THERAVANCE INC
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

o 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: 0-30319

THERAVANCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-3265960**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

901 Gateway Boulevard

South San Francisco, CA 94080

(Address of Principal Executive Offices including Zip Code)

(650) 808-6000

(Registrant s Telephone Number, Including Area Code)

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

The number of shares of registrant s common stock outstanding on July 31, 2009 was 53,790,860.

The number of shares of registrant s Class A common stock outstanding on July 31, 2009 was 9,401,499.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

THERAVANCE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2009 (Unaudited)	December 31, 2008 *
Assets		
Current assets:		
Cash and cash equivalents	$ 61,098	$ 92,280
Marketable securities	114,585	108,325
Receivable from related party	248	287
Notes receivable	227	266
Prepaid and other current assets	8,315	8,803
Total current assets	184,473	209,961
Restricted cash	1,310	3,810
Property and equipment, net	14,712	16,206
Notes receivable	1,010	1,185
Other long-term assets	4,580	4,994
Total assets	$ 206,085	$ 236,156
Liabilities and stockholders net capital deficiency		
Current liabilities:		
Accounts payable	$ 1,823	$ 3,277
Accrued personnel-related expenses	7,958	8,932
Accrued clinical and development expenses	2,917	3,434
Other accrued liabilities	5,470	4,407
Current portion of note payable and capital lease	175	117
Current portion of deferred revenue	22,026	23,788
Total current liabilities	40,369	43,955
Convertible subordinated notes	172,500	172,500
Deferred rent	1,280	1,560
Notes payable and capital lease	359	319
Deferred revenue	150,495	152,771
Other long-term liabilities	543	
Commitments and contingencies		
Stockholders net capital deficiency:		
Preferred stock, $0.01 par value, 230 shares authorized, no shares issued and outstanding		
	538	525

Common stock, $0.01 par value; 200,000 shares authorized, issuable in series; 53,790 and 52,576 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively		
Class A Common Stock, $0.01 par value, 30,000 shares authorized, 9,402 issued and outstanding at June 30, 2009 and December 31, 2008	94	94
Additional paid-in capital	912,070	895,383
Accumulated other comprehensive income	198	501
Accumulated deficit	(1,072,361)	(1,031,452)
Total stockholders net capital deficiency	(159,461)	(134,949)
Total liabilities and stockholders net capital deficiency	$ 206,085	$ 236,156

* Condensed consolidated balance sheet at December 31, 2008 has been derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

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THERAVANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenue (1)	$ 5,493	$ 5,505	$ 15,037	$ 11,150
Operating expenses:				
Research and development	20,020	19,996	39,577	46,775
General and administrative	6,796	7,256	13,848	16,422
Restructuring charges	30	5,063	1,313	5,063
Total operating expenses	26,846	32,315	54,738	68,260
Loss from operations	(21,353)	(26,810)	(39,701)	(57,110)
Interest and other income	1,172	1,295	1,819	2,967
Interest expense	(1,511)	(1,511)	(3,027)	(2,647)
Net loss	$ (21,692)	$ (27,026)	$ (40,909)	$ (56,790)
Basic and diluted net loss per share	$ (0.35)	$ (0.44)	$ (0.65)	$ (0.93)
Shares used in computing net loss per share	62,842	61,192	62,567	61,098

(1) Revenue includes amounts from GSK, a related party, of $2,708 and $9,656 for the three and six months ended June 30, 2009, respectively, and $2,830 and $5,654 for the three and six months ended June 30, 2008, respectively.

See accompanying notes to condensed consolidated financial statements.

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THERAVANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities		
Net loss	$ (40,909)	$ (56,790)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,529	4,156
Stock-based compensation	10,387	8,646
Forgiveness of notes receivable	(23)	3
Changes in operating assets and liabilities:		
Receivables, prepaid and other current assets	545	(3,572)
Accounts payable and accrued liabilities	(1,092)	(3,799)
Accrued personnel-related expenses	(974)	(1,943)
Deferred rent	(280)	(202)
Deferred revenue	(4,038)	(10,150)
Other long-term liabilities	543	(485)
Net cash used in operating activities	(33,312)	(64,136)
Cash flows from investing activities		
Purchases of property and equipment	(359)	(791)
Purchases of marketable securities	(54,570)	(241,292)
Maturities of marketable securities	48,065	124,002
Sales of marketable securities		13,804
Release of restricted cash	2,500	
Additions to notes receivable		(100)
Payments received on notes receivable	238	160
Net cash used in investing activities	(4,126)	(104,217)
Cash flows from financing activities		
Payments on notes payable	(57)	(48)
Proceeds from issuances of common stock	6,313	2,845
Proceeds from issuance of convertible subordinated notes, net of issuance costs		166,733
Net cash provided by financing activities	6,256	169,530
Net increase (decrease) in cash and cash equivalents	(31,182)	1,177
Cash and cash equivalents at beginning of period	92,280	86,433
Cash and cash equivalents at end of period	$ 61,098	$ 87,610

See accompanying notes to condensed consolidated financial statements.

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Theravance, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Theravance, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of the Company s management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company s financial position at June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008 and the cash flows for the six months ended June 30, 2009 and 2008. The Company has evaluated subsequent events through August 5, 2009, which is the date that the unaudited condensed consolidated financial statements were issued. The results for the three and six months ended June 30, 2009 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2009 or any other period.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (SEC) on February 26, 2009.

Use of Management s Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Inventory

Inventory is stated at the lower of cost or market and is included with prepaid and other current assets in the condensed consolidated balance sheets. Inventory of $5.7 million as of June 30, 2009 consists of commercial launch supplies of the Company s product candidate telavancin which is currently under regulatory review. Under the Company s 2005 License, Development and Commercialization Agreement with Astellas

Pharma Inc. (Astellas), the Company is responsible to deliver to Astellas approximately six months of first commercial sale stock (as defined) in preparation for the regulatory approval and commercialization of telavancin in the United States.

If the regulatory approval of telavancin is substantially further delayed or denied by the U.S. Food and Drug Administration (FDA), if the FDA determines that the Company s data are insufficient to support extended shelf life, or if the telavancin inventory is otherwise not realizable, the Company may be required to expense a portion or all of the capitalized inventory costs.

Other-than-Temporary Impairment Assessment

The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, credit quality and the Company s conclusion that it does not intend to sell an impaired investment and is not more likely than not to be required to sell the security before it recovers its amortized cost basis. If the Company determines that the impairment of an investment is other-than-temporary, the investment is written down with a charge recorded in interest and other income, net.

Research and Development Costs

Research and development costs are expensed in the period that services are rendered or goods are received. Research and development costs consist of salaries and benefits, laboratory supplies and facility costs, as well as fees paid to third parties that conduct certain research and development activities on behalf of the Company, net of certain external development costs reimbursed by GlaxoSmithKline plc (GSK) and Astellas.

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Fair Value of Share-based Payment Awards

The Company uses the fair value method of accounting for share-based compensation arrangements in accordance with Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-based Payment (SFAS 123(R)). The Company adopted SFAS 123(R) on January 1, 2006 using the modified prospective method of transition. Share-based compensation arrangements covered by SFAS 123(R) currently include stock options granted, restricted shares issued, restricted stock unit awards (RSUs) granted and performance-contingent RSUs granted under the 2004 Equity Incentive Plan and the 2008 New Employee Equity Incentive Plan and purchases of common stock by the Company s employees at a discount to the market price during offering periods under the Company s Employee Stock Purchase Plan (ESPP). The estimated fair value of stock options, restricted shares and RSUs is expensed on a straight-line basis over the expected term of the grant and the fair value of performance-contingent RSUs is expensed during the term of the award when the Company determines that it is probable that certain performance milestones will be met. Compensation expense for purchases under the ESPP is recognized based on the estimated fair value of the common stock during each offering period and the percentage of the purchase discount.

In conjunction with the adoption of SFAS 123(R), the Company changed its method of expensing the value of stock-based compensation from the accelerated method to the straight-line single-option method. Compensation expense for all share-based payment awards granted prior to January 1, 2006 will continue to be recognized using the accelerated method over the vesting period while the compensation expense for all share-based payment awards granted on or subsequent to January 1, 2006 is recognized using the straight-line single-option method. Stock-based compensation expense for stock options and RSUs has been reduced for estimated forfeitures so that compensation expense is based on options and RSUs ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company s estimated annual forfeiture rates for stock options and RSUs are based on its historical forfeiture experience.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP SFAS No. 115-2 and SFAS No. 124-2). FSP SFAS No. 115-2 and SFAS No. 124-2 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The Company adopted FSP SFAS No. 115-2 and SFAS No. 124-2 in the three months ended June 30, 2009 and has determined that the adoption had no material impact on its financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP SFAS No. 107-1 and Accounting Principals Board No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP SFAS No. 107-1 and APB No. 28-1). This FSP amends FASB Statement No. 107, Disclosure about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB No. 28, Interim Financial Reporting, to require disclosures in summarized financial information at interim reporting periods. The Company adopted FSP SFAS No. 107-1 and APB No. 28-1 in the three months ended June 30, 2009 and has determined that the adoption had no material impact on its financial position, results of operations and cash flows.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be

issued. The Company adopted SFAS No. 165 in the three months ended June 30, 2009 and has determined that the adoption had no material impact on its financial position, results of operations and cash flows.

2. Net Loss per Share

Basic net loss per share (Basic EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase. Diluted net loss per share (Diluted EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, plus dilutive potential common shares. Diluted EPS is identical to Basic EPS for all periods presented since potential common shares are excluded from the calculation, as their effect is anti-dilutive.

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Potential common shares that were excluded from the calculation are as follows:

(in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Shares issuable upon the exercise of stock options	9,179	11,070	9,529	11,080
Shares issuable under performance-contingent restricted stock unit awards	992	1,745	997	1,826
Shares issuable under restricted stock unit awards	1,890	448	1,524	230
Shares issuable upon the conversion of convertible debt	6,668	6,668	6,668	5,825

The calculation of basic and diluted net loss per share is as follows:

(in thousands, except for per share amounts)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Basic and diluted:				
Net loss	$ (21,692)	$ (27,026)	$ (40,909)	$ (56,790)
Weighted average shares of common stock outstanding	62,919	61,285	62,644	61,191
Less: unvested restricted shares	(77)	(93)	(77)	(93)
Weighted average shares used in computing basic and diluted net loss per common share	62,842	61,192	62,567	61,098
Basic and diluted net loss per share	$ (0.35)	$ (0.44)	$ (0.65)	$ (0.93)

3. Comprehensive Loss

Comprehensive loss is comprised of net loss and changes in other comprehensive income, which consists of net unrealized gains and losses on the Company s marketable securities. Comprehensive loss for the three and six months ended June 30, 2009 and 2008 is as follows:

(in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net loss	$ (21,692)	$ (27,026)	$ (40,909)	$ (56,790)
Other comprehensive loss:				
Net unrealized loss on available-for-sale securities	(129)	(372)	(303)	(67)
Comprehensive loss	$ (21,821)	$ (27,398)	$ (41,212)	$ (56,857)

4. Restructuring Charges

In response to the completion of its Phase 3 development activities with telavancin and to reduce its overall cash burn rate, the Company announced a plan to reduce its workforce by approximately 40% through layoffs from all departments throughout the organization in April 2008.

In February 2009, the Company entered into a sublease agreement with a third party to sublease excess space in a portion of one of its South San Francisco, CA buildings. The sublease has a 37 month term that began March 2009. For the six months ended June 30, 2009, the Company recorded a restructuring charge of $1.3 million of which $1.1 million represents the fair value of the Company s lease payments and expenses less sublease income through March 2012.

The following table summarizes the accrual balance and utilization by cost type for the restructuring for the six months ended June 30, 2009:

(in thousands)	Employee Severance and Benefits	Excess Facilities
Balance as of December 31, 2008	$ 502	$
Restructuring charges accrued	50	1,264
Cash payments	(431)	(379)*
Adjustments		
Balance as of June 30, 2009	$ 121	$ 884

* Includes fair value of cash payments less sublease payments received

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To date, the cumulative amount of restructuring charges incurred was $6.8 million.

Several of the Company s employees impacted by the restructuring plan announced in April 2008 have future service requirements extending beyond June 30, 2009. As a result, the Company anticipates that approximately $0.1 million of additional severance and other termination benefits will be recognized over their service periods through the end of 2009. The restructuring accrual related to employee severance and benefits is recorded within accrued personnel-related expenses and the restructuring accrual related to excess facilities is recorded within other accrued liabilities and other long-term liabilities on the Company s condensed consolidated balance sheets.

5. Collaboration and Licensing Agreements

2005 License, Development and Commercialization Agreement with Astellas

In November 2005, the Company entered into a collaboration arrangement with Astellas for the development and commercialization of telavancin. In July 2006, Japan was added to the collaboration, thereby giving Astellas worldwide rights to this potential medicine. Through June 30, 2009, the Company has received $170.0 million in upfront, milestone and other fees from Astellas and the Company is eligible to receive up to an additional $50.0 million in remaining milestone payments related to regulatory filings and approvals in various regions of the world, primarily in the U.S. The Company recorded the payments as deferred revenue to be amortized ratably over its estimated period of performance (development and commercialization period). The Company recognized $2.8 million and $2.7 million in revenue under this agreement in the three months ended June 30, 2009 and 2008, respectively, and $5.4 million and $5.5 million in the six months ended June 30, 2009 and 2008, respectively. In April 2009, the FDA accepted the Company s nosocomial pneumonia (NP, also known as hospital acquired pneumonia or HAP) NDA filing. The NDA filing triggered a $10.0 million milestone payment from Astellas which the Company received and recorded as deferred revenue in April 2009.

If telavancin is commercialized, the Company will be entitled to receive royalties on global sales of telavancin by Astellas that, on a percentage basis, range from the high teens to the upper twenties depending on sales volume. Under this arrangement, the Company is responsible for substantially all costs to develop and obtain U.S. regulatory approval for telavancin for complicated skin and skin structure infections (cSSSI) and NP, as well as for the manufacture of approximately six months of first commercial sale stock for launch of telavancin in the United States, and Astellas is responsible for substantially all other costs associated with commercialization and further development of telavancin.

Horizon Program with GSK

In November 2002, the Company entered into its Horizon collaboration with GSK to develop and commercialize a long-acting beta2 agonist (LABA) product candidate both as a single agent new medicine for the treatment of chronic obstructive pulmonary disease (COPD) and as part of a new combination medicine with an inhaled corticosteroid (ICS) for the treatment of asthma and/or a long-acting muscarinic antagonist (LAMA) for COPD.

In connection with the Horizon program, in 2002 the Company received from GSK an upfront payment of $10.0 million and sold to an affiliate of GSK shares of the Company s Series E Preferred Stock for an aggregate purchase price of $40.0 million. In addition, the Company was eligible to receive up to $495.0 million in development, approval, launch and sales milestones and royalties on the sales of any product resulting from this program. Through June 30, 2009, the Company has received a total of $60.0 million in upfront and development milestone payments. GSK has determined to focus the collaboration s resources on the development of the lead LABA, GW642444, a GSK-discovered compound, together with GSK s ICS, fluticasone furoate. Accordingly, the Company does not expect to receive any further milestone payments from the Horizon program. In the event that a LABA product candidate discovered by GSK is successfully developed and commercialized, the Company would be obligated to make milestone payments to GSK which could total as much as $220.0 million if both a single agent and a combination product were launched in multiple regions of the world. Based on available information, the Company does not estimate that a significant portion of these potential milestone payments to GSK are likely to be made in the next two years. In addition, the Company is entitled to receive the same royalties on sales of medicines from the Horizon program, regardless of whether the product candidate originated with Theravance or with GSK. The Company is entitled to receive royalties of 15% on the first $3.0 billion of annual net sales, and 5% on annual net sales above $3.0 billion, for approved single-agent LABA and combination LABA-ICS medicines. Sales of single agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the Horizon collaboration, such as a combination LABA/LAMA medicine, which are launched

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after a LABA/ICS combination medicine, royalties are upward tiering and range from the mid-single digits to 10%. However, if GSK is not selling a LABA/ICS combination product at the time that the first other LABA combination is launched, then the royalties described above for the LABA/ICS combination medicine are applicable.

The Company recorded the initial cash payment and subsequent milestone payments as deferred revenue to be amortized ratably over its estimated period of performance (the product development period). Collaboration revenue from GSK was $1.3 million and $1.7 million for the three months ended June 30, 2009 and 2008, respectively, and $2.5 million and $3.4 million for the six months ended June 30, 2009 and 2008, respectively.

2004 Strategic Alliance with GSK

In March 2004, the Company entered into its strategic alliance with GSK. Under this alliance, GSK received an option to license exclusive development and commercialization rights to product candidates from all of the Company s full drug discovery programs initiated prior to September 1, 2007, on pre-determined terms and on an exclusive, worldwide basis. Under the terms of the strategic alliance, GSK has only one opportunity to license each of the Company s programs. Upon GSK s decision to license a program, GSK is responsible for funding all future development, manufacturing and commercialization activities for product candidates in that program. In addition, GSK is obligated to use diligent efforts to develop and commercialize product candidates from any program that it licenses. Consistent with the Company s strategy, it is obligated at its sole cost to discover two structurally different product candidates for any programs that are licensed by GSK under the alliance. If these programs are successfully advanced through development by GSK, the Company is entitled to receive clinical, regulatory and commercial milestone payments and royalties on any sales of medicines developed from these programs. For product candidates licensed to date under this agreement, the royalty structure for a product containing one of its compounds as a single active ingredient would result in an average percentage royalty rate in the low double digits. If a product is successfully commercialized, in addition to any royalty revenue that the Company receives, the total upfront and milestone payments that it could receive in any given program that GSK licenses range from $130.0 million to $162.0 million for programs with single agent medicines and up to $252.0 million for programs with both a single agent and a combination medicine. If GSK chooses not to license a program, the Company retains all rights to the program and may continue the program alone or with a third party. To date, GSK has licensed the Company s two COPD programs: long-acting muscarinic antagonist (LAMA) and muscarinic antagonist-beta2 agonist (MABA). The Company received $5.0 million payments from GSK in connection with its license of each of the Company s LAMA and MABA programs in August 2004 and March 2005, respectively. GSK has chosen not to license the Company s bacterial infections program, anesthesia program or Gastrointestinal Motility Dysfunction program.

In connection with the strategic alliance with GSK, the Company received from GSK a payment of $20.0 million. This payment is being amortized over the initial performance period during which GSK may exercise its right to license certain of the Company s programs under the agreement, which it currently estimates to be through September 2011. In connection with the strategic alliance, the Company recognized $0.7 million in revenue for each of the three months ended June 30, 2009 and 2008 and $1.4 million in revenue for each of the six months ended June 30, 2009 and 2008. In addition, in May 2004, GSK purchased through an affiliate 6,387,096 shares of the Company s Class A common stock for an aggregate purchase price of $108.9 million.

Through June 30, 2009, the Company has received $46.0 million in upfront and milestone payments from GSK relating to the strategic alliance agreement. In addition, pursuant to a partial exercise of its rights under the governance agreement, upon the closing of the Company s initial public offering on October 8, 2004, GSK purchased through an affiliate an additional 433,757 shares of Class A common stock for $6.9 million.

In August 2004, GSK exercised its right to license the Company s LAMA program pursuant to the terms of the strategic alliance. The Company received a $5.0 million payment from GSK in connection with its licensing of the Company s LAMA program. Through June 30, 2009, the Company received a milestone payment from GSK of $3.0 million related to clinical progress of the Company s product candidate. These payments were being amortized ratably over the estimated period of performance (the product development period). During the three months ended March 31, 2009, the Company recognized the remaining $4.2 million of deferred revenue related to the LAMA program as a result of the program being returned to the Company from GSK. The recognition of the remaining deferred revenue related to the LAMA program had a favorable impact on basic and diluted net loss per share of $0.07 for the six months ended June 30, 2009. For the three and six months ended June 30, 2008, the Company recognized $0.2 million and $0.4 million, respectively, in revenue related to the LAMA program.

In March 2005, GSK exercised its right to license the Company s MABA program pursuant to the terms of the strategic alliance. The Company received a $5.0 million payment from GSK in connection with the license of the Company s

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MABA program. Through June 30, 2009, the Company received milestone payments from GSK of $13.0 million related to clinical progress of its candidate. These payments are being amortized ratably over the estimated period of performance (the product development period). In connection with the MABA program, the Company recognized $0.8 million and $0.3 million in revenue for the three months ended June 30, 2009 and 2008, respectively and $1.5 million and $0.5 million for the six months ended June 30, 2009 and 2008, respectively.

6. Marketable Securities

The Company manages, monitors and measures its investments in highly liquid investment-grade securities by major security type. The following is a summary of the Company s cash, cash equivalents, marketable securities and restricted cash by major security type at June 30, 2009 and December 31, 2008:

	June 30, 2009			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government securities	$ 45,402	$ 29	$ (1)	$ 45,430
U.S. government agency securities	37,915	143		38,058
U.S. corporate notes	22,102	36	(13)	22,125
U.S. commercial paper	8,969	3		8,972
Money market funds	62,408			62,408
Total	176,796	211	(14)	176,993
Less amounts classified as cash and cash equivalents	(61,098)			(61,098)
Less amounts classified as restricted cash	(1,310)			(1,310)
Amounts classified as marketable securities	$ 114,388	$ 211	$ (14)	$ 114,585

	December 31, 2008			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government securities	$ 39,483	$ 149	$	$ 39,632
U.S. government agency securities	28,785	284		29,069
U.S. corporate notes	19,635	55	(13)	19,677
U.S. commercial paper	24,916	26		24,942
Certificates of deposit	60			60
Money market funds	91,035			91,035
Total	203,914	514	(13)	204,415
Less amounts classified as cash and cash equivalents	(92,280)			(92,280)
Less amounts classified as restricted cash	(3,810)			(3,810)
Amounts classified as marketable securities				