation for further information.

We use the Black-Scholes-Merton (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.

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,	
	2010	**2009**	**2010**	**2009**
Net loss	$ (4,610,347)	$ (7,366,355)	$ (10,734,422)	$ (16,647,911)
Weighted average shares outstanding used to compute basic and diluted net loss per share	119,905,731	104,776,073	119,435,048	100,436,291
Basic and diluted net loss per share	$ (0.04)	$ (0.07)	$ (0.09)	$ (0.17)

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:

	2010	**2009**
Options	11,498,991	9,380,197
Restricted stock units	4,888,388	2,303,068
Warrants	14,344,828	10,344,828
Total	30,732,207	22,028,093

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 loss was $83,991 as of June 30, 2010 and accumulated other comprehensive income was $394,723 as of December 31, 2009.

The activity in OCL was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Net loss	$ (4,610,347)	$ (7,366,355)	$ (10,734,422)	$ (16,647,911)
Net change in unrealized gains and losses on marketable securities	(31,769)	83,279	(72,034)	133,760
Net change in unrealized gains and losses on foreign currency translations	(96,462)	(225,638)	(406,680)	(225,638)

Comprehensive loss	$ (4,738,578)	$ (7,508,714)	$ (11,213,136)	$ (16,739,789)

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB), issued new standards to update and amend existing standards on *Fair Value Measurements and Disclosures.* These standards require new disclosures on the amount and reason for transfers in and out of Level 1 and Level 2 fair value measurements. The standards also require disclosure of activities in Level 3 fair value

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measurements that use significant unobservable inputs, including purchases, sales, issuances, and settlements. The standards also clarify existing disclosure requirements on levels of disaggregation, which requires fair value measurement disclosure for each class of assets and liabilities, and disclosures about valuation techniques and inputs used to measure fair value of recurring and non recurring fair value measurements that fall in ether Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for our interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for our fiscal year beginning January 1, 2011. We do not expect the adoption of the new standards related to Level 3 fair value measurements on January 1, 2011 to have a material effect on our consolidated financial condition and results of operations.

In April 2010, FASB issued Accounting Standards Update (ASU), *Revenue Recognition Milestone Method,* which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a study or achieving a specific result from the research or development efforts. The amendments in this ASU provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. The ASU is effective for fiscal years and interim periods within those years beginning on or after June 15, 2010, with early adoption permitted. This ASU is effective for our interim and annual reporting periods beginning January 1, 2011. We are currently evaluating the impact of this new standard, if any, on our financial condition and results of operations.

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, 2010				
Cash	$ 6,461,873	$	$	$ 6,461,873
Cash equivalents	24,303,631			24,303,631
Marketable equity securities, current	74,456	50,506		124,962
Total cash, cash equivalents, and marketable securities	$ 30,839,960	$ 50,506	$	$ 30,890,466
December 31, 2009				
Cash	$ 1,064,148	$	$	$ 1,064,148
Cash equivalents	37,553,829			37,553,829
Marketable equity securities, current	74,456	122,539		196,995
Total cash, cash equivalents, and marketable securities	$ 38,692,433	$ 122,539	$	$ 38,814,972

Gross unrealized gains and losses on cash equivalents were not material at June 30, 2010 and December 31, 2009. At June 30, 2010, our cash equivalents were primarily money market funds consisting mainly of U.S. Treasury 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. At June 30, 2010 and December 31, 2009, we owned 1,921,924 shares of ReNeuron with a carrying and fair market value of approximately $125,000 and $197,000 respectively.

Changes in the fair market value of our ReNeuron shares as a result of changes in market price per share or the exchange rate between the U.S. dollar and the British pound are accounted for as an unrealized gain or loss under other comprehensive income (loss) if deemed temporary and are not recorded as other income (expense), net until the shares are disposed of and a gain or loss realized. If the 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. For the six months ended June 30, 2010, we recorded an unrealized loss of approximately $72,000.

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.

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, 2010**
Financial assets			
Cash equivalents:			
Money market funds	$ 30,765,504	$	$ 30,765,504
Marketable securities:			
Equity securities	124,962		124,962

Total financial assets	$ 30,890,466		30,890,466
Financial liabilities			
Bond payable	$	$ 782,500	$ 782,500
Warrant liability	$	5,720,249	5,720,249
Total financial liabilities	$	$ 6,502,749	$ 6,502,749

Note 4