RIGEL PHARMACEUTICALS INC
Form 10-Q
November 03, 2009

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 SEPTEMBER 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 0-29889

Rigel Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-3248524** (I.R.S. Employer Identification No.)
1180 Veterans Blvd. **South San Francisco, CA** (Address of principal executive offices)	**94080** (Zip Code)

(650) 624-1100

(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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
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

As of October 30, 2009, there were 51,821,947 shares of the registrant s common stock outstanding.

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RIGEL PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

RIGEL PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2009 (unaudited)	December 31, 2008 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 94,745	$ 46,005
Available-for-sale securities	61,333	88,472
Prepaid expenses and other current assets	3,066	3,610
Total current assets	159,144	138,087
Property and equipment, net	2,605	3,567
Other assets	2,546	2,204
	$ 164,295	$ 143,858
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 3,504	$ 5,984
Accrued compensation	3,844	1,625
Other accrued liabilities	11,848	12,029
Capital lease obligations	1,114	1,339
Deferred rent		3,174
Total current liabilities	20,310	24,151
Long-term portion of capital lease obligations	1,155	2,053
Long-term portion of deferred rent	12,360	13,311
Other long-term liabilities	162	178
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding as of September 30, 2009 and December 31, 2008		
Common stock, $0.001 par value; 100,000,000 shares authorized; 51,821,947 and 36,646,397 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	52	37
Additional paid-in capital	718,469	605,509
Accumulated other comprehensive income	18	396
Accumulated deficit	(588,231)	(501,777)
Total stockholders equity	130,308	104,165
	$ 164,295	$ 143,858

(1) The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date included in Rigel s Annual Report on Form 10-K for the year ended December 31, 2008.

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Contract revenues	$	$	$	$
Costs and expenses:				
Research and development	21,082	31,232	70,568	81,268
General and administrative	5,573	7,450	15,226	21,436
Restructuring charges			1,141	
	26,655	38,682	86,935	102,704
Loss from operations	(26,655)	(38,682)	(86,935)	(102,704)
Interest income	48	1,034	554	3,853
Interest expense	(44)	(43)	(166)	(131)
Loss before income taxes	(26,651)	(37,691)	(86,547)	(98,982)
Income tax benefit			93	
Net loss	$ (26,651)	$ (37,691)	$ (86,454)	$ (98,982)
Net loss per share, basic and diluted	$ (0.70)	$ (1.03)	$ (2.32)	$ (2.76)
Weighted average shares used in computing net loss per share, basic and diluted	38,135	36,581	37,185	35,837

See Accompanying Notes.

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RIGEL PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2008	
Operating activities				
Net loss	$	(86,454)	$	(98,982)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		1,057		1,064
Stock-based compensation expense		9,657		17,801
Changes in assets and liabilities:				
Prepaid expenses and other current assets		544		(203)
Other assets		274		115
Accounts payable		(2,480)		588
Accrued compensation		2,219		(3,182)
Other accrued liabilities		(181)		6,927
Deferred rent and other long-term liabilities		(4,141)		(506)
Net cash used in operating activities		(79,505)		(76,378)
Investing activities				
Purchases of available-for-sale securities		(82,871)		(170,146)
Maturities of available-for-sale securities		101,440		131,089
Sale of available-for-sale securities		8,192		
Capital expenditures		(95)		(1,759)
Net cash provided by (used in) investing activities		26,666		(40,816)
Financing activities				
Proceeds from capital lease financings				1,363
Payments on capital lease obligations		(1,123)		(903)
Net proceeds from issuances of common stock		102,702		129,949
Net cash provided by financing activities		101,579		130,409
Net increase in cash and cash equivalents		48,740		13,215
Cash and cash equivalents at beginning of period		46,005		44,503
Cash and cash equivalents at end of period	$	94,745	$	57,718
Supplemental disclosure of cash flow information				
Interest paid	$	142	$	129
Schedule of non cash transactions				
Issuance of warrant with lease amendment	$	616	$	

See Accompanying Notes.

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Rigel Pharmaceuticals, Inc.

Notes to Condensed Financial Statements

(unaudited)

In this report, Rigel, we, us and our refer to Rigel Pharmaceuticals, Inc.

1. Nature of Operations

We were incorporated in the state of Delaware on June 14, 1996. We are engaged in the discovery and development of novel, small-molecule drugs for the treatment of inflammatory/autoimmune diseases, as well as for certain cancers and metabolic diseases.

2. Basis of Presentation

Our accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and pursuant to 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 U.S. GAAP for complete financial statements. These unaudited condensed financial statements include all normal and recurring adjustments that we believe are necessary to fairly state our financial position and the results of our operations and cash flows. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year. The balance sheet at December 31, 2008 has been derived from audited financial statements at that date, but does not include all disclosures required by U.S. GAAP for complete financial statements. Because all of the disclosures required by U.S. GAAP for complete financial statements are not included herein, these interim unaudited condensed financial statements and the notes accompanying them should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates.

In accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic No. 855, *Subsequent Events,* we evaluated subsequent events for recognition or disclosure through November 3, 2009, the date our accompanying condensed financial statements were issued.

3. Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update, or ASU, No. 2009-13 (formerly Emerging Issues Task Force, or EITF, No. 08-1) on ASC Topic No. 605 for revenue recognition related to multiple-deliverable revenue arrangements. The ASU provides amendments to the existing criteria for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable, eliminate the residual method of allocation of arrangement consideration to all deliverables and require the use of the relative selling price method in allocation of arrangement consideration to all deliverables, require the determination of the best estimate of a selling price in a consistent manner, and significantly expand the disclosures related to the multiple-deliverable revenue arrangements. The amendments will be effective in fiscal years beginning on or after June 15, 2010, and early adoption is permitted. We are currently evaluating the impact on our financial statements of adopting these amendments to ASC Topic No. 605 and cannot estimate the impact of adoption at this time.

On July 1, 2009, the FASB launched the FASB Accounting Standards CodificationTM, or the Codification, as the single source of authoritative U.S. GAAP recognized by the FASB. The Codification reorganizes various U.S. GAAP pronouncements into accounting topics and displays them using a consistent structure. All existing accounting standards documents are superseded as described in SFAS No. 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles* which is now part of ASC Topic No. 105. All of the contents of the Codification carry the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* which identified and ranked the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements in conformity with U.S. GAAP. Also included in the Codification, as a reference for public companies, are rules and interpretive releases of the U.S. Securities and Exchange Commission, or the SEC, under authority of federal securities laws which are also sources of authoritative U.S. GAAP for SEC registrants. The Codification is effective for interim and annual periods ending after September 15, 2009. We adopted SFAS No. 168 on July 1, 2009 and concluded it had no material impact on our financial statements other than changing the way specific accounting standards are referenced in our financial statements.

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In September 2006, the FASB issued SFAS, No. 157, *Fair Value Measurements,* or SFAS No. 157, which now forms part of ASC Topic No. 820. This standard defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, except that under FASB Staff Position, or FSP 157-2, *Effective Date of FASB Statement No. 157,* which now forms part of ASC Topic No. 820, companies are allowed to delay the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value on a recurring basis until fiscal years beginning after November 15, 2008. In October 2008, FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active,* or FSP 157-3, which now forms part of ASC Subtopic No. 820-10, was issued and effective upon issuance, including prior periods for which financial statements have not been issued. FSP 157-3 clarified the application of SFAS No. 157 in a market that is not active. Effective January 1, 2008, we adopted the provisions of SFAS No. 157 for all financial assets and liabilities. Effective January 1, 2009, we adopted SFAS No. 157 for non-financial assets and liabilities. There was no material impact on our financial statements from the adoption of SFAS No. 157 for our financial or non-financial assets and liabilities.

4. Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share was computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during the period. The calculation of diluted net loss per share excluded shares of potential common stock, consisting of stock options and warrants, because their effect would have been anti-dilutive.

5. Stock Award Plans

Total stock-based compensation expense related to all of our stock-based awards that we recognized was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Research and development	$ 2,356	$ 3,035	$ 6,309	$ 9,229
General and administrative	1,176	3,001	3,226	8,572
Restructuring charges			122	
Total stock-based compensation expense	$ 3,532	$ 6,036	$ 9,657	$ 17,801

In February 2009, we announced that we cut our research programs in virology and oncology as well as terminated certain related development and administrative staff, which resulted in the dismissal of 36 employees, or approximately 20% of our workforce. This measure was intended to maintain our emphasis on our active preclinical and clinical programs, while conserving our resources. As part of a package we offered the terminated employees, we extended the date the terminated employees had to exercise their vested options to December 31, 2009 rather than 90 days from the termination date as is typically required under our equity incentive plan. We recorded $122,000 of non-cash stock-based compensation expense related to this modification in the first quarter of 2009.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. We have segregated option awards into three homogenous groups for purposes of determining fair values of options: officers and directors, all other employees, and consultants.

We determined weighted-average valuation assumptions separately for each of these groups as follows:

- Volatility We estimated volatility using the historical share price performance over the expected life of the option up to the point where we have historical market data. We also considered other factors, such as implied volatility, our current clinical trials and other company activities that may affect the volatility of our stock in the future. We determined that at this time historical volatility is more indicative of our expected future stock performance than implied volatility.

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- Expected term We worked with various historical data to determine the applicable expected term for each option group. This data include: (1) for exercised options, the term of the options from option grant date to exercise date; (2) for cancelled options, the term of the options from option grant date to cancellation date, excluding unvested option forfeitures; and (3) for options that remained outstanding at the balance sheet date, the term of the options from option grant date to the end of the reporting period and the estimated remaining term of the options. The consideration and calculation of the above data gave us reasonable estimates of the expected term for each option group. We also considered the vesting schedules of the options granted and factors surrounding exercise behavior of the option groups, our current market price and company activity that may affect our market price. In addition, we considered the optionee type (i.e., officers and directors, all other employees and consultants) and other factors that may affect the expected term of the option. For options granted to consultants, we use the contractual term of the option, which is generally ten years, for the initial valuation of the option and the remaining contractual term of the option for the succeeding periods.

- Risk-free interest rate The risk-free interest rate is based on U.S. Treasury constant maturity rates with similar terms to the expected term of the options for each option group.

- Forfeiture rate We estimated the forfeiture rate using our historical experience with pre-vesting options. We review our forfeiture rates each quarter and make changes as factors affecting our forfeiture rate calculations and assumptions change.

- Dividend yield The expected dividend yield is 0% as we have not paid and do not expect to pay dividends.

The following table summarizes the weighted-average assumptions relating to options granted pursuant to our equity incentive plans for the three and nine months ended September 30, 2009 and 2008:

	Equity Incentive Plans Three Months Ended September 30,		**Equity Incentive Plans Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Risk-free interest rate	2.5%	3.1%	1.8%	2.8%
Expected term (in years)	4.0	4.0	4.4	4.5
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	103.5%	92.1%	98.4%	93.0%

Options are priced at the market price of our common stock on the date immediately preceding the date of grant, become exercisable at varying dates and generally expire ten years from the date of grant. We granted options to purchase 2,066,708 shares of common stock during the nine months ended September 30, 2009, with a grant-date weighted average fair value of $4.65 per share. We granted options to purchase 1,528,180 shares of common stock during the nine months ended September 30, 2008, with a grant-date weighted average fair value of $18.03 per share. As of September 30, 2009, there was approximately $11.9 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to unvested options granted under our equity incentive plans. At September 30, 2009, 2,673,643 shares of common stock were available for future grant under our equity incentive plans and options to purchase 129,839 shares were exercised during the nine months ended September 30, 2009.

Employee Stock Purchase Plan (ESPP)

The fair value of awards granted under our ESPP is estimated on the date of grant using the Black-Scholes option pricing model, which uses weighted-average assumptions. Our ESPP provides for a twenty-four month offering period comprised of four six-month purchase periods with a look-back option. A look-back option is a provision in our ESPP under which eligible employees can purchase shares of our common stock at a price per share equal to the lesser of 85% of the fair market value on the first day of the offering period or 85% of the fair market value on the purchase date.

Our ESPP also includes a feature that provides for a new offering period to begin when the fair market value of our common stock on any purchase date during an offering period falls below the fair market value of our common stock on the first day of such offering period. This feature is called a reset. Participants are automatically enrolled in the new offering period. We had a reset on January 2, 2009 because the fair market value of our stock on December 31, 2008 was lower than the fair market value of our stock on July 1, 2008, the first day of the offering period. We applied modification accounting in accordance with ASC Topic No. 718, *Stock Compensation*, to determine the incremental fair value associated with this ESPP reset and recognized the related stock-based compensation expense according to the FASB ASC Subtopic No. 718-50, *Employee Share Purchase Plan*. The total incremental fair value for this ESPP reset was $1,443,848, and is being recognized over the new twenty-four month offering period.

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As of September 30, 2009, there were approximately 1,314,220 shares reserved for future issuance under the ESPP and 95,711 shares were purchased under the ESPP during the nine months ended September 30, 2009. The following table summarizes the weighted-average assumptions related to our ESPP for the nine months ended September 30, 2009 and 2008. Expected volatilities for our ESPP are based on the historical volatility of our stock. Expected term represents the weighted average of the purchase periods within the offering period. The risk-free interest rate for periods within the expected term is based on U.S. Treasury constant maturity rates.

	Employee Stock Purchase Plan Nine Months Ended September 30,	
	2009	**2008**
Risk-free interest rate	1.1%	2.1%
Expected term (in years)	1.3	1.3
Dividend yield	0.0%	0.0%
Expected volatility	112.0%	99.0%

6. Revenue Recognition

We recognize revenue from our collaboration arrangements under ASC Topic No. 808, *Collaboration Arrangements*. Our revenue arrangements with multiple elements are evaluated under ASC Subtopic No. 605-25, *Multiple-Element Arrangements*, and are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of any undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Non-refundable, up-front payments received in connection with research and development collaboration agreements, including technology access fees, are deferred and recognized on a straight-line basis over the relevant periods of continuing involvement, generally the research term. When a research term is not specified, we estimate the time it will take us to complete our deliverables under the contract and recognize the upfront fee using the straight-line method over that time period. We review our estimates every quarter for reasonableness.

Revenues related to collaborative research with our corporate collaborators are recognized as research services are performed over the related development periods for each agreement. Under these agreements, we are required to perform research and development activities as specified in each respective agreement. The payments received are not refundable and are generally based on a contractual cost per full-time equivalent employee working on the project. Our research and development expenses under the collaborative research agreements approximate the revenue recognized under such agreements over the term of the respective agreements. It is our policy to recognize revenue based on our level of effort expended, however, revenue recognized will not exceed amounts billable under the agreement.

Revenues associated with at-risk milestones pursuant to collaborative agreements are recognized upon achievement of the milestones as set forth in the applicable agreement.

7. **Research and Development Accruals**

We have various contracts with third parties related to our research and development activities. Costs that are incurred but not billed to us as of the end of the period are accrued. We make estimates of the amounts incurred in each period based on the information available to us and our knowledge of the nature of the contractual activities generating such costs. Clinical trial contract expenses are accrued based on units of activity reported by third parties. Expenses related to other research and development contracts, such as research contracts, toxicology study contracts and manufacturing contracts are estimated to be incurred generally on a straight-line basis over the duration of the contracts. Raw materials and study materials purchased by third parties are expensed at the time of purchase.

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8. Cash, Cash Equivalents and Available-For-Sale Securities

Cash, cash equivalents and available-for-sale securities consisted of the following (in thousands):

	September 30, 2009	December 31, 2008
Checking account	$ 129	$ 491
Money market funds	80,297	45,514
U. S. treasury bills	26,417	26,085
Government-sponsored enterprise securities	37,140	34,641
Corporate bonds and commercial paper	12,095	27,746
	$ 156,078	$ 134,477
Reported as:		
Cash and cash equivalents	$ 94,745	$ 46,005
Available-for-sale securities	61,333	88,472
	$ 156,078	$ 134,477

Cash equivalents and available-for-sale securities include the following securities with unrealized gains and losses (in thousands):

September 30, 2009	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U. S. treasury bills	$ 26,408	$ 9	$	$ 26,417
Government-sponsored enterprise securities	37,129	20	(9)	37,140
Corporate bonds and commercial paper	12,097		(2)	12,095
Total	$ 75,634	$ 29	$ (11)	$ 75,652

December 31, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U. S. treasury bills	$ 25,972	$ 113	$	$ 26,085
Government-sponsored enterprise securities	34,501	140		34,641
Corporate bonds and commercial paper	27,603	143		27,746
Total	$ 88,076	$ 396	$	$ 88,472

As of September 30, 2009, the contractual maturities of our available-for-sale securities were (in thousands):

	Years to Maturity	
	Within One Year	**After One Year Through Five Years**
U. S. treasury bills	$ 26,417	$
Government-sponsored enterprise securities	35,139	2,001
Corporate bonds and commercial paper	12,095	

	$	73,651	$	2,001

As of September 30, 2009, our available-for-sale securities had a weighted average time to maturity of approximately 109 days. We view our available-for-sale portfolio as available for use in current operations. Accordingly, we have classified certain available-for-sale investments as short-term in the balance sheet although the stated maturity date may be over one year from the current balance sheet date. We have the ability to hold all investments as of September 30, 2009 to maturity. At September 30, 2009 and December 31, 2008, we had no investments that had been in a continuous unrealized loss position for more than twelve months. As of September 30, 2009, a total of 16 individual securities were in an unrealized loss position for twelve months or less and the losses were deemed to be temporary.

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The following table shows the fair value and gross unrealized losses of our investments in individual securities that are in an unrealized loss position, aggregated by investment category (in thousands):

September 30, 2009	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 21,451	$ (9)
Corporate bonds and commercial paper	7,095	(2)
Total	$ 28,546	$ (11)

9. Fair Value

Under ASC Topic No. 820, *Fair Value Measurements and Disclosures*, fair value is defined as the price at which an asset could be exchanged or a liability transferred in a transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied.

Assets and liabilities recorded at fair value in our financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair valued assets we hold that are generally included under this Level 1 are money market securities where fair value is based on publicly quoted prices.

Level 2 Are inputs, other than quoted prices included in Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument s anticipated life.

The fair valued assets we hold that are generally assessed under Level 2 included government-sponsored enterprise securities, U. S. Treasury bills and corporate bonds and commercial paper where fair value is based on valuation methodologies such as models using observable market inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management s best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Fair Value on a Recurring Basis

Financial assets measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations (in thousands):

	Assets at Fair Value as of September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market fund	$ 80,297	$	$	$ 80,297
U. S. treasury bills		26,417		26,417
Government-sponsored enterprise securities		37,140		37,140
Corporate bonds and commercial paper		12,095		12,095
Total	$ 80,297	$ 75,652	$	$ 155,949

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	Assets at Fair Value as of December 31, 2008			
	Level 1	Level 2	Level 3	Total
Money market fund	$ 45,514	$	$	$ 45,514
U. S. treasury bills		26,085		26,085
Government-sponsored enterprise securities		34,641		34,641
Corporate bonds and commercial paper		27,746		27,746
Total	$ 45,514	$ 88,472	$	$ 133,986

Fair Value on a Non-Recurring Basis

On March 31, 2009, we issued a new warrant granting our landlord the right to purchase 200,000 shares of common stock, and cancelled an existing warrant to purchase 100,000 shares of common stock, in connection with the amendment of our build-to-suit lease agreement (see Note 11 below for more details). We used the Black Scholes option-pricing model and calculated an incremental fair market value of $616,000 related to the new warrant in accordance with ASC Topic No. 718. The new warrant was categorized as level 3 under ASC Topic No. 820 due to the unobservable inputs we used in the Black Scholes option-pricing model.

The following table summarizes the assumptions used relating to the valuation of the new warrant:

Risk-free interest rate	2.2%
Expected term (in years)	7.0
Dividend yield	0.0%
Expected volatility	99.2%

10. Restructuring Charges

In February 2009, we announced that we cut our research programs in virology and oncology as well as terminated certain related development and administrative staff, which resulted in the dismissal of 36 employees, or approximately 20% of our workforce. As a result of the restructuring, we recorded restructuring charges of $1.1 million in the first quarter of 2009, including $1.0 million of workforce reduction costs (which had been substantially paid as of March 31, 2009) and $122,000 of non-cash stock-based compensation expense as a result of the extension of the date the terminated employees have to exercise their vested options to December 31, 2009 rather than 90 days from the termination date as is typically required under our equity incentive plan.

11. Amendment to the Build-to-Suit Lease Agreement

On March 31, 2009, we amended our build-to-suit lease agreement with our landlord, HCP BTC, LLC (formerly known as Slough BTC, LLC), to defer certain rental obligations in the aggregate amount of $6.9 million for a period of up to seventeen months. Under the terms of this amendment, we are obligated to repay the deferred rental amounts, including interest accruing at 12% during the deferral period, based on a timeline that can vary depending upon the occurrence of certain financing or collaborative transactions. In addition, the amendment to the lease agreement also provided for the cancellation of an existing warrant granting HCP Estates USA Inc. (an affiliate of our landlord) the right to purchase 100,000 shares of common stock and the issuance of a new warrant granting our landlord the right to purchase 200,000 shares of common stock. The exercise price per share of the new warrant is $6.61, which is the average closing price of our common stock for the three business days immediately preceding the execution of the amendment to the lease agreement. The new warrant remains exercisable for 7 years from the date of issuance. We applied modification accounting in accordance with ASC Topic No. 718 and calculated an incremental fair market value of the new warrant of $616,000. This amount has been deferred in other assets and is being amortized into rent expense over the remaining term of the lease.

As discussed in Note 12 below, on September 22, 2009, we completed an underwritten public offering in which we received net proceeds of approximately $101.5 million after deducting underwriting discounts and commissions and offering expenses. As a result of the above financing, we are obligated to pay our landlord $3.7 million, or 50% of the deferred rental amounts, plus interest at 12%, within 45 days from the date of closing the public offering. We are obligated to pay the remaining deferred rental amounts, including related interest, of approximately $4.5 million on or before July 1, 2011.

12. Equity Financing

On September 22, 2009, we completed an underwritten public offering in which we sold 14,950,000 shares of our common stock at a price to the public of $7.25 per share. We received net proceeds of approximately $101.5 million after deducting underwriting discounts and commissions and offering expenses.