Sarepta Therapeutics, Inc.
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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

Registrant s telephone number, including area code: (857) 242-3700

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 ¨	Accelerated filer x
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	**33,527,880**
(Class)	**(Outstanding as of July 31, 2013)**

Table of Contents

SAREPTA THERAPEUTICS, INC.

FORM 10-Q

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SAREPTA THERAPEUTICS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except per share amounts)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 156,185	$ 187,661
Accounts receivable	3,788	4,713
Restricted investments	7,250	
Other current assets	5,683	1,534
Total current assets	172,906	193,908
Restricted investments	557	
Property and equipment, net of accumulated depreciation and amortization of $17,173 and $16,708	3,359	3,397
Patent Costs, net of accumulated amortization of $1,439 and $2,626	5,186	4,913
Other assets	1,625	2,775
Total assets	$ 183,633	$ 204,993
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 6,727	$ 7,532
Accrued employee compensation	1,986	2,741
Long-term debt, current portion	90	89
Warrant liability	79,116	65,193
Deferred revenue	4,499	3,304
Other current liabilities	15	27
Total current liabilities	92,433	78,886
Long-term debt, non-current portion	1,622	1,668
Other long-term liabilities	757	760
Total liabilities	94,812	81,314
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; 32,433,083 and 31,703,817 issued and outstanding	3	3
Additional paid-in capital	581,204	554,927
Deficit accumulated during the development stage	(492,386)	(431,251)

Total stockholders equity	88,821	123,679
Total liabilities and stockholders equity	$ 183,633	$ 204,993

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SAREPTA THERAPEUTICS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,		July 22, 1980 (Inception) through
	2013	2012	2013	2012	June 30, 2013
Revenues from license fees, grants and research contracts	$ 2,951	$ 11,207	$ 7,425	$ 22,419	$ 180,973
Operating expenses:					
Research and development	12,984	13,849	26,746	28,654	412,414
General and administrative	7,054	2,915	13,181	6,196	132,268
Acquired in-process research and development					29,461
Operating loss	(17,087)	(5,557)	(32,502)	(12,431)	(393,170)
Other (loss) income:					
Interest income and other, net	(19)	107	218	203	9,741
(Loss) income on change in warrant valuation	(1,945)	13,488	(28,851)	2,562	(95,819)
Realized gain on sale of short-term securities available-for-sale					3,863
Write-down of short-term securities available-for-sale					(17,001)
	(1,964)	13,595	(28,633)	(2,765)	(99,216)
Net (loss) income	$ (19,051)	$ 8,038	$ (61,135)	$ (9,666)	$ (492,386)
Other comprehensive (loss) income:					
Write-down of short-term securities available-for-sale					17,001
Realized gain on sale of short-term securities available-for-sale					(3,863)
Unrealized loss on short-term securities available-for-sale					(13,138)
Comprehensive (loss) income	$ (19,051)	$ 8,038	$ (61,135)	$ (9,666)	$ (492,386)
Net (loss) income per share basic	$ (0.60)	$ 0.36	$ (1.92)	$ (0.43)	
Net (loss) income per share diluted	$ (0.60)	$ 0.35	$ (1.92)	$ (0.43)	
Weighted average number of common shares outstanding for computing basic (loss) income per share	31,984	22,624	31,899	22,624	
Weighted average number of common shares outstanding for computing diluted (loss) income per share	31,984	22,658	31,899	22,624	

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SAREPTA THERAPEUTICS, INC.

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six months ended June 30,		For the Period July 22, 1980 (Inception) through June 30,
	2013	2012	2013
Cash flows from operating activities:			
Net loss	$ (61,135)	$ (9,666)	$ (492,386)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	711	715	22,681
Loss on disposal of property and equipment	334	123	2,970
Realized gain on sale of short-term securities available-for-sale			(3,863)
Write-down of short-term securities available-for-sale			17,001
Impairment charge on real estate owned			1,445
Stock-based compensation	3,989	1,148	36,062
Acquired in-process research and development			29,461
Increase (decrease) on warrant liability	28,851	(2,562)	95,819
Net (increase) decrease in accounts receivable, other current assets and other assets	549	(3,537)	(8,212)
Net increase (decrease) in accounts payable, accrued employee compensation, and other liabilities	(294)	(952)	12,119
Net cash used in operating activities	(26,995)	(14,731)	(286,903)
Cash flows from investing activities:			
Purchase of restricted investments	(7,807)		(7,807)
Purchase of property and equipment	(435)	(143)	(20,422)
Patent costs	(931)	(498)	(11,460)
Purchase of marketable securities			(112,993)
Sale of marketable securities			117,724
Acquisition costs			(2,389)
Net cash used in investing activities	(9,173)	(641)	(37,347)
Cash flows from financing activities:			
Proceeds from sale of common stock, warrants, and partnership units, net of offering costs, and exercise of options and warrants	4,915	1	481,474
Repayments of long-term debt	(45)	(42)	(475)
Other financing activities, net	(178)		(654)
Net cash provided by (used in) financing activities	4,692	(41)	480,435
Increase (decrease) in cash and cash equivalents	(31,476)	(15,413)	156,185
Cash and cash equivalents:			
Beginning of period	187,661	39,904	
End of period	$ 156,185	$ 24,491	$ 156,185

Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 102	$ 43	$ 677
Supplemental schedule of noncash investing activities and financing activities:			
Short-term securities available-for-sale received in connection with the private offering	$	$	$ 17,897
Issuance of common stock and warrants in satisfaction of liabilities	$ 14,928	$	$ 47,762
Receivable for warrants exercised	$ 2,624	$	$ 2,624
Issuance of common stock for building purchase	$	$	$ 750
Assumption of long-term debt for building purchase	$	$	$ 2,200
Issuance of common stock to acquire assets	$	$	$ 8,075
Assumption of liabilities to acquire assets	$	$	$ 2,124

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SAREPTA THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION 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 the Company s 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 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 focused on developing therapeutics for the treatment of infectious diseases, including its lead infectious disease program aimed at the development of a drug candidate for the Marburg hemorrhagic fever virus for which the Company has historically received significant financial support from U.S. government research contracts.

The accompanying unaudited condensed consolidated financial statements reflect the accounts of Sarepta and its consolidated subsidiaries. The accompanying unaudited condensed consolidated balance sheet data as of December 31, 2012 was derived from audited financial statements not included in this report. The accompanying unaudited condensed consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) pertaining to interim financial statements. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2012. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Management has determined that the Company operates in one segment: the development of pharmaceutical products on its own behalf or in collaboration with others.

Since its inception in 1980, the Company has incurred losses of $492.4 million, substantially all of which resulted from expenditures related to research and development, general and administrative charges and losses on change in warrant valuation partially offset by revenue generated from research contracts with and grants primarily from the U.S. Department of Defense (DoD). As of June 30, 2013, the Company has completed all of its contracts with the DoD except for the July 2010 contract and the August 2012 contract for the development of therapeutics against the Marburg virus. The current period of performance for the August 2012 contract is scheduled to conclude in the second half of 2013 subject to additional extensions that may be agreed upon by the Company and the DoD. In November 2012, the Company also entered into an agreement with the European Commission (EC) Health Innovation for development and study related activities for a Duchenne muscular dystrophy (DMD) therapeutic for which minimal revenues have been earned to date. The Company has not generated any material revenue from product sales to date, and there can be no assurance that revenues from product sales will be achieved. Moreover, even if the Company does achieve revenue from product sales, the Company is likely to continue to incur operating losses in the near term.

As of June 30, 2013, we had $164.0 million of cash equivalents and invested cash, comprised of $156.2 million of cash and cash equivalents and $7.8 million of restricted investments, which the Company believes, taking into consideration our current stock price and outstanding warrants, is sufficient to fund our current operational plan for the next twelve months. Should the Company s funding from the DoD cease or be delayed, the Company would likely curtail certain of its infectious disease research and development efforts unless additional funding was obtained. The Company is also likely to pursue additional cash resources through public or private financings, including the $37.9 million raised in our at the market offering described in note 6, seeking additional government contracts, and from establishing collaborations or licensing its technology to other companies.

Table of Contents

Estimates and Uncertainties

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

Commitments and Contingencies

The Company is not a party to any material legal proceedings with respect to itself, its subsidiaries, or any of its material properties as of June 30, 2013. In the normal course of business, the Company may from time to time be named as a party to various legal claims, actions and complaints, including matters involving employment, intellectual property, and effects from the use of therapeutics utilizing its technology, professional services or others. It is impossible to predict whether any resulting liability would have a material adverse effect on the Company s financial position, results of operations or cash flows.

In February 2013, the Company issued two letters of credit totaling $7.3 million to a contract manufacturing vendor in connection with certain manufacturing agreements. To meet the requirement of the letters of credit, the Company purchased $7.3 million in certificates of deposit with April 2014 maturity dates in February 2013. The Company has recorded this $7.3 million as restricted investments in the condensed consolidated balance sheet as of June 30, 2013.

In April 2013, the Company and the University of Western Australia (UWA) entered into an agreement under which an existing exclusive license agreement between the Company and UWA was amended and restated. Under the terms of this agreement, UWA granted the Company an exclusive license to certain UWA intellectual property rights in exchange for up to $7.1 million in upfront and development milestone payments. During the three and six months ended June 30, 2013, the Company recognized $1.0 million relating to certain upfront payments required under the agreement within research and development in the condensed consolidated statement of operations.

In June 2013, the Company entered into a lease agreement for its Cambridge location. The agreement calls for a security deposit in the form of a letter of credit totaling $0.6 million. The Company purchased a certificate of deposit to meet the requirement. The initial term of the lease agreement is for seven years with an average base rent of approximately $2.4 million per year.

2. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted-average number of common shares outstanding. Diluted net (loss) income per share is computed by dividing net (loss) income by the weighted-average number of common shares and dilutive common stock equivalent shares outstanding.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Net (loss) income	$ (19,051)	$ 8,038	$ (61,135)	$ (9,666)
Weighted-average number of shares of common stock and common stock equivalents outstanding:				
Weighted-average number of common shares outstanding for computing basic earnings per share	31,984	22,624	31,899	22,624
Dilutive effect of outstanding warrants and stock awards after application of the treasury stock method*		34		
Weighted-average number of common shares outstanding for computing diluted earnings per share	31,984	22,658	31,899	22,624
Net (loss) income per share basic	$ (0.60)	$ 0.36	$ (1.92)	$ (0.43)
Net (loss) income per share diluted	$ (0.60)	$ 0.35	$ (1.92)	$ (0.43)

* Warrants, stock options, restricted stock units (RSUs) and stock appreciation rights (SARs) to purchase approximately 6,788,000 and 6,949,000 shares of common stock were excluded from the net loss per share calculation for the three months ended June 30, 2013 and 2012, respectively, as their effect would have been anti-dilutive. Additionally, warrants, stock options, RSUs and SARs to purchase approximately 6,788,000 and 6,992,000 shares of common stock were excluded from the net loss per share calculation for the six months ended June 30, 2013 and 2012, respectively, as their effect would have been anti-dilutive.

Table of Contents

3. FAIR VALUE MEASUREMENTS

The Company measures at fair value certain financial assets and liabilities in accordance with a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. There are three levels of inputs that may be used to measure fair-value:

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 Company s assets and liabilities measured at fair value on a recurring basis consisted of the following as of the date indicated:

	Fair Value Measurement as of June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Restricted investments, current	$ 7,250	$ 7,250	$	$
Restricted investments, noncurrent	557	557		
Total assets	$ 7,807	$ 7,807	$	$

	Fair Value Measurement as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Restricted investments	$	$	$	$
Total assets	$	$	$	$

	Fair Value Measurement as of June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Warrants*	$ 79,116	$	$	$ 79,116
Total liabilities	$ 79,116	$	$	$ 79,116

	Fair Value Measurement as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Warrants*	$ 65,193	$	$	$ 65,193
Total liabilities	$ 65,193	$	$	$ 65,193

* See Note 5 for additional information related to the determination of fair value of warrants and a reconciliation of changes in fair value.

Table of Contents

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 and carrying amounts reported for long-term debt approximate fair value based on market activity for other debt instruments with similar characteristics and comparable risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable are generally stated at invoiced amount and do not bear interest. Because the accounts receivable are primarily from the DoD and historically no amounts have been written off, an allowance for doubtful accounts receivable is not considered necessary. The accounts receivable balance included $3.1 million and $3.2 million of DoD receivables that were unbilled at June 30, 2013 and December 31, 2012, respectively.

5. 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 because their settlement terms require settlement in registered shares, which is outside of the Company s control. These warrants are non-cash liabilities and the Company is not required to expend any cash to settle these liabilities. All other warrants issued by the Company were recorded as additional paid-in-capital and no further adjustments are made.

The outstanding warrants classified as liabilities are recorded at fair value on the condensed consolidated balance sheet and are adjusted to fair value at each financial reporting period, with changes in the fair value being recorded as (Loss) income on change in warrant valuation in the condensed consolidated statement of operations and comprehensive income (loss). The 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 reflects the weighted-average assumptions for each of the periods indicated:

	June 30, 2013	December 31, 2012
Risk-free interest rate	0.2%	0.2%-0.3%
Expected dividend yield	0%	0%
Expected lives	0.6-1.2 years	1.1-1.6 years
Expected volatility (1)	74.0%-91.6%	139.2%-164.1%
Shares underlying warrants classified as liabilities	2,628,923	3,127,678
Market value of stock at beginning of year	$ 25.80	$ 4.50
Market value of stock at end of period	$ 38.04	$ 25.80

(1) For the three and six months ended June 30, 2013, expected volatility has been estimated using a blend of calculated volatility of the Company s common stock over a historical period and implied volatility in exchange-traded options associated with the Company s common stock. Prior to January 1, 2013, expected volatility has been estimated using calculated volatility of the Company s common stock over a historical period commensurate with the expected term of the option.

A reconciliation of the change in value of the Company s warrants recorded as liabilities for the three and six months ended June 30, 2013 is as follows:

	Three Months Ended June 30, 2013 (in thousands)	Six Months Ended June 30, 2013 (in thousands)
Balance at beginning of period	$ 91,077	$ 65,193
Increase in value of warrants	1,945	28,851
Reclassification to stockholders equity upon exercise of warrants	(13,906)	(14,928)

Balance at end of period	$ 79,116	$ 79,116

Table of Contents

For the six months ended June 30, 2013, 498,695 warrants were exercised at a weighted average exercise price of $8.89, generating proceeds of $4.4 million of which $2.6 million were received in July 2013 and are included in other current assets in the condensed consolidated balance sheet at June 30, 2013. For the six months ended June 30, 2012, no warrants were exercised.

The following table summarizes the outstanding warrants at June 30, 2013.

Issue Date	Exercise Price	Outstanding Warrants at June 30, 2013	Expiration Date	Weighted Average Remaining Contractual Life (Years)	Exercisable Warrants
1/30/2009	$ 6.96	1,604,049	7/30/2014	1.1	1,604,049
1/30/2009	$ 8.70	356	1/30/2014	0.6	356
8/25/2009	$ 10.68	1,024,518	8/31/2014	1.2	1,024,518
		2,628,923			2,628,923

6. EQUITY FINANCING

In January 2013, the Company sold approximately 87,000 shares of common stock through its At-The-Market (ATM) 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.

Subsequent to the period ended June 30, 2013, on July 3, 2013, the Company entered into a second ATM offering (the 2013 ATM) allowing the Company to sell, at its option, up to an aggregate of $125 million of shares of common stock at market prices. Through August 7, 2013, the Company has sold approximately 1,000,000 shares generating $37.9 million in proceeds under the 2013 ATM.

7. CONTRACT REVENUE

The Company recognizes revenue from U.S. and E.U. government research contracts during the period in which the related expenditures are incurred and presents revenue and related expenses gross in the condensed consolidated financial statements. In the periods presented, substantially all of the revenue generated by the Company was derived from government research contracts.

The following table sets forth the revenue for each of the Company s contracts with the U.S. and E.U. governments and other revenue for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
July 2010 Contract *(Ebola and Marburg IV)*	$ 2,076	$ 11,171	$ 4,690	$ 22,334
August 2012 Contract *(Intramuscular)*	439		2,245	
November 2012 SKIP-NMD Agreement *(DMD)*	9		63	
Other Agreements	427	36	427	85
Total	$ 2,951	$ 11,207	$ 7,425	$ 22,419

U.S. Government Contracts

As of June 30, 2013, the Company had completed all of its contracts with the DoD except for the Marburg portion of the July 2010 contract for the development of therapeutics against Ebola and Marburg viruses and the August 2012 contract for intramuscular (IM) administration of AVI-7288, the Company s candidate against the Marburg virus.

July 2010 Contract (Ebola and Marburg Intravenous administration)

On July 14, 2010, the Company was awarded a DoD contract managed by the Joint Project Manager Transformational Medical Technologies (JPM-TMT) Project Management Office, a component of the Joint Program Executive Office for Chemical and Biological Defense, for the advanced development of the Company s hemorrhagic fever virus therapeutic candidates, AVI-6002 and AVI-6003,

Table of Contents

against the Ebola and Marburg viruses, respectively. In February 2012, we announced that we received permission from the U.S. Food and Drug Administration (FDA) to proceed with a single oligomer from AVI-6003, AVI-7288, as the lead product candidate against Marburg virus infection.

Table of Contents

On August 2, 2012, the Company received a stop-work order related to the Ebola virus portion of the contract and, on October 2, 2012, the DoD terminated the Ebola portion of the contract for the convenience of the government due to government funding constraints.

The remaining 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 include Phase I studies in healthy volunteers as well as preclinical studies.

After completion of the first segment, and each successive segment, the DoD has the option to proceed to the next segment. If the DoD exercises its options for segments II, III and IV, our contract activities would include all clinical and licensure activities necessary to obtain FDA regulatory approval for the therapeutic candidate against the Marburg virus. The funding for segments II, III and IV of the Marburg virus portion of the contract is estimated to be approximately $84.4 million.

August 2012 Contract (Intramuscular administration)

On August 29, 2012, the Company was awarded a contract from the DoD, which is also managed by the JPM-TMT. The contract was awarded for approximately $3.9 million to evaluate the feasibility of an IM route of administration using AVI-7288, the Company s candidate for treatment of Marburg virus. The current period of performance of this contract is scheduled to conclude in the second half of 2013 subject to additional extensions that may be agreed upon by the Company and DoD.

Other Agreements

For the three month period ended June 30, 2013, Other Agreements includes $0.4 million in additional revenue from a former US government contract the Company related to H1N1 influenza.

European Union Agreement

In November 2012, the Company entered into an agreement for a collaborative research project partially funded by the EC Health Innovation. The agreement provides for reimbursement of costs of approximately $2.5 million for research in certain development and study related activities for a DMD therapeutic and is expected to last approximately three years.

During the six months ended June 30, 2013, the Company received $1.3 million in advance payments and recognized $64,000 of these payments as revenue. Deferred revenue related to the agreement as of June 30, 2013 was $1.2 million. The remaining balance of deferred revenue relates to the Company s sponsored research agreement with Charley s Fund.

8. STOCK 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, RSUs and SARs.

Stock-based compensation costs are based on the fair value calculated utilizing the Black-Scholes-Merton option pricing model on the date of grant. The fair value of stock awards, with consideration given to estimated forfeitures, is amortized as compensation expense on a straight-line basis over the vesting period of the grants.

In June 2013, the Company s stockholders approved an additional 3.6 million shares available for grants under the Amended and Restated 2011 Equity Incentive Plan (the 2011 Plan) and stockholders approved the 2013 Employee Stock Purchase Plan (ESPP) with 250,000 shares available to be issued. As of June 30, 2013, 3,199,747 shares of common stock remain available for future grant under the 2011 Plan and 250,000 shares are available to be issued under the ESPP.

Stock Options

In general, stock options granted prior to December 31, 2010 vest over a three year period, with one-third of the underlying shares vesting on each anniversary of grant, and have a ten year term. Beginning in January 2011, stock options granted generally vest over a four year period, with one-fourth of the underlying shares vesting on the first anniversary of the grant and the remaining underlying shares vesting pro-ratably on a monthly basis thereafter, such that the underlying shares will be fully vested on the fourth anniversary of the grant.

In June 2013, the Company granted 969,500 of time-based stock options that vest in the manner described above and 459,500 stock options with performance-based vesting criteria. The performance criteria is based upon the achievement of certain clinical and regulatory milestones. As of June 30, 2013, the achievement of these performance criteria is not probable and accordingly the Company has not recognized any expense related to these options.

Table of Contents

A summary of the Company s stock option activity with respect to the six months ended June 30, 2013 follows:

Stock Options	Underlying Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2012	2,522,522	$ 11.76		
Granted	1,754,170	34.10		
Exercised	(119,547)	8.35		
Canceled	(180,956)	9.60		
Outstanding at June 30, 2013	3,976,189	$ 21.82	8.91	$ 64,737,000
Vested at June 30, 2013 and expected to vest	3,639,329	$ 21.27	8.84	$ 61,269,000
Exercisable at June 30, 2013	714,247	$ 11.81	6.82	$ 18,963,000

The weighted-average fair value per share of stock-based awards granted to employees during the three months ended June 30, 2013 and 2012 was $23.20 and $3.53, respectively, and during the six months ended June 30, 2013 and 2012 was $22.50 and $4.56, respectively. During the six months ended June 30, 2013, the total intrinsic value of stock options exercised was $3.0 million. During the six months ended June 30, 2013 and 2012, the total grant date fair value of stock options that vested was $0.6 million and $2.7 million, respectively.

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

	Three and Six Months Ended June 30,	
	2013	2012
Risk-free interest rate	0.7% - 1.4%	0.8% - 1.1%
Expected dividend yield	0%	0%
Expected lives	5.0 years	5.3 years
Expected volatility	80.0% - 84.1.%	79.7% - 82.5%

(1) For the three and six months ended June 30, 2013, expected volatility has been estimated using a blend of calculated volatility of the Company s common stock over a historical period and implied volatility in exchange-traded options associated with the Company s common stock. Prior to January 1, 2013, expected volatility has been estimated using calculated volatility of the Company s common stock over a historical period commensurate with the expected term of the option.

Restricted Stock Awards

In June 2013, the Company granted 6,000 shares of restricted stock awards to members of its board of directors. These shares vest on the first anniversary of the grant and have a grant date fair value of $34.92 per share. The weighted-average grant-date fair value of restricted stock awards is based on the market price of the Company s common stock on the date of grant. The following table sets forth restricted stock activity for the period shown:

	Six Months Ended June 30, 2013	
	Shares	Weighted Average Grant Date Fair Value per Share
Restricted Stock Awards, beginning of period	4,998	$ 10.08

Granted	6,000	34.92
Vested		
Canceled		
Restricted Stock Awards, end of period	10,998	23.63

Table of Contents

Restricted Stock Units

For the six months ended June 30, 2013, restricted stock unit activity is summarized in the following table:

	Six Months Ended June 30, 2013	
	Shares	Weighted Average Grant Date Fair Value per Share
Restricted Stock Units, beginning of period	38,260	$ 6.32
Granted		
Vested	24,594	6.83
Canceled	341	5.40
Restricted Stock Units, end of period	13,325	$ 5.40

Table of Contents

Stock-based Compensation Expense

A summary of the stock-based compensation expense, including stock options, restricted stock, RSUs, and SARs recognized in the condensed consolidated statements of operations and comprehensive loss is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(in thousands)		(in thousands)	
Research and development	$ 724	$ 259	$ 1,254	$ 512
General and administrative	1,594	181	2,735	636
Total	$ 2,318	$ 440	$ 3,989	$ 1,148

As of June 30, 2013, there was $45.3 million of unrecognized compensation cost related to non-vested share-based compensation arrangements outstanding including stock options, restricted stock, RSUs, and SARs. These costs are expected to be recognized over a weighted-average period of 3.3 years.

9. INCOME TAXES

At December 31, 2012, the Company had net deferred tax assets of approximately $114.1 million. The net deferred tax assets are primarily composed of U.S. federal and state tax net operating loss carryforwards, U.S. federal and state research and development credit carryforwards and share-based compensation expense. Due to uncertainties surrounding the Company s ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax asset. Additionally, the Internal Revenue Code rules could limit the future use of its net operating loss and research and development credit carryforwards to offset future taxable income based on ownership changes and the value of the Company s stock.

10. RESTRUCTURING

In November 2012, the Company notified 21 Bothell, Washington based employees that they would be terminated as part of the corporate headquarters relocation to Cambridge, Massachusetts. The employees were given various incentives to remain through a transition period which is expected to be completed in 2013. For the six months ended June 30, 2013, the Company recorded restructuring charges of $0.3 million to research and development expense and $0.3 million to general and administrative expense. All transition costs are expected to be paid in 2013.

Changes in the liability and the balance related to the restructuring plan are as follows:

	Six Months Ending June 30, 2013 (in thousands)
Balance at December 31, 2012	$ 185
Restructuring charges	671
Payments	(703)
Balance at June 30, 2013	$ 153

11. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued new guidance which requires disclosure of significant amounts reclassified out of accumulated other comprehensive income by component and their corresponding effect on the respective line items of net income. This guidance was adopted by the Company in fiscal year 2013. The adoption of this guidance did not have an impact on the Company s unaudited condensed consolidated financial statements.

In July 2013, FASB issued new guidance which amends the guidance related to the presentation of unrecognized tax benefits and allows for the reduction of a deferred tax asset for a net operating loss (NOL) carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The new guidance is effective for annual and interim periods for fiscal years beginning after December 15, 2013, and early adoption is permitted. Since the guidance relates only to the presentation of unrecognized tax benefits, we do not expect our adoption in January 2014 will have a material effect on our financial position, results of operations or cash flows.

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions after the date of the balance sheet data but prior to the issuance of the financial statements for potential recognition or disclosures in its financial statements. Other than discussed in note 6, Equity Financing, the Company did not identify any material subsequent events requiring adjustment or disclosure.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the section contained in our Annual Report on Form 10-K for the year ended December 31, 2012 under the caption Part II-Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations . This discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may, seek and other similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other forward-looking information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements include, but are not limited to:

our expectations regarding the development and clinical benefits of our product candidates;

the results of our research and development efforts and the efficacy of our PMO-based chemistries and other RNA-based technology;

our expectations regarding our ability to become a leading developer and marketer of RNA-based therapeutics;

the efficacy, potency and utility of our product candidates in the treatment of rare and infectious diseases, and their potential to treat a broad number of human diseases;

our expectations regarding the results of preclinical and clinical testing of our product candidates;

our expectations regarding initiating enrollment of a pivotal Phase III trial in late 2013;

our expectations regarding the timing, completion and receipt of results from our ongoing development programs;

the receipt of any required approval from the U.S. Food and Drug Administration, or FDA, or other regulatory approval for our products;

the effect of regulation by FDA and other agencies;

our expectations regarding the markets for our products;

acceptance of our products, if introduced, in the marketplace;

the impact of competitive products, product development, commercialization and technological difficulties;

our expectations regarding partnering opportunities and other strategic transactions;

the extent of protection that our patents provide and our pending patent applications may provide, if patents issue from such applications, to our technologies and programs;

our plans to file additional patent applications to enhance and protect our existing intellectual property portfolio;

our ability to invalidate some or all of the claims covered by patents issued to competitors

our estimates regarding our future revenues, research and development expenses, other expenses, payments to third parties and changes in staffing levels;

our estimates regarding how long our currently available cash and cash equivalents will be sufficient to finance our operations and statements about our future capital needs;

Table of Contents

our ability to increase the scale of our manufacturing to provide our product to patients in larger scale clinical trials or in potential commercial quantities;

our ability to operate our business without infringing the intellectual property rights of others;

the extent of protection that our patents provide and our pending patent applications may provide, if patents issue from such applications, to our technologies and programs;

our plans to file additional patent applications to enhance and protect our existing intellectual property portfolio;

our estimates regarding our future revenues, research and development expenses, other expenses, payments to third parties and changes in staffing levels;

our estimates regarding how long our currently available cash and cash equivalents will be sufficient to finance our operations and statements about our future capital needs;

our expectations about funding from the government and other sources; and

other factors set forth below under the heading Risk Factors .

These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this Quarterly Report in Part II, Item 1A Risk Factors, and elsewhere in this Quarterly Report. These statements, like all statements in this Quarterly Report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. In this report, we, our, us, Sarepta, and Company refers to Sarepta Therapeutics, Inc. and its subsidiaries.

Overview

We are a biopharmaceutical company focused on the discovery and development of unique RNA-based therapeutics for the treatment of rare and infectious diseases. Applying our proprietary, highly-differentiated and innovative platform technologies, we are able to target a broad range of diseases and disorders through distinct RNA-based mechanisms of action. We are primarily focused on rapidly advancing the development of our potentially disease-modifying Duchenne muscular dystrophy drug candidates, including our lead product candidate, eteplirsen. We are also focused on developing therapeutics for the treatment of infectious diseases, including our lead infectious disease program aimed at the development of a drug candidate for the Marburg hemorrhagic fever virus. By building our infectious disease programs which are primarily funded and supported by the DoD, and leveraging our highly-differentiated, proprietary technology platforms, we are seeking to further develop our research and development competencies and identify additional product candidates.

Our highly-differentiated RNA-based technologies work at the most fundamental level of biology and potentially could have a meaningful impact across a broad range of human diseases and disorders. Our lead program focuses on the development of disease-modifying therapeutic candidates for DMD, a rare genetic muscle-wasting disease caused by the absence of dystrophin, a protein necessary for muscle function. Currently, there are no approved disease-modifying therapies for DMD. Eteplirsen is our lead therapeutic candidate for DMD. If we are successful in our development efforts, eteplirsen will address a severe unmet medical need. Last year, we completed a U.S.-based Phase IIb clinical trial for eteplirsen that was initiated in August 2011. Following completion of this study in early 2012, we initiated an open label extension study with the same participants from the original Phase IIb placebo controlled trial. We anticipate initiating a pivotal clinical trial for eteplirsen by the end of 2013 and commencing dosing in this trial in early 2014.

We are also leveraging the capabilities of our RNA-based technology platforms to develop therapeutics for the treatment of infectious diseases. The DoD has provided significant financial support in the past for the development of therapeutics against Ebola, Marburg, Dengue and

influenza viruses. We have attracted DoD s support based in part on our ability to rapidly respond to pathogenic threats by quickly identifying, manufacturing and evaluating novel therapeutic candidates.

The basis for our novel RNA-based therapeutics is our phosphorodiamidate-linked morpholino oligomer, or PMO, chemistries. Unlike other RNA-based therapeutics, which are often used to down-regulate gene expression, our technologies can be used to selectively up-regulate or down-regulate the production of a target protein, or direct the expression of novel proteins involved in human diseases and disorders. Further, we believe the charge-neutral nature of our PMO-based molecules may have the potential to reduce off-target effects, such as immune stimulatory effects often seen in alternative RNA-based technologies. We believe that our highly-differentiated, novel proprietary and innovative RNA-based technology platforms, based on charge neutral morpholino oligomers, may represent a significant improvement over traditional RNA-based technologies.

Table of Contents

On July 12, 2012, our common stock began trading on The NASDAQ Global Market on a split-adjusted basis following a one-for-six reverse stock split that was effective on July 11, 2012. Unless otherwise noted, all share amounts, share prices and exercise prices included throughout this report give effect to the July 2012 one-for-six reverse stock split.

Since our inception in 1980, we have incurred losses of $492.4 million, substantially all of which resulted from expenditures related to research and development, general and administrative charges and losses on changes in warrant valuation partially offset by revenue generated from research contracts with and grants primarily from the DoD. As of June 30, 2013, we have completed all of our contracts with the DoD except for the July 2010 contract and the August 2012 contract for the development of therapeutics against the Marburg virus. The current period of performance for the August 2012 contract is scheduled to conclude in the second half of 2013 subject to additional extensions that may be agreed upon by the Company and the DoD. In November 2012 we also entered into an agreement with the EC Health Innovation for development and study related activities for a DMD therapeutic for which minimal revenues have been earned to date. We have not generated any material revenue from product sales to date, and there can be no assurance that revenues from product sales will be achieved. Moreover, even if we do achieve revenue from product sales, we are likely to continue to incur operating losses in the near term.

As of June 30, 2013, we had $164.0 million of cash equivalents and invested cash, comprised of $156.2 million of cash and cash equivalents and $7.8 million of restricted investments, which we believe, taking into consideration our current stock price and outstanding warrants, is sufficient to fund our current operational plan for the next twelve months. Should our funding from the DoD cease or be delayed, we would likely curtail certain infectious disease research and development efforts unless additional funding was obtained. We are also likely to pursue additional cash resources through public or private financings, seeking additional government contracts, and by establishing collaborations or licensing our technology to other companies.

We were originally incorporated in the State of Oregon on July 22, 1980 and on June 6, 2013, we reincorporated in Delaware. Our executive office is located at 215 First Street, Suite 7, Cambridge, MA 02142 and our telephone number is (857) 242-3700. Our common stock trades on The NASDAQ Global Market under the symbol SRPT.

Table of Contents

Government Contracts

We recognize revenue from government research contracts during the period in which the related expenditures are incurred and present these revenues and related expenses gross in the condensed consolidated financial statements. In the periods presented, substantially all of the revenues generated by us was derived from research contracts with the DoD. As of June 30, 2013, we had completed all of our contracts with the DoD except for the Marburg portion of the July 2010 agreement for the development of therapeutics against Ebola and Marburg viruses and the August 2012 contract for IM administration of AVI-7288, our candidate against the Marburg virus.

The following table sets forth the revenue from each of our contracts with the U.S. and E.U. governments and other revenue for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
July 2010 Contract *(Ebola and Marburg IV)*	$ 2,076	$ 11,171	$ 4,690	$ 22,334
August 2012 Contract (*Intramuscular*)	439		2,245	
November 2012 SKIP-NMD Agreement *(DMD)*	9		63	
Other Agreements	427	36	427	85
Total	$ 2,951	$ 11,207	$ 7,425	$ 22,419

July 2010 Contract (Ebola and Marburg Intravenous administration)

On July 14, 2010, we were awarded the DoD contract managed by the JPM-TMT Project Management Office for the advanced development of our hemorrhagic fever virus therapeutic candidates, AVI-6002 and AVI-6003, against the Ebola and Marburg viruses, respectively. In February 2012, we announced that we received permission from the FDA to proceed with a single oligomer from AVI-6003, AVI-7288, as the lead product candidate against Marburg virus infection.

On August 2, 2012, we received a stop-work order related to the Ebola virus portion of the contract and, on October 2, 2012, the DoD terminated the Ebola portion of the contract for the convenience of the government due to government funding constraints.

The remaining Marburg portion of the contract is structured into four segments and has an aggregate remaining period of performance spanning approximately four years if DoD exercises its options for all segments. Activities under the first segment began in July 2010 and include Phase I studies in healthy volunteers as well as preclinical studies.

After completion of the first segment, and each successive segment, DoD has the option to proceed to the next segment. If DoD exercises its options for segments II, III and IV, our contract activities would include all clinical and licensure activities necessary to obtain FDA regulatory approval for the therapeutic candidate against the Marburg virus. The funding for segments II, III and IV of the Marburg virus portion of the contract is estimated to be approximately $84.4 million.

August 2012 Contract (Intramuscular administration)

On August 29, 2012, we were awarded a contract from the DoD, which is also being managed by the JPM-TMT. The contract was awarded for approximately $3.9 million to evaluate the feasibility of an IM route of administration using AVI-7288, our candidate for treatment of Marburg virus. The current period of performance for this contract is scheduled to conclude in the second half of 2013 subject to additional extensions that may be agreed upon by the Company and the DoD.

Other Agreements

For the three month period ended June 30, 2013, Other Agreements includes $0.4 million in additional revenue from a former US government contract the Company related to H1N1 influenza.

November 2012 SKIP-NMD Agreement (DMD)

In November 2012, we entered into an agreement for a collaborative research project partially funded by the EC Health Innovation. The agreement provides for approximately $2.5 million for research in certain development and study related activities for a DMD therapeutic and is expected to last approximately three years.

During the six months ended June 30, 2013, the Company received $1.3 million in advance payments and recognized $63,000 of these payments as revenue. Deferred revenue related to the agreement as of June 30, 2013 was $1.2 million. The remaining balance of deferred revenue relates to the Company s sponsored research agreement with Charley s Fund.

Table of Contents

Key Financial Metrics

Revenue

Government Research Contract and Grant Revenue. Substantially all of our revenue is generated from U.S. government research contracts and grants. See Note 7 of the Notes to the Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q. We recognize revenue f