Anthera Pharmaceuticals Inc
Form 10-Q
August 12, 2011
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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, 2011

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: 001-34637

ANTHERA PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1852016**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

25801 Industrial Boulevard, Suite B **Hayward, California**	**94545**
(Address of Principal Executive Offices)	(Zip Code)

(510) 856-5600

(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 x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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 August 5, 2011, the number of outstanding shares of the registrant s common stock, par value $0.001 per share, was 40,780,835.

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ANTHERA PHARMACEUTICALS, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANTHERA PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 108,123	$ 40,030
Short-term investments	3,977	23,351
Prepaid expenses and other current assets	3,200	1,865
Total current assets	115,300	65,246
Property and equipment net	1,325	17
Debt issuance costs	312	
TOTAL	$ 116,937	$ 65,263
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,783	$ 3,791
Accrued clinical studies	10,087	3,137
Accrued liabilities	652	468
Accrued payroll and related costs	1,207	609
Total current liabilities	21,729	8,005
Notes payable net of discount	23,919	
Total liabilities	45,648	8,005
Commitments and Contingencies (Note 6)		
Stockholders equity		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding as of June 30, 2011 and December 31, 2010		
Common stock, $0.001 par value, 95,000,000 shares authorized; 40,697,789 and 32,853,032 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	41	33
Additional paid-in capital	218,660	162,919
Accumulated comprehensive income (loss)	(32)	(50)
Deficit accumulated during the development stage	(147,380)	(105,644)
Total stockholders equity	71,289	57,258
TOTAL	$ 116,937	$ 65,263

See accompanying notes to condensed financial statements.

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ANTHERA PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

	Three months ended June 30,		Six months ended June 30,		Cumulative Period from September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011	2010	2011
OPERATING EXPENSES:					
Research and development	$ 20,586	$ 6,438	$ 36,903	$ 11,680	$ 117,684
General and administrative	2,096	1,510	4,436	2,734	20,654
Total operating expenses	22,682	7,948	41,339	14,414	138,338
LOSS FROM OPERATIONS	(22,682)	(7,948)	(41,339)	(14,414)	(138,338)
OTHER INCOME (EXPENSE):					
Interest and other income	414	12	574	15	1,803
Interest and other expense	(902)		(971)	(845)	(2,740)
Mark-to-market adjustment of warrant liability				(3,796)	(3,796)
Beneficial conversion features					(4,309)
Total other income (expense)	(488)	12	(397)	(4,626)	(9,042)
NET LOSS	$ (23,170)	$ (7,936)	$ (41,736)	$ (19,040)	$ (147,380)
Net loss per share basic and diluted	$ (0.66)	$ (0.36)	$ (1.23)	$ (1.07)	
Weighted-average number of shares used in per share calculation basic and diluted	34,900,225	22,223,941	33,903,166	17,843,335	

See accompanying notes to condensed financial statements.

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ANTHERA PHARMACEUTICALS, INC.

(A Development Stage Company)

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,		September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011
CASH FLOW FROM OPERATING ACTIVITIES:			
Net loss	$ (41,736)	$ (19,040)	$ (147,380)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	10	7	100
Amortization of premium/(discount) on short-term investments	84		55
Realized gain/loss on short-term investments	(8)		(164)
Stock-based compensation expense	1,353	114	2,690
Issuance of preferred and common stock for license fee, interest and service		3,673	6,122
Beneficial conversion feature			4,309
Amortization of discount on convertible notes and notes payable	215	541	892
Amortization of debt issuance costs	39	228	347
Mark-to-market adjustment on warrant liability		3,796	3,796
Changes in assets and liabilities:			
Prepaid expenses and other assets	(1,342)	(973)	(3,206)
Accounts payable	5,925	156	9,974
Accrued clinical studies	6,951	366	10,087
Accrued liabilities	30	(168)	491
Accrued payroll and related costs	(283)	152	326
Net cash used in operating activities	(28,762)	(11,148)	(111,561)
INVESTING ACTIVITIES:			
Property and equipment purchases	(1,318)	(21)	(1,425)
Purchase of short-term investments	(4,486)	(15,283)	(44,235)
Proceeds from sale of short-term investments	23,809		40,341
Net cash provided by (used in) investing activities	18,005	(15,304)	(5,319)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes and notes payable, net of issuance costs	24,700	(210)	50,953
Net proceeds from issuance of preferred stock			32,210
Proceeds from issuance of common stock, net of offering costs	54,012	58,567	141,281
Witholding taxes paid on vested restricted stock units	(25)		(25)
Proceeds from issuance of common stock pursuant to employee stock purchase plan and exercise of stock options, net	163	79	584

Net cash provided by financing activities			78,850		58,436		225,003
NET INCREASE IN CASH AND CASH EQUIVALENTS			68,093		31,984		108,123
CASH AND CASH EQUIVALENTS	Beginning of period		40,030		3,803		
CASH AND CASH EQUIVALENTS	End of period	$	108,123	$	35,787	$	108,123
NONCASH INVESTING AND FINANCING ACTIVITIES:							
Conversion of convertible promissory notes and accrued interest into common stock, Series A-2 convertible preferred stock and Series B-2 convertible preferred stock, including unamortized debt discount		$		$	13,896	$	27,386
Reclassification of warrant and derivative liabilities to additional paid-in capital		$		$	406	$	406
Gross issuance of RSUs		$	1,021	$		$	1,021
Witholding taxes on vested restricted stock units		$	(872)	$		$	(872)
Accrued financing and issuance costs		$	252	$		$	252

See accompanying notes to condensed financial statements.

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ANTHERA PHARMACEUTICALS, INC.

(A Development Stage Company)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Anthera Pharmaceuticals, Inc. (the Company or Anthera) was incorporated on September 9, 2004 in the state of Delaware. Anthera is a biopharmaceutical company focused on developing and commercializing therapeutics to treat serious diseases associated with inflammation, including cardiovascular and autoimmune diseases. Two of the Company s primary product candidates, varespladib and A-001, are inhibitors of the family of human enzymes known as secretory phospholipase A2, or sPLA2. The Company s other primary product candidate, blisibimod (A-623), targets elevated levels of B-cell activating factor, or BAFF. The Company s activities since inception have consisted principally of acquiring product and technology rights, raising capital, and performing research and development. Accordingly, the Company is considered to be in the development stage as of June 30, 2011. Successful completion of the Company s development programs and, ultimately, the attainment of profitable operations are dependent on future events, including, among other things, its ability to access potential markets; secure financing; develop a customer base; attract, retain and motivate qualified personnel; generate revenues; and develop strategic alliances. Although management believes that the Company will be able to successfully fund its operations, there can be no assurance that the Company will be able to do so or that the Company will ever operate profitably.

From September 9, 2004 (Date of Inception) through June 30, 2011, the Company had an accumulated a deficit of approximately $147.4 million. During the three and six months ended June 30, 2011, the Company incurred a net loss of $23.2 million and $41.7 million respectively. Cash used in operating activities was approximately $28.8 million for the six months ended June 30, 2011. The Company expects to continue to incur substantial losses and negative cash flows over the next several years during its clinical development phase. To fully execute its business plan, the Company will need to complete certain research and development activities and clinical studies. Further, the Company s product candidates will require regulatory approval prior to commercialization. These activities may span many years and require substantial expenditures to complete and may ultimately be unsuccessful. Any delays in completing these activities could adversely impact the Company. The Company plans to meet its capital requirements primarily through issuances of equity securities, debt financing, and in the longer term, revenue from product sales. Failure to generate revenue or raise additional capital would adversely affect the Company s ability to achieve its intended business objectives.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U. S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, they do not contain all of the information and footnotes required for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, which include only normal recurring adjustments necessary to present fairly the Company s interim consolidated financial information. The results for the six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011 or for any other period. The condensed balance sheet as of December 31, 2010 has been derived from the audited financial statements as of that date but it does not include all of the information and notes required by U.S. GAAP. The accompanying unaudited condensed financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission (SEC) on March 7, 2011.

Significant Accounting Policies

There have been no changes in our significant accounting policies for the three and six month period ended June 30, 2011, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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Use of Estimates

The preparation of these financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosures. On an ongoing basis, management evaluates its estimates, including critical accounting policies or estimates related to clinical trial accruals, our tax provision and stock-based compensation. The Company bases its estimates on historical experience and on various other market specific and other relevant assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which will enhance comparability between entities that report under U.S. GAAP and those that report under International Financial Reporting Standards (IFRS). ASU 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for the Company s interim and annual periods beginning after December 15, 2011 and must be applied retrospectively. Early adoption is permitted. The Company does not anticipate that the adoption of ASU 2011-05 will have a material effect on its financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* (ASU 2011-04), which amends ASC 820, *Fair Value Measurement* (ASC 820). ASU 2011-04 provides a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. ASU 2011 04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not anticipate that the adoption of ASU 2011-04 will have a material effect on its financial position or results of operations.

2. NET LOSS PER SHARE

Basic net loss attributable to common stockholders per share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. The computation of diluted net loss per share is similar to the computation of basic net loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back any convertible preferred dividends and the after-tax amount of interest recognized in the period associated with any convertible debt. The numerator also is adjusted for any other changes in income or loss that would result from the assumed conversion of those potential common shares, such as profit-sharing expenses. Diluted net loss per share is identical to basic net loss per share since common equivalent shares are excluded from the calculation, as their effect is anti-dilutive.

The following table summarizes the Company s calculation of net loss per common share (in thousands except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss per share				
Numerator				
Net loss	$ (23,170)	$ (7,936)	$ (41,736)	$ (19,040)
Denominator				
Weighted-average common shares outstanding	34,914,521	22,280,192	33,921,422	17,896,770
Less: Weighted-average shares subject to repurchase	(14,296)	(56,251)	(18,256)	(53,435)
Denominator for basic and diluted net loss per share	34,900,225	22,223,941	33,903,166	17,843,335
Basic and diluted net loss per share	$ (0.66)	$ (0.36)	$ (1.23)	$ (1.07)

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The following table shows weighted-average historical dilutive common share equivalents outstanding, which are not included in the above historical calculation, as the effect of their inclusion is anti-dilutive during each period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Options to purchase common stock	963,990	1,026,259	950,687	1,064,288
Common stock subject to repurchase	14,296	56,251	18,256	53,435
Warrants to purchase common stock	4,878,565(1)	357,136(2)	4,731,169(1)	357,136(2)
Restricted Stock Units	288,096		294,308	
Total	6,144,947	1,439,646	5,994,420	1,474,859

(1) Consists of warrants to purchase 357,136 shares of common stock which carry a contractual term of five years and terminate upon the earlier of i) five years from the date of issuance, which will be July 17, 2014 or September 9, 2014, and ii) upon certain corporate transactions; warrants to purchase 4,200,000 shares of common stock which carry a contractual term of five years expiring September 24, 2015; and warrants to purchase 321,429 and 174,033 shares of common stock, for the three and six months ended June 30, 2011, respectively, which carry a contractual term of seven years expiring March 25, 2018. Each of the warrants contains a customary net issuance feature, which allows the warrant holder to pay the exercise price of the warrant by forfeiting a portion of the executed warrant shares with a value equal to the aggregate exercise price.

(2) Consists of warrants to purchase 357,136 shares of common stock which carry a contractual term of five years and terminate upon the earlier of i) five years from the date of issuance, which will be July 17, 2014 or September 9, 2014, and ii) upon certain corporate transactions.

3. CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2011 and December 31, 2010, the amortized cost and estimated fair value of investments is set forth in the following tables (in thousands):

	June 30, 2011		
	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Cash	$ 76,550	$	$ 76,550
Money market funds	31,573		31,573
Certificates of deposit	3,988	(11)	3,977
Total	112,111	(11)	112,100
Less amounts classified as cash and cash equivalents	(108,123)		(108,123)
Total	$ 3,988	$ (11)	$ 3,977

	December 31, 2010		
	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Cash	$ 15,499	$	$ 15,499
Money market funds	19,467		19,467
Certificates of deposit	14,478	(7)	14,471

Corporate bonds		4,011			4,011
Investments in foreign sovereign debt		10,017		(84)	9,933
Total		63,472		(91)	63,381
Less amounts classified as cash and cash equivalents		(40,045)		15	(40,030)
Total	$	23,427	$	(76)	$ 23,351

4. FAIR VALUE OF INSTRUMENTS

Pursuant to the accounting guidance for fair value measurement and its subsequent updates, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that

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reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into the three input levels summarized below:

- *Level 1* Valuations are based on quoted prices in active markets for identical assets or liabilities, and readily accessible by us at the reporting date. Examples of assets and liabilities utilizing Level 1 inputs are certain money market funds, U.S. Treasuries and trading securities with quoted prices on active markets.

- *Level 2* Valuations based on inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets. Examples of assets and liabilities utilizing Level 2 inputs are U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and over-the-counter derivatives.

- *Level 3* Valuations based on unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. Examples of assets and liabilities utilizing Level 3 inputs are cost method investments, auction rate securities (ARS) and the Primary Fund.

The following tables present the Company s fair value hierarchy for all its financial assets (including those in cash and cash equivalents), in thousands, by major security type measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010:

	June 30, 2011			
	Estimated Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 31,574	$ 31,574	$	$
Certificates of deposit	3,977		3,977	
Total	$ 35,551	$ 31,574	$ 3,977	$

	December 31, 2010			
	Estimated Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 19,467	$ 19,467	$	$
Certificates of deposit	14,471		14,471	
Corporate bonds	4,011		4,011	
Investments in foreign sovereign debt	9,933		9,933	
Total	$ 47,882	$ 19,467	$ 28,415	$

5. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following (in thousands):

	June 30, 2011	December 31, 2010
Computers and software	$ 77	$ 77
Office equipment and furniture	17	17
Leasehold improvements	11	11
Lab equipment	23	
Construction in progress	1,295	
Total property and equipment	1,423	105
Less accumulated depreciation	(98)	(88)
Property and equipment, net	$ 1,325	$ 17

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6. COMMITMENTS AND CONTINGENCIES

The Company leases its main operating facility in Hayward, California. The Company began occupying this operating facility in the second quarter of 2010 and amended its lease for the facility in April 2011. The new lease commences on August 1, 2011 and includes approximately $245,000 in tenant improvement reimbursements from the landlord. Pursuant to the amendment, the lease increased the Company s square footage from 7,800 square feet to 14,034 square feet. The new lease expires in September 30, 2014. The Company will recognize rental expense on the facility on a straight line basis over the term of the lease. Differences between the straight line net expense on rent payments will be classified as deferred rent liability on the balance sheet.

In July 2006, the Company entered into a license agreement with Shionogi & Co., Ltd. and Eli Lilly and Company, or Eli Lilly, to develop and commercialize certain sPLA2 inhibitors for the treatment of inflammatory diseases. The agreement granted the Company commercialization rights to Shionogi & Co., Ltd. s and Eli Lilly s sPLA2 inhibitors, including varespladib and A-001. Under the terms of the agreement, the Company s license is worldwide, with the exception of Japan where Shionogi & Co., Ltd. has retained rights. Pursuant to this license agreement, the Company paid Shionogi & Co., Ltd. and Eli Lilly a one-time license initiation fee of $250,000 in the aggregate. Additionally, in consideration for the licensed technology, the Company issued an aggregate of 257,744 shares of Series A-2 convertible preferred stock at $5.14 per share and an aggregate of 127,297 shares of Series B-1 convertible preferred stock at $7.28 per share with a total aggregate value of $2.3 million to Shionogi & Co., Ltd. and Eli Lilly. As there is no future alternative use for the technology, the Company recorded the initiation and license fees in research and development expenses during 2006. In March 2010, the Company paid $1.75 million each to Eli Lilly and Shionogi & Co., Ltd. in the form of the Company s common stock upon the commencement of the Company s Phase 3 VISTA-16 study of varespladib.

The Company is obligated to make additional milestone payments of up to $97.5 million upon the achievement of certain development and regulatory milestones. The Company is also obligated to pay tiered royalties, which increase as a percentage from the mid-single digits to the low double digits as net sales increase, on future net sales of products that are developed and approved as defined by this collaboration. The Company s obligation to pay royalties with respect to each licensed product in each country will expire upon the later of (a) 10 years following the date of the first commercial sale of such licensed product in such country and (b) the first date on which generic version(s) of the applicable licensed product achieve a total market share, in the aggregate, of 25% or more of the total unit sales of wholesalers to pharmacies of licensed product and all generic versions combined in the applicable country.

On December 18, 2007, the Company entered into a worldwide, exclusive license agreement with Amgen, Inc. (Amgen), or the Amgen Agreement, to develop and commercialize blisibimod (A-623) for the treatment of systemic lupus erythematosus (lupus). Under the terms of the Amgen Agreement, the Company paid a nonrefundable, upfront license fee of $6.0 million. As there is no future alternative use for the technology, the Company expensed the license fee in research and development expenses during 2007.

Under the terms of the Amgen Agreement, the Company is obligated to make additional milestone payments to Amgen of up to $33.0 million upon the achievement of certain development and regulatory milestones. The Company is also obligated to pay tiered royalties on future net sales of products, ranging from the high single digits to the low double digits, which are developed and approved as defined by this collaboration. The Company s royalty obligations as to a particular licensed product will be payable, on a country-by-country and licensed product-by-licensed product basis, for the longer of (a) the date of expiration of the last to expire valid claim within the licensed patents that covers the manufacture, use or sale, offer to sell, or import of such licensed product by the Company or a sublicense in such country or (b) 10 years after the first commercial sale of the applicable licensed product in the applicable country. There were no outstanding obligations due to Amgen as of June 30, 2011.

7. COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and certain changes in equity that are excluded from net loss. Components of comprehensive loss include unrealized gains on available-for-sale securities, and unrealized gains related to foreign currency transactions. The components of comprehensive loss are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	$ (23,170)	$ (7,936)	$ (41,736)	$ (19,040)
Unrealized gain (loss) on available-for-sale securities		(32)	2	(32)
Foreign currency translation adjustments	(324)		17	
Comprehensive loss	$ (23,494)	$ (7,968)	$ (41,717)	$ (19,072)

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8. NOTES PAYABLE

Term Loan Agreement

Hercules Technology Growth Capital

In March 2011, the Company entered into a Loan and Security Agreement (Loan Agreement) with Hercules Technology Growth Capital, Inc. and Hercules Technology II, L.P. (together, Hercules). Under the terms of the Loan Agreement, the Company borrowed $25.0 million at an interest rate of the higher of (i) 10.55% or (ii) 7.30% plus the prime rate as reported in the Wall Street Journal, and issued to Hercules a secured term promissory note evidencing the loan. The loan is secured by the Company s assets, excluding intellectual property. The Company will make interest only payments for the initial 12 months, which will be extended an additional three months if (a) positive biomarker analysis results are obtained from VISTA-16 Phase III FDA Clinical Trial on or before July 31, 2011, and (b) full enrollment of the PEARL-SC Phase 2b FDA Clinical Trial is obtained on or before March 31, 2012. The Company obtained positive biomarker analysis results on April 18, 2011. Thereafter, the loan will be repaid in 30 equal monthly installments of approximately $952,000, at the initial interest rate. The Company will also be obligated to pay an end of the term charge of $937,500, which will be expensed over the term of the Loan Agreement using the effective interest rate.

The Loan Agreement limits both the seniority and amount of future debt the Company may incur. The Company may be required to prepay the loan in the event of a change in control. In conjunction with the loan, the Company issued a seven-year warrant to purchase 321,429 shares of the Company s common stock at an exercise price of $6.00 per share. The warrant is immediately exercisable and expires March 2018. The Company estimated the fair value of this warrant using the Black-Scholes option valuation model with the following assumptions: expected term of seven years, a risk-free interest rate of 2.87%, expected volatility of 63% and 0% expected dividend yield.

The Company applied the relative fair value method, described in ASC 470-20-30-1, to allocate the $25.0 million proceeds received under the Loan Agreement between the loan and warrant. The initial carrying amount assigned to the loan was $23.7 million and was recorded as Notes payable net of discount on the Company s balance sheet. The fair value allocated to the warrant of $1.3 million was recorded as an increase to additional paid-in capital in the Company s balance sheet. The resulting $1.3 million discount from the $25.0 million par value of the loan is being amortized as an additional interest expense over the term of the loan using the effective interest rate method. At June 30, 2011, this warrant remained outstanding and exercisable.

In connection with the Loan Agreement, the Company incurred note issuance costs of approximately $370,200, which are recorded as long-term assets on the Company s balance sheet. The note issuance costs are being amortized to interest expense over the term of the Loan Agreement using the effective interest rate method.

9. STOCKHOLDERS EQUITY

On June 8, 2011, the Company utilized its shelf registration statement to sell 7,666,667 shares of its common stock at $7.50 per share. The Company received net proceeds of approximately $54 million, which will be used for general corporate purposes.

10. SHARE-BASED COMPENSATION PLANS

Option Plans

At June 30, 2011, the Company had the following plans that give rise to share-based compensation: (i) two stock option plans, the 2005 Equity and Incentive Plan (the 2005 Plan) and the 2010 Stock Option and Incentive Plan (the 2010 Plan), and (ii) the 2010 Employee Stock Purchase Plan. The terms of awards granted during the six months ended June 30, 2011 and the methods for determining grant-date fair value of the awards were consistent with those described in the financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

On January 1, 2011, in accordance with the 2010 Plan annual increase provisions, the authorized shares in the 2010 Plan increased by 1,315,214.

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The following table summarizes stock option activity under the Company s share-based compensation plans for the six months ended June 30, 2011:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance at December 31, 2010	1,275,991	$ 1.26	7.07	$ 4,700,543
Granted	1,314,000	$ 5.81		
Exercised	(125,880)	$ 1.16		
Cancelled	(91,886)	$ 5.76		
Balance at June 30, 2011	2,372,225	$ 3.61	8.13	$ 10,810,115
Vested at June 30, 2011	1,053,781	$ 1.25	6.46	$ 7,290,176
Vested and expected to vest at June 30, 2011	2,372,225	$ 3.61	8.13	$ 10,810,115

The intrinsic value of stock options represents the difference between the exercise price of stock options and the market price of our stock on that day for all in-the-money options.

As of June 30, 2011, there were 270,234 shares available for future issuance under the 2010 Plan.

Restricted Stock Units

The Company grants restricted stock unit awards (RSU s) under its 2010 Plan, as determined by the Company s compensation committee, which are issued upon vesting. The restricted stock units granted represent a right to receive shares of common stock at a future date determined in accordance with the participant s award agreement. An exercise price and monetary payment are not required for receipt of restricted stock units or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant s services to the Company. Substantially all of the restricted stock units vest over four years.

In June 2011, the Company amended the 2010 Plan to allow individuals who had received RSU s to net share settle in excess of the minimum statutory withholding amount for taxes. In accordance with ASC 718-10-25, this modification resulted in the RSU s being classified as a liability, and the subsequent change in fair value to be recorded as expense. The unsettled RSU s will be remeasured at each reporting date and any changes in valuation will be recorded as compensation expense for the period. The company recognized approximately $0.3 million in expense related to the remeasurement of the awards in June 2011. As of June 30, 2011, the liability related to the unsettled awards was approximately $34,000.

The following table summarizes activity related to our restricted stock units and awards:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2010	302,500	$ 5.13
RSU s granted	10,000	$ 4.88
RSU s released	(136,875)	$ 5.23
RSU forfeitures and cancellations	(10,125)	$ 4.48
Outstanding at June 30, 2011	165,500	$ 5.07

RSUs are converted into common stock upon vesting. Upon the vesting of restricted stock units, we offer the use of the net share settlement approach and withhold a portion of the shares issued to the employee by the corresponding whole number share value, if required. The number and the value of the shares netted for employee taxes are summarized in the table below (in thousands, except share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Shares withheld	126,875		126,875	
Fair value of shares withheld	$ 872		$ 872	

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2010 Employee Stock Purchase Plan

Effective July 2010, under the 2010 Employee Stock Purchase Plan (the ESPP), eligible employees of the Company may authorize the Company to deduct amounts from their compensation, which amounts are used to enable the employees to purchase shares of the Company s common stock. The Company initially reserved 100,000 shares of common stock for issuance thereunder plus on January 1, 2011 and each January 1 thereafter, the number of shares of stock reserved and available for issuance under the Plan shall be cumulatively increased by the lesser of (i) one percent (1%) of the number of shares of common stock issued and outstanding on the immediately preceding December 31 or (ii) 250,000 shares of common stock. On January 1, 2011, in accordance with the ESPP s annual increase provisions, the authorized shares in the ESPP increased by 250,000.

The purchase price per share is 85% of the fair market value of the common stock as of the first date or the ending date of the applicable semi-annual purchase period, whichever is less. Purchases are generally made on the last trading day of each June and December. There were 13,187 shares issued under the ESPP during the six months ended June 30, 2011. As of June 30, 2011, 311,897 shares were available for future purchase under the ESPP.

11. STOCK-BASED COMPENSATION

The employee stock-based compensation expense was determined using the Black-Scholes option pricing model. Option pricing models require the input of subjective assumptions and these assumptions can vary over time.

The estimated grant date fair values of the employee stock options and stock purchase rights were calculated using the Black-Scholes option-pricing model with assumptions as follows:

Stock Option Plans

	Three Months Ended June 30,		Six Months Ended June 30,		Period from September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011	2010	2011
Expected Volatility	64%	N/A	63%	89%	73%
Dividend Yield	0%	N/A	0%	0%	0%
Risk-Free Interest Rate	2.13%	N/A	2.32%	3.02%	3.30%
Expected Term (years)	6.25	N/A	6.25	6.25	6.25

ESPP

	Three Months ended June 30, 2011	Six Months ended June 30, 2011	Period from September 9, 2004 (Date of Inception) to June 30, 2011
Expected Volatility	50%	54%	62%
Dividend Yield	0%	0%	0%
Risk-Free Interest Rate	0.09%	0.13%	0.15%
Expected Term (years)	0.5	0.5	0.5

Stock-Compensation Summary

Compensation cost for stock options granted to employees is based on the grant-date fair value and is recognized over the vesting period of the applicable option on a straight-line basis. The estimated per share weighted-average fair value of stock options granted to employees during the three and six months ended June 30, 2011 was $4.93 and $3.50, respectively. The estimated per share weighted-average fair value of stock options granted to employees during the three and six months ended June 30, 2010 and for the period from September 4, 2004 (Date of Inception) to June 30, 2011 was $0.00 (as no options were granted in the three month period ended June 30, 2010), $5.30 and $1.64, respectively.

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Total stock-based compensation expense for equity awards granted to employees and non-employees recognized (in thousands) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Period from September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011	2010	2011
Research and development	$ 254	$ 21	$ 490	$ 41	$ 932
General and administrative	511	41	863	73	1,758
Total stock-based compensation	$ 765	$ 62	$ 1,353	$ 114	$ 2,690

As of June 30, 2011, there was $4.4 million of unrecognized compensation expense related to options. The unrecognized compensation expense will be amortized on a straight-line basis over a weighted-average remaining period of 3.18 years.

Nonemployee Stock-Based Compensation

In connection with share based awards granted to consultants, the Company recorded $0 and $48,800 (relating to restricted stock awards), $4,195, $8,399 and $215,144 for nonemployee stock-based compensation during the three and six months ended June 30, 2011 and 2010 and for the period from September 9, 2004 (Date of Inception) to June 30, 2011, respectively. These amounts were based upon the fair value of the vested portion of the grants. Amounts expensed during the remaining vesting period will be determined based on the fair value at the time of vesting.

12. RELATED PARTY TRANSACTIONS

The Company engaged an outside service provider whose chief executive officer is a founder of the Company and spouse of an officer of the Company, for clinical management services. In consideration for the services rendered, the Company paid the following fees (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		Period from September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011	2010	2011
Project management fees	$ 878	$ 82	$ 1,499	$ 82	$ 2,164

As of June 30, 2011, the Company had approximately $1.2 million payable to this organization for services performed during the period compared to approximately $0.5 million payable as of December 31, 2010. There were no changes to the scope of services performed by this entity in the quarter ended June 30, 2011 as compared to the quarter ended March 31, 2011. Further, we anticipate this relationship to continue for the foreseeable future.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the safe harbor created by those sections. Forward-looking statements are based on our management s beliefs and assumptions and on information currently available to our management. All statements other than statements of historical factors are forward-looking statements for purposes of theses provisions. In some cases you can identify forward-looking statements by terms such as may, will, should, could, would, expect, plan, anticipate, believe, estimate, project, predict, and potential, and similar expressions intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors in this report. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a biopharmaceutical company focused on developing and commercializing products to treat serious diseases associated with inflammation, including cardiovascular and autoimmune diseases. We currently have one Phase 3 clinical program, varespladib, and two Phase 2 clinical programs, blisibimod (A-623) and A-001. Two of our product candidates, varespladib and A-001, are designed to inhibit a novel enzyme target known as secretory phospholipase A2, or sPLA2. Elevated levels of sPLA2 have been implicated in a variety of acute inflammatory conditions, including acute coronary syndrome and acute chest syndrome associated with sickle cell disease, as well as in chronic diseases, including stable coronary artery disease. In addition, our Phase 2 product candidate, blisibimod (A-623), targets elevated levels of B-cell activating factor, or BAFF, which has been associated with a variety of B-cell mediated autoimmune diseases, including systemic lupus erythematosus, or lupus, lupus nephritis, rheumatoid arthritis, multiple sclerosis, Sjögren s Syndrome, Graves Disease and others.

We were incorporated and commenced operations in September 2004. Since our inception, we have generated significant losses. As of June 30, 2011, we had an accumulated deficit of approximately $147.4 million. As of the date of this filing, we have never generated any revenue and have generated only interest income from cash and cash equivalents and short-term investments. We expect to incur substantial and increasing losses for at least the next several years as we pursue the development and commercialization of our product candidates.

To date, we have funded our operations through equity offerings, private placements of convertible debt and debt financings, raising net proceeds of approximately $224 million. We will need substantial additional financing to continue to develop our product candidates, obtain regulatory approvals and to fund operating expenses, which we will seek to raise through public or private equity or debt financings, collaborative or other arrangements with third parties or through other sources of financing. We cannot assure you that such funds will be available on terms favorable to us, if at all. In addition to the normal risks associated with development-stage companies, we may never successfully complete development of any of our product candidates, obtain adequate patent protection for our technology, obtain necessary government regulatory approval for our product candidates or achieve commercial viability for any approved product candidates. In addition, we may not be profitable even if we succeed in commercializing any of our product candidates.

Revenue

To date, we have not generated any revenue. We do not expect to generate revenue unless or until we obtain regulatory approval of, and commercialize, our product candidates or in- license additional products that generate revenue. We intend to seek to generate revenue from a combination of product sales, up-front fees and milestone payments in connection with collaborative or strategic relationships and royalties resulting from the licensing of the commercial rights to our intellectual property. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the nature, timing and amount of milestone payments we may receive upon the sale of our products, to the extent any are successfully commercialized, as well as any revenue we may receive from our collaborative or strategic relationships.

Research and Development Expenses

Since our inception, we have focused our activities on our product candidate development programs. We expense research and development costs as they are incurred. Research and development expenses consist of personnel costs, including salaries, benefits and stock-based compensation, clinical studies performed by contract research organizations, or CROs, materials and supplies, licenses and fees and overhead allocations consisting of various administrative and facilities-related costs. Research and development activities are also separated into three main categories: licensing, clinical development and pharmaceutical development. Licensing costs consist primarily of fees paid pursuant to license agreements. Historically, our clinical development costs have included costs for preclinical and clinical studies. We expect to incur substantial clinical development costs for our Phase 3 clinical study named VISTA- 16 for varespladib and for our Phase 2b clinical study named PEARL-SC for blisibimod (A-623), as well as for the development of our other product candidates. Pharmaceutical development costs consist of expenses incurred relating to clinical studies and product formulation and manufacturing.

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We expense both internal and external research and development costs as incurred. We are developing our product candidates in parallel, and we typically use our employee and infrastructure resources across several projects. Thus, some of our research and development costs are not attributable to an individually named project, but rather are allocated across our clinical stage programs. These unallocated costs include salaries, stock-based compensation charges and related fringe benefit costs for our employees (such as workers compensation and health insurance premiums), consulting fees and travel.

The following table shows our total research and development expenses for the three and six months ended June 30, 2011 and 2010, and for the period from September 9, 2004 (Date of Inception) through June 30, 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,		For the Period September 9, 2004 (Date of Inception) to June 30,
	2011	2010	2011	2010	2011
Allocated costs:					
A-001	$ 143	$ 21	$ 167	$ 113	$ 6,675
Varespladib	11,979	3,695	21,302	7,963	68,393(1)(2)
Blisibimod (A-623)	6,400	1,857	12,081	2,158	24,051(3)
Unallocated costs	2,064	865	3,353	1,446	18,565
Total development	$ 20,586	$ 6,438	$ 36,903	$ 11,680	$ 117,684

(1) Includes milestone payments of $3.5 million pursuant to amendments to the license agreements with each of Eli Lilly and Shionogi & Co. Ltd.

(2) Includes license fees of $4.0 million pursuant to a license agreement with each of Eli Lilly and Shionogi & Co. Ltd., which were paid in cash and shares of preferred stock in 2006.

(3) Includes a one-time license initiation fee of $6.0 million pursuant to a license agreement with Amgen.

We expect our research and development expenses to increase significantly as we continue to develop our product candidates. We began enrollment of patients in the VISTA-16 study of varespladib for the treatment of patients experiencing acute coronary syndrome in June 2010. We also initiated the PEARL-SC study of blisibimod (A-623) in July 2010. We intend to fund our clinical studies with existing cash and proceeds from potential future debt and equity offerings.

We expect that a large percentage of our research and development expenses in the future will be incurred in support of our current and future clinical development programs. These expenditures are subject to numerous uncertainties in timing and cost to completion. As we obtain results from clinical studies, we may elect to discontinue or delay clinical studies for certain product candidates or programs in order to focus our resources on more promising product candidates or programs. Completion of clinical studies may take several years or more, but the length of

time generally varies according to the type, complexity, novelty and intended use of a product candidate. The cost of clinical studies may vary significantly over the life of a program as a result of differences arising during clinical development, including:

- the number of sites included in the studies;
- the length of time required to enroll suitable patient subjects;
- the number of patients that participate in the studies;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients; and
- the duration of patient follow-up.

Our expenses related to clinical studies are based on estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Generally, these agreements set forth the scope of work to be performed at a fixed fee or unit price. Payments under the contracts depend on factors such as the successful enrollment of patients or the completion of clinical study milestones. Expenses related to clinical studies generally are accrued based on contracted amounts and the achievement of milestones such as number of patients enrolled. If timelines or contracts are modified based upon changes to the clinical study design or scope of work to be performed, we modify our estimates of accrued expenses accordingly on a prospective basis.

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None of our product candidates has received U.S. Food and Drug Administration, or FDA, or foreign regulatory marketing approval. In order to grant marketing approval, the FDA or foreign regulatory agencies must conclude that clinical data establishes the safety and efficacy of our product candidates and that the manufacturing facilities, processes and controls are adequate. Despite our efforts, our product candidates may not offer therapeutic or other improvement over existing, comparable drugs, be proven safe and effective in clinical studies, or meet applicable regulatory standards.

As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our development projects or when and to what extent we will receive cash inflows from the commercialization and sale of an approved product candidate, if ever.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees in executive and operational functions, including clinical, chemical manufacturing, regulatory, finance and business development. Other significant costs include professional fees for legal services, including legal services associated with obtaining and maintaining patents. We will continue to incur significant general and administrative expenses as a public company, including costs for insurance, costs related to the hiring of additional personnel, payment to outside consultants, lawyers and accountants and complying with the corporate governance, internal controls and similar requirements applicable to public companies.

Critical Accounting Policies and Estimates

Our management s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While our significant accounting policies are more fully described in the notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

Accrued Clinical Expenses

We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. This process involves reviewing open contracts and purchase orders, communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service

when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us at least monthly in arrears for services performed. We periodically confirm the accuracy of our estimates with the service providers and make adjustments if necessary. Examples of estimated accrued clinical expenses include:

- fees paid to CROs in connection with clinical studies;
- fees paid to investigative sites in connection with clinical studies;
- fees paid to contract manufacturers in connection with the production of clinical study materials; and
- fees paid to vendors in connection with preclinical development activities.

We base our expenses related to clinical studies on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and CROs that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical study milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be

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expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

Stock-Based Compensation

Compensation costs related to all equity instruments, excluding RSU s, are recognized at the grant-date fair value of the awards. RSU s are accounted for as a liability award, and as such the fair value of the awards are remeasured at each reporting date. Additionally, we are required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which are recognized over the requisite service period of the awards on a straight-line basis. We account for stock-based compensation using the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant. Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility, expected term, and forfeiture rate. Any changes in these highly subjective assumptions significantly impact stock-based compensation expense.

Fair Value Measurements and Impairments

All of our available-for-sale investments are subject to periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including factors such as current economic and market conditions, the credit rating of the security s issuer, the length of time an investment s fair value has been below our carrying value, and our ability and intent to hold investments to maturity or for a period of time sufficient to allow for any anticipated recovery in fair value. If an investment s decline in fair value, caused by factors other than changes in interest rates, is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices, liquidation values or other metrics.

Pursuant to the accounting guidance for fair value measurement and its subsequent updates, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is broken down into the three input levels summarized below:

- *Level 1* Valuations are based on quoted prices in active markets for identical assets or liabilities, and readily accessible by us at the reporting date. Examples of assets and liabilities utilizing Level 1 inputs are certain money market funds, U.S. Treasuries and trading securities with quoted prices on active markets.

- *Level 2* Valuations based on inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets. Examples of assets and liabilities utilizing Level 2 inputs are U.S. government agency bonds, corporate bonds, commercial paper, certificates of deposit and over-the-counter derivatives.

- *Level 3* Valuations based on unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. Examples of assets and liabilities utilizing Level 3 inputs are cost method investments, auction rate securities (ARS) and the Primary Fund.

We measure our available-for-sale securities at fair value on a recurring basis. Available-for-sale securities include U.S. Treasury securities, U.S. government agency bonds, corporate bonds, commercial paper, money market funds and certificates of deposit. Where possible, we utilize quoted market prices to measure and such items are classified as Level 1 in the hierarchy. When quoted market prices for identical assets are unavailable, varying valuation techniques are used. Such assets are classified as Level 2 or Level 3 in the hierarchy. We classify items in Level 2 if investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. We classify items in Level 3 if investments are valued using a pricing model, based on unobservable inputs in the market or that require us to develop our own assumptions. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

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We are also exposed to market risk relating to our available-for-sale investments due to uncertainties in the credit and capital markets. The fair value of our investments may change significantly due to events and conditions in the credit and capital markets. These securities/issuers could be subject to review for possible downgrade. Any downgrade in these credit ratings may result in an additional decline in the estimated fair value of our investments. We monitor and evaluate the accounting for our investment portfolio on a quarterly basis for additional other-than-temporary impairment charges.

We actively review current investment ratings, company specific events, and general economic conditions in managing our investments and determining whether there is a significant decline in fair value that is other-than-temporary. As of June 30, 2011, our short-term marketable securities have been classified as available-for-sale and are carried at fair value. Available-for-sale investments with original maturities of greater than three months at the date of purchases are classified as short-term investments as these investments generally consist of marketable securities that are intended to be available to meet current cash requirements.

Recognized gains and losses on available for sale investments during the three and six months ended June 30, 2011 was approximately $0.3 million and $0.5 million. Recognized gains and losses for such investments were not material in three and six month period ended June 30, 2010. Management determines the appropriate classification of investments at the time of purchase and reevaluates the classification at each reporting date.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2011 and 2010

Research and development expenses. Research and development expenses consist of personnel costs for employees in clinical, chemical manufacturing and regulatory functions, clinical studies performed by CROs, pharmaceutical development costs including product formulation and manufacturing, preclinical costs, license fees and overhead allocations consisting of various administrative and facilities-related costs.

The following table summarizes the period over period changes in our research and development expenses (in millions):

	Three Months ended June 30,			Six Months ended June 30,		
	2011	2010	Change	2011	2010	Change
Research and development expense	$ 20.6	$ 6.4	222%	$ 36.9	$ 11.7	215%

Research and development expenses for the three months ended June 30, 2011 increased by $14.2 million, or 222%, compared to the same period in 2010, due primarily to increased clinical trial costs associated with our Phase 3 clinical study of varespladib and Phase 2 clinical study of blisibimod (A-623) of approximately $12.8 million. The trial costs increased as a result of accelerating enrollment and additional clinical sites for the VISTA-16 and PEARL-SC clinical studies. Manufacturing development activities also increased by approximately $2.6 million over the prior period in 2010. We increased headcount to support our clinical development activities.

Research and development expenses for the six months ended June 30, 2011 increased by $25.2 million, or 215%, compared to the same period in 2010, due primarily to increased clinical trial costs associated with our Phase 3 clinical study of varespladib and Phase 2 clinical study of blisibimod (A-623) of approximately $24 million. The trial costs increased as a result of accelerating enrollment and additional clinical sites for the VISTA-16 and PEARL-SC clinical studies. Manufacturing development activities also increased by approximately $5.5 million over the prior period in 2010. We increased headcount to support our clinical development activities.

General and administrative expenses. General and administrative expenses consist of personnel costs for employees in executive, business development and operational functions, professional service fees including corporate legal fees, accountant fees and overhead allocations consisting of various administrative and facilities-related costs.

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The following table summarizes the period over period changes in our general and administration expenses (in millions):

	Three Months ended June 30,			Six Months ended June 30,		
	2011	2010	Change	2011	2010	Change
General and administrative expense	$ 2.1	$ 1.5	40%	$ 4.4	$ 2.7	63%

General and administrative expenses for the three months ended June 30, 2011 increased by $0.6 million, or 40%, compared to the same period in 2010. This was due primarily to increased headcount and related salaries and benefits to support our expanding business activities, and increased professional services incurred in connection with our financial audit and other costs associated with operating as a public company.

General and administrative expenses for the six months ended June 30, 2011 increased by $1.7 million, or 63%, compared to the same period in 2010. This was due primarily to increased headcount and related salaries and benefits to support our expanding business activities, and increased professional services incurred in connection with our financial audit and other costs associated with operating as a public company.

Interest and other income. Interest and other income consisted of interest earned on our cash, cash equivalents and short-term investments and realized gains relating to investments. Interest and other income was approximately $0.4 million and $0.6 million for the three and six months ended June 30, 2011 as compared to $0.01 million and $0.02 million for the prior period. The increase is primarily due to higher cash and investment balances in the current year due to proceeds received from the issuance of note payable and equity offering as compared to the prior year. Further included in the six months ended June 30, 2011 were realized foreign currency gains of approximately $0.5 million on our short-term investments.

Interest and other expense. Interest and other expense was $0.9 million and $1.0 million for the three and six months ended June 30, 2011, compared with $0 and $4.6 million for the three and six months June 30, 2010. Interest and other expense for the three and six months ended June 30, 2011 consists primarily of interest expense, amortization of note discount and note issuance costs, and an end of term charge associated with our note issued under a Loan and Security Agreement with Hercules in March 2011. Interest and other expense for the three and six months ended June 30, 2010 consists of primarily non-cash charge related to the amortization of discounts, mark-to-market adjustment relating to warrants and embedded derivative associated with our convertible promissory notes issued in July and September of 2009, which were converted into shares of our common stock upon the closing of our initial public offering (IPO) in March 2010.

Liquidity and Capital Resources

To date, we have funded our operations primarily through private placements of preferred stock and common stock, convertible and nonconvertible debt and our IPO. As of June 30, 2011, we had received net proceeds of approximately $174 million from the sale of equity securities, approximately $26.2 million from the issuance of convertible promissory notes, and approximately $24.7 million from the issuance of note payable. As of June 30, 2011, we had cash, cash equivalents and short-term investments of approximately $112 million.

Cash, cash equivalents and investments consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 108,123	$ 40,030
Short-term investments	3,977	23,351
Total	$ 112,100	$ 63,381

Our principal liquidity requirements are primarily to meet our working capital needs, support ongoing business activities, research and development, and our capital expenditure needs.

In March 2011, we filed a shelf registration statement with the Securities and Exchange Commission (SEC) under which we may issue up to $75.0 million in shares of common stock, preferred stock, debt securities and/or warrants. As of June 30, 2011, $57,500,000 (or 7,666,667 shares of common stock) have been issued under the shelf registration statement.

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Cash Flows

Cash flows from operating activities

For the six months ended June 30, 2011 and 2010, we incurred a net loss of approximately $41.7 million and $19.0 million, respectively.

Net cash used in operating activities was approximately $28.8 million for the six months ended June 30, 2011. The net loss is higher than cash used in operating activities by $12.9 million. The primary drivers for the difference are adjustments for non-cash charges of $7.0 million in clinical trial accruals which is based upon our estimated clinical trial performance to date, increase in other operating assets and liabilities of $4.3 million, and adjustments for non-cash charges such as stock-based compensation of approximately $1.4 million.

Net cash used in operating activities was approximately $11.1 million for the six months ended June 30, 2010. The net loss is higher than cash used in operating activities by $7.9 million. The primary drivers for the difference are adjustments for non-cash charges such as stock-based compensation of approximately $0.1 million, amortization of note discount and debt issuance cost of approximately $0.8 million, issuance of $3.5 million worth of common stock in lieu of cash milestone payments due to Eli Lilly and Shionogi & Co., Ltd., the conversion of approximately $0.3 million of accrued interest into shares of common stock upon conversion of certain convertible promissory notes, mark-to-market adjustments relating to warrant and derivative liability of $3.8 million, offset by a decrease in operating assets and liabilities of approximately $0.5 million.

Cash flows from investing activities

Net cash provided by investing activities was approximately $18.0 million for the six months ended June 30, 2011, and was primarily driven by the maturities of short-term investments during the period.

Net cash used by investing activities was $15.3 million for the six months ended June 30, 2010 and was primarily driven by the purchase of short-term investments during the period.

Cash flows from financing activities

Net cash provided by financing activities was approximately $78.9 million for the six months ended June 30, 2011 and consisted primarily of net proceeds of approximately $24.7 million received from the issuance of note payable with Hercules in March 2011, and approximately $54 million in net proceeds received from the equity offering in June 2011.

Net cash provided by financing activities was approximately $58.4 million for the six months ended June 30, 2010 and consisted of proceeds of approximately $61.2 million received from the issuance of common stock at our IPO, the exercise of the overallotment option by our underwriters in connection with our IPO, and the release of funds held in an escrow account concurrent with the closing of our IPO, offset by approximately $2.9 million of issuance cost paid during the period.

Contractual Obligations and Commitments

The Company has lease obligations consisting of an operating lease in connection with a sublease for our operating facility that commenced in October 2008 and expires September 2014, for approximately 7,800 square feet, through July 2011, and 14,034 square feet, subsequent to July 2011, of office space, and office equipment leases that commenced in October 2007 and will expire in June 2013.

On March 25, 2011, the Company entered into a Loan and Security Agreement (Loan Agreement) with Hercules Technology Growth Capital, Inc. and Hercules Technology II, L.P. (together, Hercules). Under the terms of the Loan Agreement, the Company borrowed $25.0 million at an interest rate of the higher of (i) 10.55% or (ii) 7.30% plus the prime rate as reported in the Wall Street Journal, and issued to Hercules a secured term promissory note evidencing the loan. The loan is secured by the Company s assets, excluding intellectual property. The Company will make interest only payments for the initial 12 months, which will be extended an additional three months if (a) positive biomarker analysis results are obtained from VISTA-16 Phase III FDA Clinical Trial on or before July 31, 2011, and (b) full enrollment of the PEARL-SC Phase 2b FDA Clinical Trial is obtained on or before March 31, 2012. The Company obtained positive biomarker analysis results on April 18, 2011. Thereafter, the loan will be repaid in 30 equal monthly

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installments of approximately $952,000, at the initial interest rate. The Company will also be obligated to pay an end of the term charge of $937,500, which will be expensed over the term of the Loan Agreement using the effective interest rate.

The following table summarizes our estimated scheduled future minimum contractual obligations and commitments as of June 30, 2011 (in thousands) :

Payments Due by Period	Note Payable	Facility Lease	Equipment Lease	Total
Less than 1 yr	$ 4,862	$ 176	$ 3	$ 5,041
1-3 Years	22,841	466	5	23,312
3-5 Years	3,860	61		3,921
After 5 Years				
Total	$ 31,563	$ 703	$ 8	$ 32,274

The above amounts exclude potential payments to be made under our license agreements to our licensors that are based on the progress of our product candidates in development, as these payments are not determinable, and potential milestone payments on the development of blisibimod (A-623). Please refer to Note 6 to our financial statements for additional details of these potential payments.

Funding Requirements

We expect to incur substantial expenses and generate significant operating losses as we continue to advance our product candidates into preclinical studies and clinical studies and as we:

- continue clinical development of varespladib;
- continue clinical development of blisibimod (A-623);
- hire additional clinical, scientific and management personnel; and
- implement new operational, financial and management information systems.

Our future capital uses and requirements depend on numerous forward-looking factors. These factors include the following:

- the progress of preclinical development and clinical studies of our product candidates;
- the time and costs involved in obtaining regulatory approvals;
- delays that may be caused by evolving requirements of regulatory agencies;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our ability to establish, enforce and maintain selected strategic alliances; and
- the acquisition of technologies, product candidates and other business opportunities that require financial commitments.

To date, we have not generated any revenue. We do not expect to generate commercial product revenue unless or until we obtain regulatory approval of, and commercialize, our product candidates. We expect our continuing operating losses to result in increases in cash used in operations over the next several years. Our future capital requirements will depend on a number of factors including the progress and results of our clinical studies, the costs, timing and outcome of regulatory review of our product candidates, our revenue, if any, from successful development and commercialization of our product candidates, the costs of commercialization activities, the scope, progress, results and costs of preclinical development, laboratory testing and clinical studies for other product candidates, the emergence of competing therapies and other market developments, the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property rights, the extent to which we acquire or invest in other product candidates and technologies, and our ability to establish collaborations and obtain milestone, royalty or other payments from any collaborators.

We expect our existing resources as of the date of this report, to be sufficient to fund our planned operations, including our continued product candidate development, for at least the next 12 months. However, we may require significant additional funds earlier than we currently expect to conduct additional or extended clinical studies and seek regulatory approval of our product

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candidates. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical studies.

Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. For example, if we raise additional funds by issuing equity securities or by selling debt securities, if convertible, further dilution to our existing stockholders may result. To the extent our capital resources are insufficient to meet our future capital requirements, we will need to finance our future cash needs through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements.

If adequate funds are not available, we may be required to terminate, significantly modify or delay our development programs, reduce our planned commercialization efforts, or obtain funds through collaborators that may require us to relinquish rights to our technologies or product candidates that we might otherwise seek to develop or commercialize independently. We may elect to raise additional funds even before we need them if the conditions for raising capital are favorable.

Off-Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. We are exposed to market risk related to fluctuations in interest rates, market prices, and foreign currency exchange rates. However, since a majority of our investments are in short-term certificates of deposit, FDIC-insured corporate bonds and money market funds, we do not believe we are subject to any material market risk exposure. As of June 30, 2011, we did not have any material derivative financial instruments. The fair value of our marketable securities, including those included in cash equivalents and short-term investments, was $35.6 million as of June 30, 2011.

Our investment policy is to limit credit exposure through diversification and investment in highly rated securities. We actively review, along with our investment advisors, current investment ratings, company specific events and general economic conditions in managing our investments and in determining whether there is a significant decline in fair value that is other-than-temporary. We will monitor and evaluate the accounting for our investment portfolio on a quarterly basis for additional other-than-temporary impairment charges.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive and financial officers, evaluated the effectiveness of our disclosures controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of June 30, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2011, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended June 30, 2011 identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of our business.

We believe there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, together with the other information contained in this Quarterly Report on Form 10-Q, including the financial statements and the related notes that appear in this report. We believe the risks described below are the risks that are material to us as of the date of this report. If any of the following risks occur, our business, financial condition, results of operations and future growth prospects would like be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Financial Condition and Capital Requirements

We have incurred significant losses since our inception and anticipate that we will incur continued significant losses for the foreseeable future.

We are a development stage company with only seven years of operating history. We have focused primarily on developing our three product candidates, varespladib, blisibimod (A-623) and varespladib sodium (A-001). We have financed our operations exclusively through equity offerings, private placements of convertible debt, and debt financings and we have incurred losses in each year since our inception in September 2004. Our net losses were approximately $8.7 million in 2006, $25.7 million in 2007, $18.1 million in 2008, $12.2 million in 2009, and $40.4 million in 2010 and $23.2 million and $41.7 million for the three and six months ended June 30, 2011. As of June 30, 2011, we had an accumulated deficit of approximately $147.4 million. Substantially all of our losses resulted from costs incurred in connection with our product development programs and from general and administrative costs associated with our operations.

We expect to incur additional losses over the next several years, and these losses may increase if we cannot generate revenues. Our historical losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders equity and working capital. We expect our development expenses, as well as our clinical product manufacturing expenses, to increase in connection with our pivotal

Phase 3 clinical study named VISTA-16 for varespladib, our Phase 2b clinical study named PEARL-SC for blisibimod (A-623) and other clinical studies related to the development of blisibimod (A-623). In addition, we will incur additional costs of operating as a public company and, if we obtain regulatory approval for any of our product candidates, we may incur significant sales, marketing, in-licensing and outsourced manufacturing expenses as well as continued product development expenses. As a result, we expect to continue to incur significant and increasing losses for the foreseeable future.

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We have never generated any revenue and may never be profitable.

Our ability to generate revenue and achieve profitability depends on our ability, alone or with collaborators, to successfully complete the development of our product candidates, conduct preclinical tests in animals and clinical studies in human beings, obtain the necessary regulatory approvals for our product candidates and commercialize any approved products. We have not generated any revenue from our development-stage product candidates, and we do not know when, or if, we will generate any revenue. The commercial success of our development-stage product candidates will depend on a number of factors, including, but not limited to, our ability to:

- obtain favorable results for and advance the development of our lead product candidate, varespladib, for the treatment of acute coronary syndrome, including successfully launching and completing the VISTA-16 study;

- obtain favorable results for and advance the development of our product candidate blisibimod (A-623) for the treatment of B-cell mediated autoimmune diseases, including successfully launching and completing PEARL-SC or other clinical studies in patients with systemic lupus erythematosus, or lupus, or other indications related to the development of blisibimod (A-623);

- obtain favorable results for and advance the development of our product candidate A-001 for the prevention of acute chest syndrome associated with sickle cell disease, including completing a multi-center Phase 2 clinical study;

- successfully execute our planned preclinical studies in animals and clinical studies in human beings for our other product candidates;

- obtain regulatory approval for varespladib, blisibimod (A-623), A-001 and our other product candidates;

- if regulatory approvals are obtained, begin the commercial manufacturing of our product candidates with our third-party manufacturers;

- launch commercial sales and effectively market our product candidates, either independently or in strategic collaborations with third parties; and

- achieve broad market acceptance of our product candidates in the medical community and with third-party payors.

All of our product candidates are subject to the risks of failure inherent in the development of therapeutics based on new technologies. Currently, we have three product candidates in clinical development: varespladib, blisibimod (A-623) and A-001. These product candidates could fail in clinical studies if we are unable to demonstrate that they are effective or if they cause unacceptable adverse effects in the patients we treat. Failure of our product candidates in clinical studies would have a material adverse effect on our ability to generate revenue or become profitable. If we are not successful in achieving regulatory approval for our product candidates or are significantly delayed in doing so, our business will be materially harmed.

Additionally, all of our other product candidates are in preclinical development. Our drug discovery efforts may not produce any other viable or marketable product candidates.

Even if our product candidates are approved for commercial sale, the approved product candidate may not gain market acceptance or achieve commercial success. Physicians, patients, payors or the medical community in general may be unwilling to accept, utilize or recommend any of our products. We would anticipate incurring significant costs associated with commercializing any approved product. Even if we are able to generate product sales, which we cannot guarantee, we may not achieve profitability soon thereafter, if ever. If we are unable to generate product revenues, we will not become profitable and may be unable to continue operations without additional funding.

We will need substantial additional capital in the future to fund our operations. If additional capital is not available, we will have to delay, reduce or cease operations.

We will need to raise substantial additional capital to fund our operations and to develop our product candidates. Our future capital requirements could be substantial and will depend on many factors including:

- the rate of progress of our Phase 3 clinical study named VISTA-16 study for varespladib and our Phase 2b clinical study named PEARL-SC or other studies for blisibimod (A-623);

- the scope, size, rate of progress, results and costs of our preclinical studies, clinical studies and other development activities for one or more of our other product candidates;

- manufacturing campaign of blisibimod (A-623) clinical matters, including formulation development and enhancement;

- non-clinical activities that we may pursue parallel to clinical trials for each clinical compound;

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- the cost, timing and outcomes of regulatory proceedings;

- payments received under any strategic collaborations;

- the filing, prosecution and enforcement of patent claims;

- the costs associated with commercializing our product candidates if they receive regulatory approval, including the cost and timing of developing sales and marketing capabilities, or entering into strategic collaboration with others relating to the commercialization of our product candidates; and

- revenues received from approved products, if any, in the future.

As of the date of this report, we anticipate that our existing cash, cash equivalents and short-term investments, will enable us to maintain our currently planned operations through at least the next 12 months. Changing circumstances may cause us to consume capital significantly faster than we currently anticipate. Additional financing may not be available when we need it or may not be available on terms that are favorable to us. If adequate funds are not available to us on a timely basis, or at all, we may be required to:

- terminate, reduce or delay preclinical studies, clinical studies or other development activities for one or more of our product candidates; or

- terminate, reduce or delay our (i) establishment of sales and marketing capabilities, (ii) pursuit of strategic collaborations with others relating to the sales, marketing and commercialization of our product candidates or (iii) other activities that may be necessary to commercialize our product candidates, if approved for sale.

The timing of the milestone and royalty payments we are required to make to each of Eli Lilly and Company, Shionogi & Co., Ltd. and Amgen Inc. is uncertain and could adversely affect our cash flows and results of operations.

In July 2006, we entered into a license agreement with Eli Lilly and Company, or Eli Lilly, and Shionogi & Co., Ltd. to develop and commercialize certain secretory phospholipase A2, or sPLA2, inhibitors for the treatment of cardiovascular disease and other diseases. Pursuant to our license agreement with them, we have an obligation to pay to each of Eli Lilly and Shionogi & Co., Ltd. significant milestone and royalty payments based upon how we develop and commercialize certain sPLA2 inhibitors, including varespladib and A-001, and our achievement of certain significant corporate, clinical and financial events. For varespladib, we are required to pay up to $32.0 million upon achievement of certain approval and post-approval sales milestones. For A-001, we are required to pay up to $3.0 million upon achievement of certain clinical

development milestones and up to $25.0 million upon achievement of certain approval and post-approval sales milestones. For other product formulations that we are not currently developing, we would be required to pay up to $2.0 million upon achievement of certain clinical development milestones and up to $35.5 million upon achievement of certain approval and post-approval sales milestones.

In addition, in December 2007, we entered into a license agreement with Amgen Inc., or Amgen, pursuant to which we obtained an exclusive worldwide license to certain technology and compounds relating to blisibimod (A-623). Pursuant to our license agreement with Amgen, we are required to make various milestone payments upon our achievement of certain development, regulatory and commercial objectives for any blisibimod (A-623) formulation. We are required to pay up to $10.0 million upon achievement of certain pre-approval clinical development milestones and up to $23.0 million upon achievement of certain post-approval milestones. We are also required to make tiered quarterly royalty payments on net sales, which increase as a percentage from the high single digits to the low double digits as net sales increase. The timing of our achievement of these events and corresponding milestone payments becoming due to Eli Lilly, Shionogi & Co., Ltd. and Amgen is subject to factors relating to the clinical and regulatory development and commercialization of certain sPLA2 inhibitors or blisibimod (A-623), as applicable, many of which are beyond our control. We may become obligated to make a milestone payment during a period in which we do not have the cash on hand to make such payment, which could require us to delay our clinical studies, curtail our operations, scale back our commercialization and marketing efforts, seek funds to meet these obligations at terms unfavorable to us or default on our license agreements, which could result in license termination.

Our limited operating history makes it difficult to evaluate our business and prospects.

We were incorporated in September 2004. Our operations to date have been limited to organizing and staffing our company, acquiring product and technology rights, conducting product development activities for our primary product candidates, varespladib,

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blisibimod (A-623) and A-001, and performing research and development. We have not yet demonstrated an ability to obtain regulatory approval for or commercialize a product candidate. Consequently, any predictions about our future performance may not be as accurate as they could be if we had a history of successfully developing and commercializing pharmaceutical products.

Risks Associated with Development and Commercialization of Our Product Candidates

We depend substantially on the success of our three primary product candidates, varespladib, blisibimod (A-623) and A-001, which are still under clinical development. We cannot assure you that these product candidates or any of our other product candidates will receive regulatory approval or be successfully commercialized.

To date, we have not obtained marketing approval for, or marketed, distributed or sold any product candidates. The success of our business depends primarily upon our ability to develop and commercialize our three primary product candidates successfully. Our lead product candidate is varespladib, which has completed its Phase 2 clinical studies and for which we have received (i) an agreement from the U.S. Food and Drug Administration, or FDA, on a Special Protocol Assessment, or SPA, for the VISTA-16 Phase 3 study protocol, and (ii) scientific advice from the European Medicines Agency on our European development strategy for varespladib. We initiated the VISTA-16 study for varespladib in June 2010.

Our next product candidate is blisibimod (A-623), which has completed several Phase 1 clinical studies and recently began enrollment for our Phase 2b clinical study. In July 2010, we received clearance from the FDA to begin recruitment of lupus patients into the PEARL-SC Phase 2b clinical study. In November 2010, we placed a voluntary hold on the PEARL-SC study due to problems found with vials. Patient enrollment in the study was temporarily suspended and dosing was discontinued in patients who were enrolled in the study while we conducted an analysis of the problem. We resolved the issues found with the vials in December 2010. After analysis, simulation and consultation with industry experts, we determined that shipping on dry ice was the root cause of the issue. Shipping logistics were modified and we reinitiated enrollment in PEARL-SC and dosing in January 2011. We have received no reports of patient-related side effects or problems with drug administration that could be attributed to the vial problem.

Our third product candidate, varespladib sodium (A-001), is an intravenously administered inhibitor of sPLA2. We have completed a Phase 2 clinical study for the prevention of acute chest syndrome associated with sickle cell disease. A pre-specified interim review of our Phase 2 clinical study results by a Data Safety Monitoring Board, or DSMB, indicated A-001, at a certain dose, reduced sPLA2 activity by more than 80% from baseline within 48 hours. Furthermore, the incidence of acute chest syndrome appeared to be related to the level of sPLA2 activity.

Our product candidates are prone to the risks of failure inherent in drug development. Before obtaining regulatory approvals for the commercial sale of any product candidate for a target indication, we must demonstrate with substantial evidence gathered in preclinical and well-controlled clinical studies, and, with respect to approval in the United States, to the satisfaction of the FDA and, with respect to approval in other countries, similar regulatory authorities in those countries, that the product candidate is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. Despite our efforts, our product candidates may not:

- offer therapeutic or other improvement over existing, comparable therapeutics;

- be proven safe and effective in clinical studies;
- meet applicable regulatory standards;
- be capable of being produced in sufficient quantities at acceptable costs;
- be successfully commercialized; or
- obtain favorable reimbursement.

We are not permitted to market our varespladib and A-001 product candidates in the United States until we receive approval of a new drug application, or NDA, or with respect to our blisibimod (A-623) product candidate, approval of a biologics license application, or BLA, from the FDA, or in any foreign countries until we receive the requisite approval from such countries. We have not submitted an NDA or BLA or received marketing approval for any of our product candidates.

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Preclinical testing and clinical studies are long, expensive and uncertain processes. We may spend several years completing our testing for any particular product candidate, and failure can occur at any stage. Negative or inconclusive results or adverse medical events during a clinical study could also cause the FDA or us to terminate a clinical study or require that we repeat it or conduct additional clinical studies. Additionally, data obtained from a clinical study are susceptible to varying interpretations and the FDA or other regulatory authorities may interpret the results of our clinical studies less favorably than we do. The FDA and equivalent foreign regulatory agencies have substantial discretion in the approval process and may decide that our data are insufficient to support a marketing application and require additional preclinical, clinical or other studies.

Any termination or suspension of, or delays in the commencement or completion of, clinical testing of our product candidates could result in increased costs to us, delay or limit our ability to generate revenue and adversely affect our commercial prospects.

Delays in the commencement or completion of clinical testing could significantly affect our product development costs. We do not know whether planned clinical studies will begin on time or be completed on schedule, if at all. The commencement and completion of clinical studies can be delayed for a number of reasons, including delays related to:

- obtaining regulatory approval to commence a clinical study or complying with conditions imposed by a regulatory authority regarding the scope or design of a clinical study;

- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and study sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and study sites;

- manufacturing, including manufacturing sufficient quantities of a product candidate or other materials for use in clinical studies;

- obtaining institutional review board, or IRB, approval or the approval of other reviewing entities to conduct a clinical study at a prospective site;

- recruiting and enrolling patients to participate in clinical studies for a variety of reasons, including size of patient population, nature of clinical study protocol, the availability of approved effective treatments for the relevant disease and competition from other clinical study programs for similar indications;

- severe or unexpected drug-related adverse effects experienced by patients in a clinical study; and

- retaining patients who have initiated a clinical study, but may withdraw due to treatment protocol, adverse effects from the therapy, lack of efficacy from the treatment, personal issues or who are lost to further follow-up.

Clinical studies may also be delayed, suspended or terminated as a result of ambiguous or negative interim results, or results that are inconsistent with earlier results. For example, while an independent statistician has completed an analysis of various biomarkers of cardiovascular risk and determined that treatment with once-daily varespladib met the pre-specified criteria for the VISTA-16 study to proceed, an independent DSMB reviewing the clinical data from the VISTA-16 study may recommend the clinical study discontinue based on safety and tolerability. In addition, a clinical study may be suspended or terminated by us, the FDA, the IRB or other reviewing entity overseeing the clinical study at issue, any of our clinical study sites with respect to that site, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical study in accordance with regulatory requirements or our clinical protocols;

- inspection of the clinical study operations or study sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;

- unforeseen safety issues or any determination that a clinical study presents unacceptable health risks; and

- lack of adequate funding to continue the clinical study, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional clinical studies and increased expenses associated with the services of our CROs and other third parties.

Product development costs to us and our collaborators will increase if we have delays in testing or approval of our product candidates or if we need to perform more or larger clinical studies than planned. For example, we may need to increase our sample size for our VISTA-16 study for varespladib if the overall major adverse cardiovascular event, or MACE, rate is lower than expected.

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We typically rely on third-party clinical investigators at medical institutions and health care facilities to conduct our clinical studies and, as a result, we may face additional delaying factors outside our control.

Additionally, changes in regulatory requirements and policies may occur and we may need to amend clinical study protocols to reflect these changes. Amendments may require us to resubmit our clinical study protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical study. If we experience delays in completion of, or if we, the FDA or other regulatory authorities, the IRB or other reviewing entities, or any of our clinical study sites suspend or terminate any of our clinical studies, the commercial prospects for our product candidates may be harmed and our ability to generate product revenues will be delayed. In addition, many of the factors that cause, or lead to, termination or suspension of, or a delay in the commencement or completion of, clinical studies may also ultimately lead to the denial of regulatory approval of a product candidate. Also, if one or more clinical studies are delayed, our competitors may be able to bring products to market before we do, and the commercial viability of our product candidates could be significantly reduced.

The results of biomarker assays in earlier clinical studies in varespladib are not necessarily predictive of future results, and therefore the results of biomarker assays in the VISTA-16 study may not be similar to those observed previously.

Success in our Phase 2 clinical studies in lowering low-density lipoprotein cholesterol, or LDL-C, C-reactive protein, or CRP, sPLA2 and interleukin-6, or IL-6, during treatment with varespladib does not ensure that later clinical studies, such as our VISTA-16 study, will demonstrate similar reductions in these biomarkers. Each of these biomarkers has been associated with an increased risk for secondary MACE following an acute coronary syndrome. Our inability to demonstrate similar biomarker effects in our VISTA-16 study may reduce our ability to achieve our primary endpoint to reduce MACE and to achieve regulatory approval of varespladib. Recently, an independent statistician completed an analysis of various biomarkers of cardiovascular risk and determined that treatment with once-daily varespladib met the pre-specified criteria for the study to proceed. The analysis required patients on varespladib to demonstrate pre-defined treatment effects versus placebo at relevant time points on a collection of biomarkers including: secretory phospholipase A2 (sPLA2), low density lipoprotein cholesterol (LDL-C), C-reactive protein (CRP), interleukin-6 (IL-6), and a composite responder endpoint defined as patients achieving LDL-C less than 70 mg/dL and CRP below 1.0 mg/L. Despite these interim results on biomarkers from VISTA-16, those results do not necessarily equate with reductions in MACE.

Because the results of preclinical testing or earlier clinical studies are not necessarily predictive of future results, varespladib, blisibimod (A-623), A-001 or any other product candidate we advance into clinical studies may not have favorable results in later clinical studies or receive regulatory approval.

Success in preclinical testing and early clinical studies does not ensure that later clinical studies will generate adequate data to demonstrate the efficacy and safety of an investigational drug or biologic. A number of companies in the pharmaceutical and biotechnology industries, including those w