THERAVANCE INC
Form 10-Q
August 04, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ý Accelerated Filer o Non-Accelerated Filer 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 ý

The number of shares of registrant s common stock outstanding on August 1, 2006 was 50,480,418.

The number of shares of registrant s Class A common stock outstanding on August 1, 2006 was 9,401,498.

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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, 2006 (Unaudited)	December 31, 2005 *
Assets		
Current assets:		
Cash and cash equivalents	$ 84,898	$ 49,787
Marketable securities	157,543	112,138
Receivable from related party	417	990
Deferred sublease cost	178	
Prepaid and other current assets	4,471	3,903
Total current assets	247,507	166,818
Marketable securities	51,045	38,084
Restricted cash and cash equivalents	3,860	3,860
Property and equipment, net	13,413	13,180
Deferred sublease costs		297
Notes receivable	2,973	2,496
Other assets	99	100
Total assets	$ 318,897	$ 224,835
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 10,493	$ 8,118
Accrued personnel-related expenses	4,423	6,041
Accrued clinical and development expenses	15,353	13,779
Other accrued liabilities	1,653	1,997
Current portion of notes payable	75	75
Current portion of capital lease obligations	598	1,169
Current portion of deferred revenue	21,452	16,994
Total current liabilities	54,047	48,173
Deferred rent	2,573	2,538
Notes payable	589	631
Deferred revenue	132,660	111,251
Other long term liabilities	3,421	2,658
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value; 230 shares authorized, no shares issued and outstanding		
Common stock, $0.01 par value; 200,000 shares authorized; 50,429 and 44,475 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	503	444
Class A Common Stock, $0.01 par value; 30,000 shares authorized, 9,402 issued and outstanding at June 30, 2006 and December 31, 2005, respectively	94	94

Additional paid-in capital	827,704	676,299
Notes receivable from stockholders	(7)	(17)
Deferred stock-based compensation		(4,965)
Accumulated other comprehensive loss	(492)	(503)
Accumulated deficit	(702,195)	(611,768)
Total stockholders equity	125,607	59,584
Total liabilities and stockholders equity	$ 318,897	$ 224,835

**Condensed consolidated balance sheet at December 31, 2005 has been derived from audited financial statements.*

See accompanying notes to condensed consolidated financial statements.

THERAVANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue (1)	$ 4,837	$ 2,913	$ 9,133	$ 5,670
Operating expenses:				
Research and development (2)	40,751	28,889	89,459	59,086
General and administrative (2)	8,899	7,215	16,173	12,851
Total operating expenses	49,650	36,104	105,632	71,937
Loss from operations	(44,813)	(33,191)	(96,499)	(66,267)
Interest and other income	3,474	1,619	6,359	3,437
Interest expense	(136)	(144)	(287)	(337)
Net loss	$ (41,475)	$ (31,716)	$ (90,427)	$ (63,167)
Basic and diluted net loss per common share	$ (0.70)	$ (0.60)	$ (1.55)	$ (1.19)
Shares used in computing net loss per common share	59,440	53,163	58,185	53,025

(1) Amounts include revenue from GSK, a related party, of $3,324 and $6,360 for the three and six months ended June 30, 2006, respectively, and $2,913 and $5,670 for the three and six months ended June 30, 2005, respectively.

(2) Amounts include stock-based compensation, consisting of stock-based compensation expense under SFAS 123(R), the amortization of deferred stock-based compensation and the value of options issued to non-employees for services rendered, allocated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Research and development	$ 3,290	$ 839	$ 6,337	$ 1,681
General and administrative	3,465	595	5,431	1,161
Total stock-based compensation	$ 6,755	$ 1,434	$ 11,768	$ 2,842

See accompanying notes to condensed consolidated financial statements.

THERAVANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows (used in) provided by operating activities		
Net loss	$ (90,427)	$ (63,167)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,041	2,057
Stock-based compensation	11,768	2,842
Forgiveness of notes receivable	30	102
Other non-cash operating expenses	507	155
Changes in operating assets and liabilities:		
Receivables, prepaid and other current assets	(380)	(422)
Accounts payable and accrued liabilities	3,315	3,631
Accrued personnel-related expenses	(1,618)	(523)
Deferred rent	35	69
Deferred revenue	25,867	(670)
Other long-term liabilities	850	
Net cash used in operating activities	(48,012)	(55,926)
Cash flows (used in) provided by investing activities		
Purchases of property and equipment	(1,985)	(1,627)
Purchases of marketable securities	(137,499)	(66,052)
Sales and maturities of marketable securities	79,144	83,458
Restricted cash and cash equivalents		677
Additions to notes receivable	(750)	(110)
Payments received on notes receivable	253	464
Net cash (used in) provided by investing activities	(60,837)	16,810
Cash flows (used in) provided by financing activities		
Payments on notes payable and capital leases	(613)	(1,906)
Net proceeds from issuances of common stock	144,573	3,490
Net cash provided by financing activities	143,960	1,584
Net (decrease) increase in cash and cash equivalents	35,111	(37,532)
Cash and cash equivalents at beginning of period	49,787	101,411
Cash and cash equivalents at end of period	$ 84,898	$ 63,879
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 96	$ 198
Non-cash investing and financing activities:		
Addition to (removal of) deferred stock-based compensation	$ (4,965)	$ 896

See accompanying notes to condensed consolidated financial statements.

Theravance, Inc.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Employee Stock-Based Compensation

Unaudited Interim Financial Information

The accompanying unaudited 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 footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company s management, the 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, 2006, and the results of operations and cash flows for the three and six months ended June 30, 2006 and 2005. The results for the three and six months ended June 30, 2006 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2006 or any other period.

The condensed consolidated balance sheet at December 31, 2005 has been derived from audited consolidated financial statements, which are contained in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2005 filed with the Securities and Exchange Commission (SEC) on March 10, 2006 (2005 10-K). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the 2005 10-K.

Use of Management s Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates based upon current assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual conditions may differ materially from the Company s current assumptions. This may result in the Company s estimates being incorrect and may require it to record additional charges or benefits in operations.

Segment Reporting

The Company has determined that it operates in only one segment, which is the research and development of human therapeutics. In addition, all revenues are generated from United States entities, and all long-lived assets are maintained in the United States.

Reclassifications

Certain prior year expenses, relating to the amortization of deferred compensation and stock-based compensation expense related to the value of options issued to non-employees for services rendered have been reclassified from stock-based compensation expense to research and development and general and administrative expenses for consistency with the current year presentation. These reclassifications had no impact on previously reported total operating expenses or net loss.

Fair value of employee stock options

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB), Statement No. 123(R), Share-based Payment (SFAS123(R)), which requires the measurement and recognition of compensation expenses for all share-based payments made to employees and directors including stock options and employee stock purchases under the Company s 2004 Employee Stock Purchase Plan (employee stock purchases) based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting for employee stock options using the intrinsic-value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), Financial Accounting Standards Board Interpretation (FIN) No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB No. 25, and related to interpretations and the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified-prospective transition method. Under this method, compensation costs recognized during the three and six months ended June 30, 2006 include: a) compensation costs for all share-based payment awards granted prior to, but not yet vested as of January 1, 2006, based on grant-date fair value estimated in accordance with the original provisions of SFAS 123; and b) compensation costs for all share-based payment awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

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 of the vesting periods 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 recognized in the Consolidated Statement of Operations for the three and six months ended June 30, 2006 has been reduced for estimated forfeitures so that compensation expense is based on awards 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. In the Company s pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred. In addition, under SFAS 123 (R), the Company elected to continue to use the Black-Scholes valuation model for share-based payment awards granted. For additional information, see Note 7. The Company s determination of the fair value of share-based payment awards on the grant date using option valuation models requires the input of highly subjective assumptions, including the expected price volatility and option life. As the Company has been operating as a public company for a period of time that is shorter than its estimated expected option life, the Company is unable to use actual price volatility or option life data as input assumptions within its Black-Scholes valuation model. Instead the Company is required to use the simplified method as described in SAB 107 relating to SFAS 123(R) for expected term and peer company price volatility, both of which have been higher than actual results to date. The result of this is an increase in the value of estimated stock-based compensation reflected in the Company s Condensed Consolidated Statements of Operations.

In accordance with the modified-prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Total stock-based compensation expense recognized under SFAS 123(R) for the three months ended June 30, 2006 was $6.8 million which consisted of $6.3 million related to employee stock options and employee stock purchases, $0.4 million related to the value of options issued to non-employees for services rendered and $0.1 million related to the value of shares related to restricted stock. Total stock-based compensation expense recognized under SFAS 123(R) for the six months ended June 30, 2006 was $11.8 million which consisted of $10.5 million related to employee stock options and employee stock purchases, $1.1 million related to the value of options issued to non-employees for services rendered and $0.2 million related to the value of shares related to restricted stock. In addition, as of June 30, 2006, there was $37.3 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 1.84 years. As a result of adopting FAS 123(R) on January 1, 2006, the Company s net loss for the three and six months ended June 30, 2006 was $6.8 million and $11.8 million higher, respectively, than if the Company had continued to account for share-based compensation under APB No. 25 as it did in the comparable prior year periods. Accordingly, basic and diluted net loss per share for the three and six months ended June 30, 2006 was $0.12 and $0.20 higher, respectively, than if the Company had continued to account for share-based compensation under APB No. 25. The Company has not recognized, and does not expect to recognize in the near future, any tax benefit related to employee stock-based compensation costs as a result of the full valuation allowance on the Company s net deferred tax assets and its net operating loss carryforwards. The Company expects quarterly stock-based compensation expense to increase for the remainder of 2006.

For the three and six months ended June 30, 2005, stock-based compensation expense was $1.4 and $2.8 million, respectively, consisting of amortization of deferred stock-based compensation, the value of options issued to non-employees for services rendered, and the amortization of deferred stock-based compensation expense related to the grant of restricted stock.

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The weighted-average assumptions used to value employee stock-based compensation for stock options granted and employee stock purchase plan issuances were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Employee stock options				
Risk-free interest rate	4.75%-5.16%	3.69%-3.79%	4.57%-5.16%	3.69%-3.91%
Expected life (in years)	5.55-6.14	3-4	5.55-6.17	3-4
Volatility	0.51	0.70	0.51	0.70
Weighted average estimated fair value of stock options granted	$ 14.30	$ 8.33	$ 15.74	$ 8.70
Employee stock purchase plan issuances				
Risk-free interest rate	4.97%-5.00%	2.58%-3.64%	2.58%-5.00%	2.05%-3.64%
Expected life (in years)	0.5-2	2	0.5-2.11	2
Volatility	0.30-0.38	0.70	0.30-0.70	0.70
Weighted average estimated fair value of ESPP issuances	$ 8.07	$ 8.81	$ 9.01	$ 8.81

Pro forma Information under SFAS 123 for Periods Prior to Fiscal 2006

The following table shows the pro forma effect on net loss and net loss per common share if the fair value recognition provisions of SFAS 123 had been applied to stock based employee compensation (in thousands, except per share amounts) for the three and six months ended June 30, 2005. For purposes of pro forma disclosures, pursuant to SFAS No. 123 as amended by SFAS No. 148, the Company amortized the estimated fair value of stock-based employee compensation to expense over the vesting period of the options using the accelerated expense attribution method:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss, as reported	$ (31,716)	$ (63,167)
Add: Employee stock-based compensation calculated using the intrinsic value method	1,258	2,539
Less: Total employee stock compensation calculated using the fair value method	(5,065)	(9,184)
Pro forma net loss	$ (35,523)	$ (69,812)
Net loss per common share, as reported	$ (0.60)	$ (1.19)
Pro forma net loss common per share	$ (0.67)	$ (1.32)

The foregoing pro forma information regarding net loss and net loss per common share has been determined as if the Company had accounted for its employee stock options and employee stock purchase plan issuances under the fair value method using the Black-Scholes valuation method. As the Company s common stock had only recently become publicly traded when these estimates were made, certain assumptions regarding stock price volatility and expected life were estimated by considering volatility and expected life assumptions used by similar entities within the Company s industry. In particular, the volatility estimate of 70% is significantly higher than the Company s actual stock price volatility, which is approximately 30% since the Company s October 2004 initial public offering.

The Company does not currently pay dividends. On May 27, 2004, the Company s Board of Directors adopted the 2004 Employee Stock Purchase Plan (ESPP) that became effective on October 5, 2004, the date of the Company s initial public offering.

2. Net Loss per Share

Basic net loss per common share (Basic EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding, less shares subject to repurchase. Diluted net loss per common share (Diluted EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding, plus dilutive potential common shares. At June 30, 2006, potential common shares consist of 172,000 shares subject to repurchase (including 50,000 shares of restricted stock), 10,620,000 shares issuable upon the exercise of stock options and 18,000 shares issuable upon the exercise of warrants. At June 30, 2005, potential common shares consist of 244,000 shares subject to repurchase (including 50,000 shares of restricted stock), 10,262,000 shares issuable upon the exercise of stock options and 18,000 shares issuable upon the exercise of warrants. Diluted EPS is identical to Basic EPS since potential common shares are excluded from the calculation, as their effect is anti-dilutive.

(in thousands, except for per share amounts)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Basic and diluted:				
Net Loss	$ (41,475)	$ (31,716)	$ (90,427)	$ (63,167)
Weighted average shares of common stock outstanding	59,620	53,420	58,372	53,279
Less: weighted average shares subject to repurchase	(180)	(257)	(187)	(254)
Weighted average shares used in computing basic and diluted net loss per common share	59,440	53,163	58,185	53,025
Basic and diluted net loss per common share	$ (0.70)	$ (0.60)	$ (1.55)	$ (1.19)

3. Collaboration and Licensing Agreements

2005 License, Development and Commercialization Agreement with Astellas

In November 2005, the Company entered into a collaboration arrangement with Astellas Pharma Inc. (Astellas) for the development and commercialization of telavancin worldwide, except Japan. The Company has received $91.0 million from Astellas through June 30, 2006, and the Company is eligible to receive up to an additional $131.0 million in clinical and regulatory milestone payments. The Company recorded these cash payments of $91.0 million as deferred revenue, which are being amortized ratably over the estimated period of performance (the estimated development and commercialization period). The Company currently estimates the period of performance to be thirteen years from the effective date. The Company recognized $1.4 million and $2.7 million in revenue for the three and six months ended June 30, 2006, respectively.

Subsequent to June 30, 2006, the Company and Astellas agreed to add Japan to their collaboration for the development and commercialization of the Company s investigational antibiotic, telavancin, thereby giving Astellas worldwide rights to this potential medicine. For rights to telavancin in Japan, the Company received an upfront payment of $10.0 million from Astellas in July 2006 and the Company is eligible to receive a $5.0 million milestone payment for regulatory approval in Japan. These payments are in addition to the $131.0 million in remaining clinical and regulatory milestone payments that the Company is eligible to receive related to non-Japanese milestone events.

2002 Beyond Advair Collaboration

In November 2002, the Company entered into a collaboration agreement with an affiliate of GlaxoSmithKline plc (GSK) to develop and commercialize long acting beta2 agonist (LABA) product candidates for the treatment of asthma and chronic obstructive pulmonary disease (COPD), which the Company and GSK refer to as the Beyond Advair Collaboration. Through June 30, 2006, the Company has received upfront and milestone payments of $60.0 million from GSK in connection with this collaboration.

The Company recorded these upfront and milestone payments as deferred revenue, which are being amortized ratably over the Company s estimated period of performance (the product development period), which is currently estimated to be eight years from the collaboration s inception. Collaboration revenue was $2.1 million and $4.0 million for the three and six months ended June 30, 2006, respectively, and $1.9 million and $3.8 million for the three and six months ended June 30, 2005, respectively. Subsequent development milestones will be recorded as deferred revenue when received and amortized over the remaining period of performance during the development period. Additionally, certain costs related to the collaboration are reimbursable by GSK as an offset to research and development expense. For the three and six months ended June 30, 2006, there were no costs related to the collaboration that were reimbursable by GSK; and for the three and six months ended June 30, 2005 these costs were not material.

2004 Strategic Alliance

In March 2004, the Company entered into a strategic alliance with GSK for the development and commercialization of product candidates in a variety of therapeutic areas. In connection with the strategic alliance agreement, the Company received a $20.0 million payment in May 2004. This payment is being amortized over the period during which GSK may exercise its right to license certain of the Company s programs under the agreement, which is currently estimated to be approximately seven and one-half years from the commencement for the strategic alliance. The Company recognized $0.7 million in revenue for each of the three months ended June 30, 2006 and 2005 and $1.4 million in revenue for each of the six months ended June 30, 2006 and 2005.

In August 2004, GSK exercised its right to license the Company s long-acting muscarinic antagonist program (LAMA) for the treatment of COPD pursuant to the terms of the strategic alliance. The Company received a $5.0 million payment from GSK in connection with its licensing of this program. This payment is being amortized ratably over the estimated period of performance (the product development period), which is currently estimated to be approximately seven and one-half years from the date GSK acquired the license. In June 2005, the Company earned a $3.0 million milestone payment, received in July 2005, from GSK in connection with initiation of a Phase 1 trial under the LAMA program. This milestone was recorded as deferred revenue when earned and will be amortized over the remaining period of performance during the development period. The Company recognized $0.3 million and $0.2 million in revenue related to the LAMA program for the three months ended June 30, 2006 and 2005, respectively, and $0.6 million and $0.4 million in revenue for the six months ended June 30, 2006 and 2005, respectively. Additionally, the Company is reimbursed by GSK for certain costs related to the LAMA program as an offset to research and development expense. For the three and six months ended June 30, 2006 there were no reimbursable costs. The Company accrued reimbursements of $0.1 million and $0.5 million for the three and six months ended June 30, 2005.

In March 2005, GSK exercised its right to license the Company s muscarinic antagonist / beta2 agonist (MABA) program for the treatment of COPD, and possibly asthma, 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 MABA program. In March 2006, the Company earned a $3.0 million milestone payment, received in April 2006, from GSK in connection with initiation of a Phase 1 trial under the MABA program. These payments are being amortized ratably over the estimated period of performance (the product development period), which is currently estimated to be approximately eight years from the date GSK acquired the license. The Company recognized $0.2 million and $0.4 million in revenue related to the MABA program for the three and six months ended June 30, 2006, respectively, compared to $0.2 million recognized for both the three and six months ended June 30, 2005. As an offset to research and development expense, certain costs related to the MABA program are reimbursable by GSK. Reimbursements for the three and six months ended June 30, 2006 were not material. Additionally, the Company accrued reimbursements of $1.9 million and $2.4 million for the three and six months ended June 30, 2005, respectively.

2006 License Agreement with AstraZeneca AB

On May 15, 2006 the Company and AstraZeneca AB (AstraZeneca) entered into a license agreement pursuant to which the Company granted an exclusive, worldwide license to AstraZeneca to develop and commercialize its intravenous anesthetic compound TD-4756. The Company received a $1.0 million upfront payment from AstraZeneca and is eligible to receive milestone payments and royalties on global sales. This payment is being amortized ratably over the estimated period of performance which is currently estimated to be approximately one year.

4. Marketable Securities

The Company invests in a variety of highly liquid investment-grade securities. The following is a summary of the Company s available-for-sale securities at June 30, 2006:

	June 30, 2006			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 70,154	$ 10	$ (358)	$ 69,806
U.S. corporate notes	79,719	4	(56)	79,667
U.S. commercial paper	74,239			74,239
Asset-backed securities	51,884	15	(109)	51,790
Certificates of deposit	7,435	2		7,437
Money market funds	14,407			14,407
Total	297,838	31	(523)	297,346
Less amounts classified as cash and cash equivalents	(84,898)			(84,898)
Less amounts classified as restricted cash	(3,860)			(3,860)
Amounts classified as marketable securities	$ 209,080	$ 31	$ (523)	$ 208,588

The estimated fair value amounts have been determined by the Company using available market information. At June 30, 2006, approximately 82% of marketable securities mature within twelve months, 8% of marketable securities mature between twelve and twenty-four months and the remaining 10% have effective maturities beyond 24 months. Average duration of available-for-sale securities was approximately six months at June 30, 2006.

5. Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss), which consists of net unrealized losses on the Company s available-for-sale securities. The components of comprehensive loss are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2006	2005	2006	2005
Net Loss	$ (41,475)	$ (31,716)	$ (90,427)	$ (63,167)
Other comprehensive income (loss):				
Net unrealized (loss) gain on available-for-sale securities	12	327	(492)	