Quad/Graphics, Inc.
Form 10-Q
November 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission File Number 001-34806

QUAD/GRAPHICS, INC.
(Exact name of Registrant as specified in its charter)

Wisconsin	39-1152983
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

N61 W23044 Harry's Way, Sussex, Wisconsin 53089-3995
(Address of principal executive offices) (Zip Code)

(414) 566 – 6000
(Registrant's telephone number, including area code)

N63 W23075 Highway 74, Sussex, Wisconsin 53089-2827
(Former address if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of November 11, 2011

Class A Common Stock	32,417,294
Class B Common Stock	14,198,464
Class C Common Stock	245,353

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QUAD/GRAPHICS, INC.

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PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales				
Products	$985.1	$1,004.0	$2,753.2	$1,700.8
Services	124.3	125.1	355.8	226.2
Total net sales	1,109.4	1,129.1	3,109.0	1,927.0
Cost of sales				
Products	743.1	777.4	2,105.3	1,293.1
Services	97.3	93.8	275.4	163.7
Total cost of sales	840.4	871.2	2,380.7	1,456.8
Selling, general and administrative expenses	96.0	106.6	298.5	203.5
Depreciation and amortization	85.1	84.3	255.9	181.8
Restructuring, impairment and transaction-related charges	31.8	69.4	82.1	107.0
Total operating expenses	1,053.3	1,131.5	3,017.2	1,949.1
Operating income (loss) from continuing operations	56.1	(2.4)	91.8	(22.1)
Interest expense	25.4	31.1	84.5	61.4
Loss on debt extinguishment	34.0	—	34.0	—
Loss from continuing operations before income taxes and equity in earnings of unconsolidated entities	(3.3)	(33.5)	(26.7)	(83.5)
Income tax expense (benefit)	2.8	198.8	(8.1)	197.2
Loss from continuing operations before equity in earnings of unconsolidated entities	(6.1)	(232.3)	(18.6)	(280.7)
Equity in earnings of unconsolidated entities	0.6	2.0	1.7	6.3
Net loss from continuing operations	$(5.5)	$(230.3)	$(16.9)	$(274.4)
Loss from discontinued operations, net of tax	(16.8)	(2.1)	(22.9)	$(2.1)
Net loss	$(22.3)	$(232.4)	$(39.8)	$(276.5)
Net earnings attributable to noncontrolling interests	(0.1)	(0.1)	(0.2)	(0.2)

Net loss attributable to Quad/Graphics common shareholders	$(22.4)	$(232.5)	$(40.0)	$(276.7)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (continued)
(in millions, except per share data)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Loss per share attributable to Quad/Graphics common shareholders:				
Basic and Diluted:				
Continuing operations	$(0.12)	$(4.97)	$(0.36)	$(8.01)
Discontinued operations	(0.36)	(0.04)	(0.49)	(0.06)
Loss per share attributable to Quad/Graphics common shareholders	$(0.48)	$(5.01)	$(0.85)	$(8.07)
Weighted average number of common shares outstanding:				
Basic and Diluted	47.1	46.4	47.2	34.3
Amounts attributable to Quad/Graphics common shareholders:				
Loss from continuing operations	$(5.6)	$(230.4)	$(17.1)	$(274.6)
Loss from discontinued operations	(16.8)	(2.1)	(22.9)	(2.1)
Loss attributable to Quad/Graphics common shareholders	$(22.4)	$(232.5)	$(40.0)	$(276.7)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(UNAUDITED)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$15.8	$20.5
Receivables, less allowances for doubtful accounts of $73.3 at September 30, 2011 and $85.5 at December 31, 2010	662.4	786.4
Inventories	284.7	247.4
Prepaid expenses and other current assets	150.0	64.3
Deferred income taxes	82.0	76.8
Short-term restricted cash	2.7	16.0
Current assets of discontinued operations (Note 4)	72.1	—
Total current assets	1,269.7	1,211.4
Property, plant and equipment—net	2,192.2	2,317.8
Goodwill	782.0	814.7
Other intangible assets—net	314.7	368.3
Long-term restricted cash	75.6	84.5
Equity method investments in unconsolidated entities	71.3	82.5
Other long-term assets	46.5	67.8
Long-term assets of discontinued operations (Note 4)	102.9	—
Total assets	$4,854.9	$4,947.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$314.3	$332.4
Amounts owing in satisfaction of bankruptcy claims	20.4	26.1
Accrued liabilities	329.8	427.1
Purchase price payable on business exchange transaction (Note 3)	62.2	—
Short-term debt and current portion of long-term debt	83.1	102.6
Current portion of capital lease obligations	24.1	14.5
Current liabilities of discontinued operations (Note 4)	47.2	—
Total current liabilities	881.1	902.7
Long-term debt	1,505.2	1,418.4
Unsecured notes to be issued	40.9	52.5
Capital lease obligations	20.9	43.2
Deferred income taxes	461.1	433.8
Other long-term liabilities	463.9	603.8
Long-term liabilities of discontinued operations (Note 4)	68.4	—
Total liabilities	3,441.5	3,454.4
Commitments and contingencies (Note 11)		

Redeemable equity (Note 20)	4.7	10.6
Quad/Graphics common stock and other equity (Note 20)		
Preferred stock	—	—
Common stock, Class A	1.0	1.0
Common stock, Class B	0.4	0.4
Common stock, Class C	—	—
Additional paid-in capital	1,001.1	1,002.0
Treasury stock, at cost	(295.1)	(295.7)
Retained earnings	665.3	720.9
Accumulated other comprehensive income	35.5	52.7
Quad/Graphics common stock and other equity	1,408.2	1,481.3
Noncontrolling interests	0.5	0.7
Total common stock and other equity and noncontrolling interests	1,408.7	1,482.0
Total liabilities and shareholders' equity	$4,854.9	$4,947.0

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(UNAUDITED)

	Nine Months Ended September 30,	
	2011	2010
OPERATING ACTIVITIES		
Net loss	$(39.8)	$(276.5)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	263.6	185.3
Impairment and other non-cash integration charges	17.9	34.7
Amortization of debt issuance costs	7.3	3.0
Loss on debt extinguishment	34.0	—
Stock-based compensation charges	6.7	3.8
(Gain) loss on sales or disposal of property, plant and equipment	(0.2)	0.7
Deferred income taxes	5.7	194.7
Equity in earnings of unconsolidated entities	(1.7)	(6.3)
Dividends from unconsolidated entities	4.7	0.4
Changes in operating assets and liabilities—net of acquisitions	(135.3)	(156.9)
Net cash provided by (used in) operating activities	162.9	(17.1)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(134.3)	(73.9)
Proceeds from the sale of property, plant and equipment	13.0	10.1
Equity investment in unconsolidated entities	—	(10.0)
Transfers from (to) restricted cash	22.2	(66.0)
Deposit made related to business exchange transaction (Note 3)	(50.8)	—
Acquisition of businesses—net of cash acquired	(4.6)	20.6
Net cash used in investing activities	(154.5)	(119.2)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	649.0	689.2
Payments of long-term debt	(743.9)	(490.0)
Payments of capital lease obligations	(11.7)	(25.3)
Borrowings on revolving credit facilities	875.2	627.9
Payments on revolving credit facilities	(712.7)	(428.0)
Payment of debt issuance costs	(11.5)	(45.8)
Bankruptcy claim payments on unsecured notes to be issued	(11.6)	—
Proceeds from issuance of common stock	1.6	0.8
Tax benefit on exercise of stock options	0.8	—
Purchase of treasury stock	(5.4)	—
Payment of cash distributions	—	(140.0)
Payment of cash dividends	(18.9)	(14.0)
Payment of tax distributions	(4.8)	(9.5)

Net cash provided by financing activities	6.1	165.3
Effect of exchange rates on cash and cash equivalents	(19.2)	(1.1)
Net (decrease) increase in cash and cash equivalents	(4.7)	27.9
Cash and cash equivalents at beginning of period	20.5	8.9
Cash and cash equivalents at end of period	$15.8	$36.8
SUPPLEMENTAL NON-CASH DISCLOSURE		
Acquisitions of businesses (Note 3):		
Fair value of assets acquired, net of cash	$71.3	$1,977.1
Liabilities assumed	(15.5)	(1,834.5)
Goodwill	6.4	744.7
Net equity issued for acquisition of World Color Press	—	(908.6)
Purchase price payable on business exchange transaction	(62.2)	—
Fair value of assets acquired, net of cash, other acquisitions	(4.6)	0.7
Acquisition of businesses—net of cash acquired	$(4.6)	$20.6

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011
(In millions, except share and per share data and unless otherwise indicated)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Quad/Graphics, Inc. and its subsidiaries (the "Company" or "Quad/Graphics") have been prepared by the Company pursuant to the rules and regulations for interim financial information of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such SEC rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements as of and for the year ended December 31, 2010 and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on March 24, 2011.

The Company's business is seasonal, with the majority of historical net sales and operating income recognized in the second half of the fiscal year. Seasonality is driven by increased magazine advertising page counts and retail inserts and catalogs primarily due to back-to-school and holiday related advertising and promotions. Within any year, seasonality could adversely impact the Company's cash flow and results of operations on a quarterly basis. Further, the comparability of the Company's results of operations between the nine months ended September 30, 2011 and 2010 was materially impacted by the acquisition of World Color Press Inc. ("World Color Press") on July 2, 2010. The results of operations for World Color Press are included in the Company's consolidated results prospectively from July 2, 2010.

The financial information contained herein reflects all adjustments, in the opinion of management, necessary for a fair presentation of the Company's results of operations for the three and nine months ended September 30, 2011 and 2010. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

The results of operations of the Company's Canadian operations (with the exception of the Company's Vancouver, British Columbia facility) have been reported as discontinued operations for all periods presented. The corresponding Canadian assets and liabilities have been reclassified in accordance with the authoritative literature on assets held for sale at September 30, 2011 and, as a result, balances are not comparable between periods. In accordance with the authoritative literature, the Company has elected to not separately disclose the cash flows related to the Canadian discontinued operations. See Notes 3 and 4 for information about the Company's pending sale of the Canadian operations.

Note 2. Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued new guidance on the disclosures about an employer's participation in a multiemployer pension plan. This new guidance requires additional disclosures regarding the significant multiemployer pension plans in which an employer participates. This includes the level of an employer's contributions in the multiemployer pension plans, and whether those contributions represent more than five percent of the total contributions made to the plan by all contributing employers. The expanded disclosures also address the financial health of significant multiemployer pension plans including the funded status and existence of funding improvement plans, the existence of imposed surcharges on contributions to the plan, as well as the nature of employer commitments to the plan. The guidance is effective retrospectively for fiscal years ending after December

15, 2011. As this guidance only amends the required disclosures in the notes to the condensed consolidated financial statements, the adoption of this standard will not have a material impact on the Company's consolidated financial positions, results of operations or cash flows.

In September 2011, the FASB issued new guidance on testing goodwill for impairment. This new guidance gives entities, subject to certain conditions, the option of first performing a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The guidance is effective prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company will adopt this new guidance on January 1, 2012. The adoption of this guidance will not have a material impact on the Company's condensed consolidated financial statements.

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011
(In millions, except share and per share data and unless otherwise indicated)

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. This new guidance requires the components of net income and other comprehensive income to be either presented in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. This new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for the Company beginning January 1, 2012. As this guidance only amends the presentation of the components of comprehensive income, the adoption will not have an impact on the Company's consolidated financial positions, results of operations or cash flows.

Note 3. Acquisitions

2011 Acquisitions

On July 12, 2011, the Company and Transcontinental Inc. ("Transcontinental") entered into a definitive agreement whereby Quad/Graphics acquired Transcontinental's Mexican operations, as well as a portion of Transcontinental's book printing business that is produced for U.S. export, in exchange for the Company's Canadian operations (with the exception of the Company's Vancouver, British Columbia facility). Transcontinental's Mexican operations print magazines, catalogs, retail inserts, books and other printed materials, and employ approximately 900 people among its three facilities in Azcapotzalco, Toluca and Xochimilco, Mexico. See Note 4 for further discussion of the sale of the Canadian discontinued operations.

The Company completed the acquisition of Transcontinental's Mexican operations on September 8, 2011. The sale of the Company's Canadian operations to Transcontinental remains subject to customary regulatory clearances in Canada.

The terms of the definitive agreement require cash consideration to be paid to Transcontinental for the period between the acquisition of Transcontinental's Mexican operations and the completion of the sale of the Company's Canadian operations. The Company estimates these payments will total $2.8 million, and has included them as additional purchase price.

The total purchase price payable for the acquisition is as follows:

	Purchase Price
Fair value of Canadian operations sold	$59.4
Estimated cash consideration	2.8
Purchase price payable on business exchange transaction	$62.2

In connection with the acquisition of Transcontinental's Mexican operations, the definitive agreement required the Company to deposit $50.0 million Canadian dollars with Transcontinental until the Canadian operations sale is completed. Pending Canadian regulatory approval, a portion or all of the deposit may be refunded to the Company. Under certain circumstances additional cash may be required to be paid as consideration for Transcontinental's Mexican operations. At September 30, 2011, the deposit was classified in prepaid expenses and other current assets in the condensed consolidated balance sheet.

The Company elected to hedge exchange rate exposure related to the $50.0 million Canadian dollars deposit by entering into 30-day foreign currency forward exchange contracts. The Company intends to continue using rolling short-term forward exchange contracts pertaining to this foreign currency denominated deposit as a fair value hedge until the close of the sale of the Canadian discontinued operations. At September 30, 2011, the mark-to-market gain on the derivative contract of $3.2 million was classified in prepaid expenses and other current assets in the condensed consolidated balance sheet. The mark-to-market gain and the related $3.2 million transaction loss on the deposit was included within selling, general and administrative expenses. This fair value determination was categorized as level 2 in the fair value hierarchy.

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This acquisition was accounted for using the acquisition method of accounting under existing GAAP. The Company has recorded a preliminary allocation of the purchase price to the acquired tangible and identifiable intangible assets and liabilities assumed based on their fair values as of the acquisition date. Goodwill has been recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired. The preliminary purchase price allocation is as follows:

	Preliminary Purchase Price Allocation
Accounts receivable	$16.0
Other current assets	11.3
Property, plant and equipment	35.7
Identifiable intangible assets	7.0
Other long-term assets	1.3
Accounts payable and accrued liabilities	(14.9)
Other long-term liabilities	(0.6)
Goodwill	6.4
Purchase price	$62.2

The preliminary purchase price allocation is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The Company expects to complete the purchase price allocation during the fourth quarter of 2011.

2010 Acquisitions

On July 2, 2010, the Company completed the acquisition of World Color Press, a provider of comprehensive print, digital and related services to retailers, catalogers, publishers, branded-goods companies and other businesses in North America and Latin American countries. The World Color Press acquisition was completed for $93.3 million in cash and $908.6 million in Company class A common stock. The Company also borrowed $950.0 million of debt to fund a portion of the transaction and to refinance the World Color Press debt, including a $250.0 million advance from a revolving credit facility and $700.0 million from a term loan. The historical World Color Press United States and Canadian operations that will be retained after the sale of certain Canadian operations to Transcontinental (see above and Note 4) are included within the North American Print and Related Services segment. The historical World Color Press Latin American operations are included within the International segment. In connection with the closing of the acquisition, the Company registered its class A common stock with the SEC under the Securities Exchange Act of 1934, as amended, and on July 6, 2010, Quad/Graphics' class A common stock commenced trading on The New York Stock Exchange, LLC ("NYSE") under the symbol "QUAD".

The following unaudited pro forma combined financial information presents the Company's results as though Quad/Graphics and World Color Press had combined at January 1, 2010. The pro forma information has been prepared with the following considerations:

(1) The unaudited pro forma condensed consolidated financial information has been prepared using the acquisition method of accounting under existing GAAP. Quad/Graphics is the acquirer for accounting purposes.
(2) World Color Press historical amounts have been converted from Canadian generally accepted accounting principles to GAAP.
(3)

The pro forma combined financial information does not reflect any operating synergy savings that the combined company may achieve as a result of the acquisition, the costs necessary to achieve these operating synergy savings or additional charges necessary as a result of the integration, or the tax effects for the Company's transition to a C corporation.

(4) The pro forma amounts were restated to exclude the Canadian discontinued operations (see Note 4).

	Nine Months Ended September 30,	
	2011 (actual)	2010 (pro forma)
Pro forma net sales	$3,109.0	$3,139.9
Pro forma net loss from continuing operations attributable to common shareholders	(17.1)	(241.8)
Pro forma diluted loss per share from continuing operations attributable to common shareholders	(0.36)	(5.17)

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Note 4. Discontinued Operations

As discussed in Note 3, on July 12, 2011, the Company and Transcontinental entered into a definitive agreement whereby, among other things, Transcontinental agreed to acquire the Company's Canadian operations (with the exception of the Company's Vancouver, British Columbia facility). As part of the transaction, Transcontinental will assume pension and post-retirement obligations pertaining to all Canadian employees. Quad/Graphics employs approximately 1,500 people among its seven facilities being sold to Transcontinental, which are located in Aurora, Concord and Markham, Ontario; LaSalle and Montreal, Quebec; Edmonton, Alberta and Dartmouth, Nova Scotia.

The sale of the Company's Canadian operations is subject to customary regulatory clearances, including clearance under the Canadian Competition Act. As of November 14, 2011, the regulatory reviews to approve the sale of the Canadian operations were not complete.

The following table summarizes the results of operations of the Canadian operations, which are included in the loss from discontinued operations in the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total net sales	$76.3	$79.6	$249.5	$79.6
Loss from discontinued operations before income taxes	(16.8)	(2.1)	(22.8)	(2.1)
Income tax expense	—	—	0.1	—
Loss from discontinued operations, net of tax	$(16.8)	$(2.1)	$(22.9)	$(2.1)

The Company continued to execute restructuring events related to plant closures, workforce reductions and other restructuring initiatives, as well as transaction costs related to the sale of the Canadian operations. Due to these initiatives, the Company has recognized $2.6 million and $10.5 million in restructuring and transaction-related costs for the three and nine months ended September 30, 2011, respectively, and $4.6 million in restructuring costs in both the three and nine months ended September 30, 2010, within discontinued operations in the condensed consolidated statements of operations.

The Company also recorded a $13.9 million goodwill impairment charge for the pending sale of the Canadian operations due to the carrying value of the Canadian net assets exceeding the estimated fair value of the Mexican and U.S. books printing net assets acquired from Transcontinental. The goodwill impairment loss is included in the loss from discontinued operations in the condensed consolidated statements of operations during the three and nine months ended September 30, 2011.

The following table summarized the current and non-current assets and liabilities held for sale of the discontinued Canadian operations included in the condensed consolidated balance sheet at September 30, 2011:

	September 30, 2011
Receivables—net	$56.0
Inventories	15.2
Prepaid expenses and other current assets	0.9
Current assets of discontinued operations	72.1
Property, plant and equipment—net	71.4
Goodwill	20.0
Other intangible assets—net	11.5
Long-term assets of discontinued operations	102.9
Total assets	$175.0
Accounts payable	$19.0
Accrued liabilities	28.2
Current liabilities of discontinued operations	47.2
Other long-term liabilities	68.4
Long-term liabilities of discontinued operations	68.4
Total liabilities	$115.6
Net assets of discontinued operations	$59.4

Note 5. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three and nine months ended September 30, 2011 and 2010 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Employee terminations	$3.4	$17.0	$19.2	$18.2
Impairment charges	4.0	6.4	4.0	30.8
Transaction-related charges	0.9	32.1	1.9	41.0
Integration costs	20.0	8.1	35.3	10.3
Other restructuring charges	3.5	5.8	21.7	6.7
Total	$31.8	$69.4	$82.1	$107.0

The Company's restructuring actions since the July 2, 2010 World Color Press acquisition through September 30, 2011 have resulted in approximately 5,300 gross full-time equivalent positions eliminated (approximately 3,400 net positions eliminated, after considering job additions related to work transferred to other facilities) related to 10 plant

closures and other workforce reductions announced through the third quarter of 2011. Approximately 600 of these reductions related to restructuring activities completed in Canada prior to the pending sale of the Canadian discontinued operations.

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(In millions, except share and per share data and unless otherwise indicated)

The restructuring charges recorded are based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future restructuring charges and adjustments to the restructuring liabilities. The costs related to restructuring activities have been recorded on the condensed consolidated statements of operations as restructuring, impairment and transaction-related charges. The transaction costs are expensed as incurred in accordance with the applicable accounting guidance on business combinations. For restructuring, impairment and transaction-related charges by segment, see Note 22.

2011 Restructuring Events

For the three and nine months ended September 30, 2011, the Company recorded: (1) $3.4 million and $19.2 million, respectively, of employee termination costs for plant closures and other workforce reductions announced through the third quarter of 2011, (2) $4.0 million of impairment charges for machinery and equipment, (3) $0.9 million and $1.9 million, respectively, of transaction costs incurred primarily in connection with the transaction with Transcontinental (see Note 3), (4) $20.0 million and $35.3 million, respectively, of World Color Press integration costs and (5) $3.5 million and $21.7 million, respectively, of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges. The $35.3 million of integration costs recognized during the nine months ended September 30, 2011, is net of a $7.1 million gain on a collection of a previously written off note receivable for the June 2008 sale of World Color Press' European operations.

On March 15, 2011, the Company announced the closure of the Mt. Morris, Illinois plant. As part of this initiative, the Company recognized $0.5 million and $3.3 million of employee termination costs for the three and nine months ended September 30, 2011, respectively. The Company has also recognized $0.8 million and $1.7 million of other restructuring charges related to equipment removal costs and facility carrying costs for the three and nine months ended September 30, 2011, respectively. The Company expects to incur additional restructuring charges for the Mt. Morris plant closure in the future.

On April 18, 2011, the Company announced the closure of the Buffalo, New York plant. As part of this initiative, the Company recognized $0 and $0.8 million of employee termination costs for the three and nine months ended September 30, 2011, respectively. The Company has also recognized $0.4 million and $0.6 million of other restructuring charges related to equipment removal costs for the three and nine months ended September 30, 2011, respectively. The Company expects to incur additional restructuring charges for the Buffalo plant closure in the future.

In addition to these plant closures, the Company continued to execute various workforce reduction and other restructuring initiatives related to the integration of the operations of World Color Press, as well as certain corporate and administrative functions. Severance costs also continue to be incurred related to previously announced plant closures and workforce reductions. The Company recognized the following charges related to these restructuring activities for the three and nine months ended September 30, 2011: (1) $2.9 million and $15.1 million of employee termination costs, respectively, (2) $1.7 million and $6.0 million of facility carrying costs, respectively, (3) $0.2 million and $6.2 million of estimated lease exit charges, respectively, and (4) $0.4 million and $7.2 million of other restructuring charges, respectively. The Company expects to incur additional restructuring charges related to these and other initiatives in the future.

2010 Restructuring Events

For the three and nine months ended September 30, 2010, the Company recorded: (1) $17.0 million and $18.2 million, respectively, of employee termination costs for plant closures and other workforce reduction initiatives, (2) $6.4 million and $30.8 million, respectively, of impairment charges on assets related to the closures of the Pila, Poland and Reno, Nevada plants, (3) $32.1 million and $41.0 million, respectively, of transaction costs incurred primarily in connection with the acquisition of World Color Press, (4) $8.1 million and $10.3 million, respectively, of World Color Press integration costs and (5) $5.8 million and $6.7 million, respectively, of various other restructuring charges including utility contract costs, costs to maintain and exit closed facilities, and lease exit charges.

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011
(In millions, except share and per share data and unless otherwise indicated)

Restructuring Reserve

Activity impacting the Company's restructuring reserve for the nine months ended September 30, 2011 was as follows:

	Employee Terminations	Impairment Charges	Transaction-Related Charges	Integration Costs	Other Restructuring Charges	Total			
Balance at December 31, 2010	$24.7	$—	$ —	$1.1	$42.6	$68.4			
Reserve provisions	19.2	4.0	1.9	35.3	21.7	82.1			
Cash payments	(38.2)	—	(1.1)	(22.1)	$ 6	$	$	$	$
Software contract obligation	230	115	115						
Operating lease obligations	14,757	4,921	5,059	4,777					
Total contractual cash obligations	$ 15,000	$ 5,043	$ 5,180	$ 4,777	$	$	$		

In addition to the contractual obligations in the table above, long-term liabilities for unrecognized tax benefits and related accrued interest totaling approximately $0.7 million at December 31, 2009 are not included in the contractual obligations table because, due to their nature, there is a high degree of uncertainty regarding the timing of future cash outflows and other events that extinguish these liabilities.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet financing activities, including the use of structured finance, special purpose entities or variable interest entities.

Inflation

We do not believe that inflation has had a significant impact on our revenues or results of operations since inception.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since a significant portion of our investments are in money market funds, corporate obligations, and U.S. government-sponsored enterprise obligations. We do not enter into investments for trading or speculative purposes. Our cash is deposited in and invested through highly rated financial institutions in North America. Our marketable securities are subject to interest rate risk and will fall in value if market interest rates increase.

A hypothetical 100 basis point increase in interest rates would result in an approximate $446,000 decrease in the fair value of our investments as of December 31, 2009, as compared to an approximate $418,000 decrease as of December 31, 2008. We have the ability to hold our fixed income investments until maturity and, therefore, we do not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Infinity Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Infinity Pharmaceuticals, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinity Pharmaceuticals, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of operations, stockholders equity, and cash flows for the years ended December 31, 2009 and 2008 have been restated to correct an error in the accounting for the recognition of a loan commitment asset received in the arrangement with Purdue Pharmaceuticals, Inc. and Mundipharma Limited.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Infinity Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2010, except for the effects of the material weakness described in the sixth paragraph of that report, as to which the date is March 15, 2011, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 11, 2010, except for Note 2

as to which the date is March 15, 2011

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INFINITY PHARMACEUTICALS, INC.

Consolidated Balance Sheets

	December 31,	
	2009 (Restated)	2008 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 16,287,229	$ 16,574,549
Available-for-sale securities	113,758,778	110,197,138
Unbilled accounts receivable		7,414,570
Notes receivable from employees	55,059	42,198
Prepaid expenses and other current assets	3,511,968	2,389,411
Total current assets	133,613,034	136,617,866
Property and equipment, net	5,694,150	5,320,439
Loan commitment asset from Purdue	16,020,075	17,319,000
Long-term available-for-sale securities	690,506	
Notes receivable from employees	38,036	28,780
Restricted cash	1,146,788	1,138,161
Other assets	115,244	193,262
Total assets	$ 157,317,833	$ 160,617,508
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,441,231	$ 2,759,288
Accrued expenses	8,542,923	11,562,641
Deferred revenue from Purdue entities	4,214,260	2,929,608
Current portion of capital leases	6,459	5,953
Total current liabilities	14,204,873	17,257,490
Deferred revenue from Purdue entities, less current portion	50,576,445	37,886,981
Other liabilities	2,219,224	2,340,099
Capital leases, less current portion	5,489	11,949
Total liabilities	67,006,031	57,496,519
Commitments and contingencies (note 12)		
Stockholders equity:		
Preferred Stock, $.001 par value; 1,000,000 shares authorized, no shares issued and outstanding at December 31, 2009 and 2008		
Common Stock, $.001 par value; 100,000,000 shares authorized, and 26,238,954 and 24,064,857 shares issued and outstanding, at December 31, 2009 and December 31, 2008, respectively	26,239	24,065
Additional paid-in capital	270,274,176	251,128,955
Accumulated deficit	(180,025,904)	(148,747,387)
Accumulated other comprehensive income	37,291	715,356
Total stockholders equity	90,311,802	103,120,989
Total liabilities and stockholders equity	$ 157,317,833	$ 160,617,508

The accompanying notes are an integral part of these consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Consolidated Statements of Operations

	Years Ended December 31,		
	2009 (Restated)	2008 (Restated)	2007
Collaborative research and development revenue:			
From Purdue entities	$ 50,765,462	$ 3,027,063	$
Other		80,558,125	24,536,350
Total Revenue	50,765,462	83,585,188	24,536,350
Operating expenses:			
Research and development	77,856,836	47,466,410	33,793,307
General and administrative	19,456,341	16,836,541	14,033,559
Total operating expenses	97,313,177	64,302,951	47,826,866
Income (loss) from operations	(46,547,715)	19,282,237	(23,290,516)
Other income (expense):			
Interest expense	(1,300,184)	(21,368)	(188,035)
Income from NIH reimbursement	1,745,386		
Income from residual funding after reacquisition of Hsp90 program	12,450,000	1,195,586	
Interest and investment income	2,044,430	3,342,424	6,580,664
Total other income	14,939,632	4,516,642	6,392,629
Income (loss) before income taxes	(31,608,083)	23,798,879	(16,897,887)
Income tax benefit	329,566		
Net income (loss)	$ (31,278,517)	$ 23,798,879	$ (16,897,887)
Earnings (loss) per common share:			
Basic	$ (1.20)	$ 1.18	$ (0.87)
Diluted	$ (1.20)	$ 1.15	$ (0.87)
Weighted average number of common shares outstanding:			
Basic	26,096,515	20,236,743	19,511,485
Diluted	26,096,515	20,765,536	19,511,485

The accompanying notes are an integral part of these consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2009 (Restated)	2008 (Restated)	2007
Operating activities			
Net income (loss)	$ (31,278,517)	$ 23,798,879	$ (16,897,887)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	2,153,916	1,971,937	2,753,560
Stock-based compensation including 401(k) match	7,037,253	5,840,065	5,223,224
(Gain) loss on sale and disposals of property and equipment	(79,256)	(56,620)	25,446
Gain on sale of available-for-sale securities	(28,051)	(107,313)	
Net (accretion) amortization of available-for-sale securities	129,973	(1,753,531)	(3,597,182)
Impairment of available-for-sale securities	15,666	49,428	15,577
Impairment of property and equipment		84,219	195,690
Amortization of loan commitment asset from Purdue	1,298,925		
Other, net	60,196	55,114	60,671
Changes in operating assets and liabilities:			
Accounts receivable and unbilled accounts receivable	7,414,570	(2,314,334)	37,034,574
Prepaid expenses and other assets	(1,075,479)	74,063	(212,856)
Accounts payable, accrued expenses and other liabilities	(4,380,234)	3,229,754	1,231,478
Deferred revenue	13,974,116	(41,294,078)	(13,750,000)
Net cash provided by (used in) operating activities	(4,756,922)	(10,422,417)	12,082,295
Investing activities			
Purchases of property and equipment	(2,527,627)	(1,392,377)	(2,405,677)
Proceeds from sale of property and equipment	79,256	57,113	15,000
Purchases of available-for-sale securities	(166,565,338)	(172,033,407)	(208,173,692)
Proceeds from maturities of available-for-sale securities	125,375,803	137,134,757	148,559,370
Proceeds from sales of available-for-sale securities	36,141,736	18,050,075	
Net cash used in investing activities	(7,496,170)	(18,183,839)	(62,004,999)

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INFINITY PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows (Continued)

	Years Ended December 31,		
	2009 (Restated)	2008 (Restated)	2007
Financing activities			
Proceeds from issuance of common stock to Purdue entities	11,830,000	21,160,000	
Proceeds from issuances of common stock related to stock incentive plans	201,726	713,115	342,151
Repurchase of common stock		(8,115)	(10,640)
Release of restricted cash		564,986	
Payments on equipment loan and other debt		(373,403)	(1,351,049)
Capital lease payments	(5,954)	(10,499)	(41,746)
Repayment of employee loans			11,230
New employee loans	(60,000)	(30,000)	(10,000)
Net cash provided by (used in) financing activities	11,965,772	22,016,084	(1,060,054)
Net decrease in cash and cash equivalents	(287,320)	(6,590,172)	(50,982,758)
Cash and cash equivalents at beginning of period	16,574,549	23,164,721	74,147,479
Cash and cash equivalents at end of period	$ 16,287,229	$ 16,574,549	$ 23,164,721
Supplemental cash flow disclosure			
Interest paid	$ 1,247	$ 14,351	$ 161,789
Income taxes paid	$ 75,000	$ 92,000	$ 1,100,000
Supplemental disclosure of noncash investing and financing activities			
Equipment acquired under capital leases	$	$	$ 28,800

The accompanying notes are an integral part of these consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Consolidated Statements of Stockholders Equity

	Common Stock					Accumulated Other	
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2006	19,523,243	$ 19,523	$ 219,110,907	$ (1,323,810)	$ (155,305,106)	$ (76,559)	$ 62,424,955
Cumulative effect of accounting change					(343,273)		(343,273)
Exercise of stock options	182,461	183	341,968				342,151
Restricted stock issued in prior years that vested in the year			124,880				124,880
Repurchase of treasury stock				(10,640)			(10,640)
Retirement of common stock	(22,060)	(22)	(1,334,450)	1,334,450			(22)
Stock-based compensation expense			4,852,526				4,852,526
401(k) plan match issued in common stock	27,129	27	370,671				370,698
Comprehensive loss:							
Unrealized gain on marketable securities						279,515	279,515
Net loss					(16,897,887)		(16,897,887)
Comprehensive loss							(16,618,372)
Balance at December 31, 2007	19,710,773	$ 19,711	$ 223,466,502	$	$ (172,546,266)	$ 202,956	$ 51,142,903
Exercise of stock options	306,744	307	712,808				713,115
Issuance of common stock to Purdue	4,000,000	4,000	21,156,000				21,160,000
Restricted stock issued that vested in the year			75,621				75,621
Early exercise of options into restricted stock			(121,989)				(121,989)
Repurchase and retirement of common stock	(4,531)	(5)					(5)
Stock-based compensation expense			5,435,829				5,435,829
401(k) plan match and other issued in common stock	51,871	52	404,184				404,236
Comprehensive income (restated):							
Unrealized gain on marketable securities						512,400	512,400
Net income (restated)					23,798,879		23,798,879
Comprehensive income (restated)							24,311,279
Balance at December 31, 2008 (restated)	24,064,857	$ 24,065	$ 251,128,955	$	$ (148,747,387)	$ 715,356	$ 103,120,989

The accompanying notes are an integral part of these consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Consolidated Statements of Stockholders Equity (Continued)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2008 (restated)	24,064,857	$ 24,065	$ 251,128,955	$	$ (148,747,387)	$ 715,356	$ 103,120,989
Exercise of stock options	101,384	101	201,625				201,726
Issuance of common stock to Purdue	2,000,000	2,000	10,578,000				10,580,000
Restricted stock issued that vested in the year			78,416				78,416
Stock-based compensation expense			6,506,680				6,506,680
401(k) plan match issued in common stock	72,713	73	530,500				530,573
Issuance of warrants to Purdue			1,250,000				1,250,000
Comprehensive income (restated):							
Unrealized loss on marketable securities						(678,065)	(678,065)
Net loss (restated)					(31,278,517)		(31,278,517)
Comprehensive loss (restated)							(31,956,582)
Balance at December 31, 2009 (restated)	26,238,954	$ 26,239	$ 270,274,176	$	$ (180,025,904)	$ 37,291	$ 90,311,802

The accompanying notes are an integral part of these consolidated financial statements.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements

1. Organization

Infinity Pharmaceuticals, Inc. is a drug discovery and development company that is utilizing its strength in small molecule drug technologies to discover and develop medicines for the treatment of cancer and related conditions. As used throughout these consolidated financial statements, the terms Infinity, we, us, and our refer to the business of Infinity Pharmaceuticals, Inc. and its wholly owned subsidiary.

2. Restatement of Financial Statements

We have restated:

- our consolidated balance sheets as of December 31, 2009 and 2008 by increasing amounts reported in deferred revenue (short-term and long-term), total current liabilities and total liabilities; and reducing amounts reported in additional paid-in capital, accumulated deficit and total stockholders equity;

- our consolidated statements of operations for the year ended December 31, 2009 by increasing amounts reported in collaborative research and development revenue from Purdue entities and total revenue; and decreasing amounts reported in loss from operations, loss before income taxes, net loss, and basic and diluted loss per common share; and

- our consolidated statements of operations for the year ended December 31, 2008 by increasing amounts reported in collaborative research and development revenue from Purdue entities, total revenue, income from operations, net income, and basic and diluted earnings per common share.

As a result of these restatements, amounts in our consolidated statements of cash flows and stockholders equity for the years ended December 31, 2009 and 2008 have also been corrected. Our total cash flows from operations in these periods remain unchanged. This restatement also resulted in changes to notes 3, 8, 13, 14 and 19 to our consolidated financial statements.

The restatement relates to our accounting for the initial recognition of a loan commitment representing the future availability to us, on below-market terms, of the $50 million line of credit extended to us by Purdue Pharmaceutical Products L.P., or Purdue, and its independent associated company, Purdue Pharma L.P., or PPLP, in November 2008 upon entry into a strategic alliance with Purdue and its independent associated company, Mundipharma International Corporation Limited, or Mundipharma. This written loan commitment, or loan commitment asset, meets the definition of a financial instrument and we therefore recorded it as an asset. We determined that the fair value of the loan commitment asset was $17.3 million. We recorded the fair value of this asset in 2008 and began amortizing this balance to interest expense over the life of the loan arrangement, or ten years, on April 1, 2009, the date at which we could first draw upon the line of credit.

Based on our evaluation of the relevant accounting guidance, we initially recorded the offset to the loan commitment asset to additional paid-in capital, or APIC.

We have subsequently determined the offset to the loan commitment asset should have been recorded as deferred revenue rather than APIC. We plan to amortize the deferred revenue to revenue over the 14 year period beginning in November 2008 (approximately $300,000 per quarter), which is our estimated period of performance under the strategic alliance.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

The following table summarizes the effects of the restatement adjustments on our previously issued consolidated balance sheets for the years ended December 31, 2009 and 2008:

	As of December 31, 2009			As of December 31, 2008		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Short term deferred revenue from Purdue entities	$ 2,987,512	$ 1,226,748	$ 4,214,260	$ 1,702,860	$ 1,226,748	$ 2,929,608
Total current liabilities	12,978,125	1,226,748	14,204,873	16,030,742	1,226,748	17,257,490
Long term deferred revenue from Purdue entities	35,855,463	14,720,982	50,576,445	21,939,251	15,947,730	37,886,981
Total liabilities	51,058,301	15,947,730	67,006,031	40,322,041	17,174,478	57,496,519
Additional paid-in capital	287,593,176	(17,319,000)	270,274,176	268,447,955	(17,319,000)	251,128,955
Accumulated Deficit	(181,397,174)	1,371,270	(180,025,904)	(148,891,909)	144,522	(148,747,387)
Total stockholders equity	$ 106,259,532	$ (15,947,730)	$ 90,311,802	$ 120,295,467	$ (17,174,478)	$ 103,120,989

The following tables summarize the effects of the restatement adjustments on our previously issued consolidated statements of stockholders equity for the years ended December 31, 2009 and 2008:

Changes in additional paid-in capital	As Previously Reported	Adjustments	As Restated
Additional paid-in capital as of December 31, 2007	$ 223,466,502	$	$ 223,466,502
Loan commitment asset from Purdue	17,319,000	(17,319,000)	
Additional paid-in capital as of December 31, 2008	268,447,955	(17,319,000)	251,128,955
Additional paid-in capital as of December 31, 2009	$ 287,593,176	$ (17,319,000)	$ 270,274,176

Changes in accumulated deficit	As Previously Reported	Adjustments	As Restated
Accumulated deficit as of December 31, 2007	$ (172,546,266)	$	$ (172,546,266)
Net income	23,654,357	144,522	23,798,879
Accumulated deficit as of December 31, 2008	(148,891,909)	144,522	(148,747,387)
Net loss	(32,505,265)	1,226,748	(31,278,517)
Accumulated deficit as of December 31, 2009	$ (181,397,174)	$ 1,371,270	$ (180,025,904)

Changes in total stockholders equity	As Previously Reported	Adjustments	As Restated
Total stockholders equity as of December 31, 2007	$ 51,142,903	$	$ 51,142,903
Loan commitment asset from Purdue	17,319,000	(17,319,000)	
Comprehensive income	24,166,757	144,522	24,311,279
Total stockholders equity as of December 31, 2008	120,295,467	(17,174,478)	103,120,989
Comprehensive loss	(33,183,330)	1,226,748	(31,956,582)
Stockholders equity as of December 31, 2009	$ 106,259,532	$ (15,947,730)	$ 90,311,802

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

The following table summarizes the effects of the restatement adjustments on our previously issued consolidated statements of operations for the years ended December 31, 2009 and 2008:

	Year ended December 31, 2009			Year ended December 31, 2008		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Collaborative research and development revenue from Purdue entities	$ 49,538,714	$ 1,226,748	$ 50,765,462	$ 2,882,541	$ 144,522	$ 3,027,063
Total revenue	49,538,714	1,226,748	50,765,462	83,440,666	144,522	83,585,188
Income (loss) from operations	(47,774,463)	1,226,748	(46,547,715)	19,137,715	144,522	19,282,237
Income (loss) before income taxes	(32,834,831)	1,226,748	(31,608,083)	23,654,357	144,522	23,798,879
Net income (loss)	(32,505,265)	1,226,748	(31,278,517)	23,654,357	144,522	23,798,879
Basic earnings (loss) per common share	$ (1.25)	$ 0.05	$ (1.20)	$ 1.17	$ 0.01	$ 1.18
Diluted earnings (loss) per common share	$ (1.25)	$ 0.05	$ (1.20)	$ 1.14	$ 0.01	$ 1.15

The following table summarizes the effects of the restatement adjustments on our previously issued consolidated statements of cash flows for the years ended December 31, 2009 and 2008:

	Year ended December 31, 2009			Year ended December 31, 2008		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Changes in deferred revenue	$ 15,200,864	$ (1,226,748)	$ 13,974,116	$ (41,149,556)	$ (144,522)	$ (41,294,078)
Supplemental disclosure of noncash investing and financing activities						
Loan commitment asset from Purdue				17,319,000	(17,319,000)	

3. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of Infinity and its wholly owned subsidiary. We have eliminated all significant intercompany accounts and transactions in consolidation.

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires our management to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

Reclassifications

Certain amounts in the prior years financial statements have been reclassified to conform with the current-year presentation. These reclassifications have no impact on previously reported net income, net loss or cash flows.

Cash Equivalents and Available-For-Sale Securities

Cash equivalents and short-term available-for-sale securities primarily consist of money market funds, U.S. government-sponsored enterprise obligations, corporate obligations, U.S. Treasury obligations and mortgage-backed securities. We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents, which consist primarily of a money market fund, corporate obligations and a U.S. government-sponsored enterprise obligation, are stated at market value and are both readily convertible to known amounts of cash and close enough to maturity that each presents insignificant risk of change in value due to changes in interest rates. Our classification of cash equivalents is consistent with prior periods.

We determine the appropriate classification of available-for-sale securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified all of our marketable securities at December 31, 2009 and 2008 as available-for-sale. We carry available-for-sale securities at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income, which is a separate component of stockholders equity.

We adjust the cost of available-for-sale debt securities for amortization of premiums and accretion of discounts to maturity. We include such amortization and accretion in interest and investment income. The cost of securities sold is based on the specific identification method. Realized gains on our available-for-sale securities were $28,051 and $107,313 for the years ended December 31, 2009 and 2008, respectively. Realized gains or losses from the sales of securities for the year ended December 31, 2007 were immaterial. We include interest and dividends on securities classified as available-for-sale in interest and investment income.

Other-than-temporary impairments must be recognized through earnings if we have the intent to sell the debt security or if it is more likely than not that we will be required to sell the debt security before recovery of our amortized cost basis. Even if we do not expect to sell a debt security, we must also evaluate expected cash flows to be received and determine if a credit loss has occurred. In the event of a credit loss, only the amount associated with the credit loss is recognized through earnings. The amount of loss relating to other factors is recorded in accumulated other comprehensive income.

Concentration of Risk

We have no significant off-balance sheet risk.

Cash and cash equivalents are primarily maintained with two major financial institutions in the United States. Deposits at banks may exceed the insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. Financial instruments that potentially subject us to concentration of credit risk primarily consist of available-for-sale securities. Available-for-sale securities consist of U.S. government-sponsored enterprise obligations, investment grade corporate obligations, U.S. Treasury obligations and mortgage-backed securities. Our investment policy, which has been approved by our board of directors, limits the amount that we may invest in one issuer of investments, thereby reducing credit risk concentrations. Accounts receivable include amounts due under strategic alliances for which we do not obtain collateral.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

Segment Information

We make operating decisions based upon performance of the enterprise as a whole and utilize our consolidated financial statements for decision making. We operate in one business segment, which focuses on drug discovery and development.

All of our revenues to date have been generated under research collaboration agreements. During the year ended December 31, 2009, all of our revenues are associated with our strategic alliance with Mundipharma and Purdue.

During the year ended December 31, 2008:

- Revenues associated with the amortization and acceleration of the up-front license fee we received from MedImmune, Inc., a division of AstraZeneca plc, or MedImmune/AZ, and a milestone payment from MedImmune/AZ upon initiation of the first patient in a pivotal trial, accounted for approximately 85% of our revenue;

- Revenues associated with the up-front license fee and reimbursable research and development services we received from Novartis Institutes for BioMedical Research, Inc., or Novartis, and Novartis International Pharmaceutical Ltd., or Novartis International, accounted for approximately 11% of our revenue; and

- Revenues associated with our strategic alliances with Mundipharma and Purdue accounted for approximately 4% of our revenue.

During the year ended December 31, 2007:

- Revenues associated with the up-front license fee, reimbursable research and development services and compound acceptance fees we received from Novartis and Novartis International accounted for approximately 59% of our revenue; and

- Revenues associated with the up-front license fee we received from MedImmune/AZ accounted for approximately 41% of our revenue.

Payments due from MedImmune/AZ represented 64% of our unbilled accounts receivable balance as of December 31, 2008. Payments due from Mundipharma and Purdue represented the remaining 36% of our unbilled accounts receivable balance at December 31, 2008.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the applicable assets. Application development costs incurred for computer software developed or obtained for internal use are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective account and the resulting gain or loss, if any, is included in current operations. Amortization of leasehold improvements and capital leases are included in depreciation expense. Repairs and maintenance charges that do not increase the useful life of the assets are charged to operations as incurred. Property and equipment are depreciated over the following periods:

Laboratory equipment	5 years
Computer equipment and software	3 to 5 years
Leasehold improvements	Shorter of life of lease or useful life of asset
Furniture and fixtures	7 years

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

Impairment of Long-Lived Assets

We evaluate our long-lived assets for potential impairment. Potential impairment is assessed when there is evidence that events or changes in circumstances have occurred that indicate that the carrying amount of a long-lived asset may not be recovered. Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends, and product development cycles. An impairment in the carrying value of each asset is assessed when the undiscounted expected future cash flows derived from the asset are less than its carrying value. Impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount over the undiscounted expected future cash flows. See note 7 for discussion on impairment charges recognized during the years ended December 31, 2009, 2008 and 2007.

Fair Value

We define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We determine fair value based on the assumptions market participants use when pricing the asset or liability. We also use the fair value hierarchy that prioritizes the information used to develop these assumptions.

The carrying amounts reflected in the consolidated balance sheets for unbilled accounts receivable, notes receivable from employees, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value due to their short term maturities.

Revenue Recognition

To date, all of our revenue has been generated under research collaboration agreements. The terms of these research collaboration agreements may include payment to us of non-refundable, up-front license fees, funding or reimbursement of research and development efforts, milestone payments if specified objectives are achieved, and/or royalties on product sales. We divide agreements containing multiple elements into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the collaborative partner and whether there is objective and reliable evidence of fair value of the undelivered obligation(s). For these agreements, we allocate the consideration we receive among the separate units based on their respective fair values or, in some cases, the residual method, and we apply the applicable revenue recognition criteria to each of the separate units.

We recognize revenues from non-refundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which is typically the research or development term. We recognize research and development funding as earned over the period of effort as related research costs are incurred. We regularly consider whether events warrant a change in the estimated period of performance under an agreement. Such a change would cause us to modify the period of time over which we recognize revenue on a prospective basis from the up-front license fees paid to us under that agreement and would, in turn, result in changes in our quarterly and annual results.

We recognize milestone payments as revenue upon achievement of the milestone only if (1) the milestone payment is non-refundable, (2) substantive effort is involved in achieving the milestone, (3) the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone and (4) the milestone is at risk for both parties. If any of these conditions is not met, we defer the milestone payment and recognize it as revenue over the remaining estimated period of performance under the contract as we complete our performance obligations.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

We will recognize royalty revenue, if any, based upon actual and estimated net sales by the licensee of licensed products in licensed territories, and in the period the sales occur. We have not recognized any royalty revenues to date.

Income Taxes

We use the liability method to account for income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, as well as net operating loss carryforwards, and are measured using the enacted tax rates and laws that will be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization. The effect on deferred taxes of a change in tax rate is recognized in income or loss in the period that includes the enactment date.

We use our judgment for the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize any material interest and penalties related to unrecognized tax benefits in income tax expense.

Basic and Diluted Net Income (Loss) per Common Share

Basic net income or loss per share is based upon the weighted average number of common shares outstanding during the period, excluding restricted stock that has been issued but is not yet vested. Diluted net income or loss per share is based upon the weighted average number of common shares outstanding during the period, plus the effect of additional weighted average common equivalent shares outstanding during the period when the effect of adding such shares is dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options and warrants (the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury stock method) and the vesting of restricted shares of common stock. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options. Common equivalent shares have not been included in the net loss per share calculations for the years ended December 31, 2009 and 2007 because the effect of including them would have been anti-dilutive. Total potential gross common equivalent shares consisted of the following:

	At December 31,		
	2009	2008	2007
Stock options	4,954,708	4,762,819	3,876,004
Warrants	6,246,629	246,629	246,629
Unvested restricted shares	16,396	47,558	54,954

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

Basic and diluted earnings (loss) per share were determined as follows:

	Year Ended December 31,		
	2009 (Restated)	2008 (Restated)	2007
Basic			
Net income (loss)	$ (31,278,517)	$ 23,798,879	$ (16,897,887)
Weighted average common shares outstanding	26,096,515	20,236,743	19,511,485
Basic earnings (loss) per share	$ (1.20)	$ 1.18	$ (0.87)
Diluted			
Net income (loss)	$ (31,278,517)	$ 23,798,879	$ (16,897,887)
Weighted average common shares outstanding	26,096,515	20,236,743	19,511,485
Effect of dilutive options		528,793	
Weighted average common shares outstanding assuming dilution	26,096,515	20,765,536	19,511,485
Diluted earnings (loss) per share	$ (1.20)	$ 1.15	$ (0.87)

Comprehensive Income (Loss)

Comprehensive income is comprised of net income (loss) and other comprehensive income. Other comprehensive income includes unrealized holding gains and losses on available-for-sale securities that are not other-than-temporarily impaired.

Stock-Based Compensation Expense

We measure share-based compensation cost at the grant date based on the estimated fair value of the award, and recognize it as expense over the employee s requisite service period on a straight-line basis. We have no awards with market or performance conditions. We use the Black-Scholes valuation model in determining the fair value of equity awards.

Research and Development Expense

Research and development expense consists of expenses incurred in performing research and development activities, including salaries and benefits, facilities expenses, overhead expenses, materials and supplies, preclinical expenses, clinical trial and related clinical manufacturing expenses, stock-based compensation expense, contract services, and other outside expenses. We expense research and development costs as they are incurred. We have entered into certain collaboration agreements in which expenses are shared with the collaborator, and others in which we are reimbursed for work performed on behalf of the collaborator. We record all of our expenses as research and development expense. If the arrangement is a cost-sharing arrangement and there is a period during which we receive payments from the collaborator, we record payments from the collaborator for its share of the development effort as a reduction of research and development expense. If the arrangement is a cost-sharing arrangement and there is a period during which we make payments to the collaborator, we record our payments to the collaborator for its share of the development effort as additional research and development expense. If the arrangement provides for reimbursement of research and development expenses, we record the reimbursement as revenue. Our collaboration with MedImmune/AZ was a cost-sharing arrangement; our alliance with Mundipharma and Purdue provides for, and our collaboration with Novartis provided for, the reimbursement of our research and development expenses.

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

New Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06), which amends the existing fair value measurements and disclosures guidance currently included in Accounting Standards Codification No. 820 to require additional disclosures regarding fair value measurements. Specifically, ASU No. 2010-06 requires entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfer in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuance and settlements on a gross basis. In addition, ASU No. 2010-06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for additional disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. We do not expect ASU No. 2010-06 to have a material impact on our financial statements or results of operations.

In October 2009, the FASB issued Accounting Standard Update No. 2009-13, *Multiple-Element Revenue Arrangements* (ASU No. 2009-13), which updates the existing multiple-element revenue arrangements guidance currently included in Accounting Standards Codification No. 605-25, in two ways. The first change relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. This is significant as it will likely result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. ASU No. 2009-13 also significantly expands the disclosures required for multiple-element revenue arrangements. ASU No. 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. We are currently evaluating the effect of ASU No. 2009-13 and are unable to quantify the impact on our consolidated financial statements or determine the timing and method of its adoption.

4. Stock-Based Compensation

2000 Stock Incentive Plan

Our 2000 Stock Incentive Plan (the 2000 Plan) provides for the grant of stock options intended to qualify as incentive stock options under the Internal Revenue Code or as nonqualified stock options, as well as restricted stock. As of December 31, 2009, an aggregate of 6,713,403 shares of our common stock are reserved for issuance under the 2000 Plan, of which 692,079 shares of common stock remain available for future grant. The number of shares of our common stock available for issuance under the 2000 Plan automatically increases on the first trading day of each calendar year by an amount equal to 4% of the total number of shares of our common stock that are outstanding on the last trading day of the preceding calendar year, but in no event may this increase exceed 2,000,000 shares. The exercise price of all options granted under the discretionary option grant program of the 2000 Plan must equal at least the fair value of our common stock on the date of grant. Outstanding options granted under the 2000 Plan are exercisable as the options vest, which is generally over a four-year period. All options granted under the 2000 Plan expire no later than ten years after the date of grant.

For grants made to new employees upon commencement of employment, awards typically provide for vesting of 25% of shares at the end of the first year of service with the remaining 75% vesting ratably on a monthly basis over the following three-year period. Annual grants to existing employees typically provide for monthly vesting over four years.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

2001 Stock Incentive Plan

In connection with the merger between Discovery Partners International, Inc. and Infinity Pharmaceuticals, Inc. (IPI) in 2006 (the DPI merger), we assumed awards that were granted under the Infinity Pharmaceuticals, Inc. Pre-Merger Stock Incentive Plan (the 2001 Plan), which provided for the grant of incentive stock options and non-statutory stock options and restricted stock awards. Under the 2001 Plan, stock awards were granted to IPI s employees, officers, directors and consultants. Incentive stock options were granted at a price not less than fair value of the common stock on the date of grant. The board of directors of IPI determined the vesting of the awards. For grants made to new employees upon commencement of employment, awards typically provided for vesting of 25% of shares at the end of the first year of service with the remaining 75% vesting ratably on a monthly basis over the following three-year period. Annual grants to existing employees typically provided for monthly vesting over four years. The maximum contractual term of stock options granted under the 2001 Plan was ten years. As of December 31, 2009, an aggregate of 650,474 shares of our common stock are reserved for issuance upon the exercise of outstanding assumed awards. The 2001 Plan was not assumed by us following the DPI merger; therefore, no further grants may be made under the 2001 Plan.

All stock options granted under the 2001 Plan contained provisions allowing for the early exercise of such options. All shares of common stock issued upon exercise of these options contain certain provisions that allow us to repurchase unvested shares at their original purchase price, such as upon termination of employment. The repurchase provisions for unvested shares issued upon the exercise of options granted as part of an employee s initial employment generally lapse as follows: 25% at the end of the first year of service with the remaining 75% lapsing ratably on a monthly basis over the following three-year period. The repurchase provisions for unvested shares issued upon exercise of options granted as part of annual grants to existing employees generally lapse on a monthly basis over a four-year period.

Compensation Expense

Total stock-based compensation expense, related to all equity awards, for the years ended December 31, 2009, 2008 and 2007, comprised the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Research and development	$ 3,501,126	$ 2,781,662	$ 2,558,655
General and administrative	3,536,127	3,058,403	2,664,569

As of December 31, 2009, there was $8.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested options which is expected to be recognized over a weighted-average period of 2.1 years.

Valuation Assumptions

We estimate the fair value of stock options at the date of grant using the Black-Scholes valuation model using the following weighted-average assumptions:

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Risk-free interest rate	2.24%	2.00%	4.35%
Expected annual dividend yield			
Expected stock price volatility	56.73%	56.93%	60.99%
Expected term of options	5.4 years	5.2 years	5.1 years

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

The valuation assumptions were determined as follows:

Risk-free interest rate: The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term of the awards.

Expected annual dividend yield: The estimate for annual dividends is zero, because we have not historically paid a dividend and do not intend to do so in the foreseeable future.

Expected stock price volatility: We determine the expected volatility by using a weighted average of selected peer companies as well as our available historical price information.

Expected term of options: The expected term of the awards represents the period of time that the awards are expected to be outstanding. We use historical data and expectations for the future to estimate employee exercise and post-vest termination behavior. We stratify employees into two groups to evaluate exercise and post-vest termination behavior. We estimate forfeitures based upon historical data, adjusted for known trends, and will adjust the estimate of forfeitures if actual forfeitures differ or are expected to differ from such estimates. Subsequent changes in estimated forfeitures are recognized through a cumulative adjustment in the period of change and will also impact the amount of stock-based compensation expense in future periods. As of December 31, 2009, 2008 and 2007, the weighted-average forfeiture rate was estimated to be 8%, 7% and 4%, respectively.

All options granted to employees during the years ended December 31, 2009, 2008 and 2007 were granted with exercise prices equal to the fair market value of our common stock on the date of grant. We consider the price of our common stock to be the fair market value.

A summary of our stock option activity for the year ended December 31, 2009 is as follows:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Contractual Life (years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2009	4,762,819	$ 9.83		
Granted	554,635	7.10		
Exercised	(101,384)	1.99		
Forfeited	(261,362)	13.59		
Outstanding at December 31, 2009	4,954,708	$ 9.48	7.67	$ 2.0
Vested or expected to vest at December 31, 2009	4,803,668	$ 9.51	7.64	$ 2.0
Exercisable at December 31, 2009(1)	2,944,842	$ 10.03	7.14	$ 2.0

(1) All stock options granted under the 2001 Plan contain provisions allowing for the early exercise of such options into restricted stock.
The weighted-average fair values per share of options granted during the years ended December 31, 2009, 2008 and 2007 were $3.70, $3.66, and $6.82, respectively.

The aggregate intrinsic value of options outstanding at December 31, 2009 was calculated based on the positive difference between the closing fair market value of our common stock on December 31, 2009 and the exercise price of the underlying options. The aggregate intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $550,292, $723,552, and $1,651,508, respectively. The total cash received from employees and non-employees as a result of stock option exercises during the year ended December 31, 2009 was $201,726.

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

A summary of the status of unvested restricted stock as of December 31, 2009, and changes during the year then ended, is presented below:

	Restricted Stock	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2009	47,558	$ 2.54
Granted		
Vested	(31,162)	2.74
Repurchased		
Unvested at December 31, 2009	16,396	$ 2.15

The total fair value of the shares vested during the years ended December 31, 2009, 2008 and 2007 (measured on the date of vesting) was $213,008, $318,497 and $1,451,346, respectively.

During the year ended December 31, 2008, two of our employees exercised options to purchase an aggregate of 46,391 shares of common stock under the 2001 Plan that had not yet vested. The stock received for these exercises is restricted and will vest over the original option vesting schedule.

No related income tax benefits were recorded during the years ended December 31, 2009, 2008 or 2007.

We settle employee stock option exercises with newly issued shares of our common stock.

During the year ended December 31, 2009, one member of our board of directors retired, but was granted the right to exercise his vested stock options for an additional three-year period. In connection with this extension, we recognized an additional $42,213 in stock-based compensation expense during the year ended December 31, 2009 with respect to the modification of this award.

During the year ended December 31, 2008, one member of our board of directors retired, but was granted the right to exercise his vested stock options for an additional two-year period. In connection with this extension, we recognized an additional $21,495 in stock-based compensation expense during the year ended December 31, 2008 with respect to the modification of this award.

During the year ended December 31, 2007, one employee whose employment terminated, but who entered into a consulting agreement with us, retained unvested awards even though he would not provide any continuing substantive service as a non-employee. These awards continued to vest over the term of the consulting agreement. In connection with such termination of employment, we recognized $108,939 in additional stock-based compensation expense during the year ended December 31, 2007 with respect to the modification of this award. Additionally, during the year ended December 31, 2007, one member of our board of directors retired, but was granted the right to exercise his vested stock options for an additional two-year period. In connection with this extension, we recognized an additional $79,880 in stock-based compensation expense during the year ended December 31, 2007 with respect to the modification of this award.

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

5. Cash, Cash Equivalents and Available-for-Sale Securities

The following is a summary of cash, cash equivalents and available-for-sale securities:

	December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	$ 16,287,229	$	$	$ 16,287,229
Available-for-sale securities				
Corporate obligations due in one year or less	31,505,149	13,461	(205)	31,518,405
U.S. Treasury securities due in one year or less	2,268,546	3,684		2,272,230
Mortgage-backed securities due after ten years	699,376		(8,870)	690,506
U.S. government-sponsored enterprise obligations due in one year or less	64,841,354	71,583	(494)	64,912,443
U.S. government-sponsored enterprise obligations due in one to five years	15,097,568		(41,868)	15,055,700
Total available-for-sale securities	114,411,993	88,728	(51,437)	114,449,284
Total cash, cash equivalents and available-for-sale securities	$ 130,699,222	$ 88,728	$ (51,437)	$ 130,736,513

	December 31, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents due in 90 days or less	$ 16,566,285	$ 8,264	$	$ 16,574,549
Available-for-sale securities				
Corporate obligations due in one year or less	40,888,605	320,025		41,208,630
U.S. Treasury securities due in one year or less	1,520,153	1,057		1,521,210
Mortgage-backed securities due after ten years	765,845	345	(16,633)	749,557
U.S. government-sponsored enterprise obligations due in one year or less	66,315,443	402,298		66,717,741
Total available-for-sale securities	109,490,046	723,725	(16,633)	110,197,138
Total cash, cash equivalents and available-for-sale securities	$ 126,056,331	$ 731,989	$ (16,633)	$ 126,771,687

There were eight debt securities that had been in an unrealized loss position for less than 12 months at December 31, 2009. The aggregate unrealized loss on these securities was $51,437 and the fair value was $22,794,431. To determine whether an other-than-temporary impairment exists, we consider whether we have the ability and intent to hold these investments until a market price recovery, and considered whether evidence indicating the recoverability of the cost of the investments outweighed evidence to the contrary. Since the decline in market value was primarily attributable to current economic conditions and we have the ability to hold these investments until a recovery of fair value, we do not consider these investments to be other-than-temporarily impaired at December 31, 2009.

During the year ended December 31, 2009, we determined that one debt security was other-than-temporarily impaired and accordingly recorded a realized loss of $15,666. During the year ended December 31, 2008, we determined that one debt security was other-than-temporarily impaired and accordingly recorded a realized loss

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INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

of $49,428. During the year ended December 31, 2007, we determined that five debt securities were other-than-temporarily impaired and accordingly recorded realized losses totaling $15,577. All of these securities had been in an unrealized loss position for 12 or more months. We did not recognize any cumulative effect as an adjustment to the opening balance of accumulated deficit with a corresponding adjustment to accumulated other comprehensive income.

6. Fair Value

We use a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. The classification of a financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. For our fixed income securities, we reference pricing data supplied by our custodial agent and nationally known pricing vendors, using a variety of daily data sources, largely readily-available market data and broker quotes.

The following table provides the assets carried at fair value measured on a recurring basis as of December 31, 2009:

	Level 1	Level 2
Cash and cash equivalents	$ 16,287,229	$
Corporate obligations (including commercial paper)		31,518,405
Mortgage-backed securities		690,506
U.S. Treasury securities		2,272,230
U.S. government-sponsored enterprise obligations		79,968,143
Total	$ 16,287,229	$ 114,449,284

The fair value of the available-for-sale securities and cash and cash equivalents (including asset types listed below with maturities of three months or less at the time of purchase) is based on the following inputs:

Corporate Obligations:

Commercial Paper: calculations by custodian based on three month Treasury bill published on last business day of the month.

Other: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Mortgage-backed securities: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, new issue data, monthly payment information and collateral performance.

U.S. Treasury securities: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data and vendor trading platform data.

U.S. government-sponsored enterprise obligations: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

There have been no changes to the valuation methods during the year ended December 31, 2009.

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Notes to Consolidated Financial Statements (Continued)

7. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2009	2008
Laboratory equipment	$ 14,216,196	$ 13,896,580
Computer hardware and software	5,437,027	4,739,045
Office equipment and furniture and fixtures	722,683	693,260
Leasehold improvements	4,253,799	4,248,274
	24,629,705	23,577,159
Less accumulated depreciation	(18,935,555)	(18,256,720)
	$ 5,694,150	$ 5,320,439

During the year ended December 31, 2009, we capitalized costs associated with internally developed software in the amount of $524,496 and recorded depreciation expense associated with this software in the amount of $101,985.

We did not impair any fixed assets during the year ended December 31, 2009. During the years ended December 31, 2008 and 2007, we impaired laboratory equipment totaling $84,219 and $195,690, respectively, as we ceased using the equipment. These impairment charges are included in research and development expense for the years in which they were impaired.

During the year ended December 31, 2007, we leased office equipment under capital lease arrangements, totaling $28,800; related accumulated amortization at December 31, 2009 was $16,200. The lease is for 48 months, with an annual interest rate of 8.2%. The leased equipment secures the lease.

During the year ended December 31, 2009, we disposed of certain fully depreciated laboratory and computer equipment, which had an original cost of $1,475,082 resulting in a gain of $79,256.

During the year ended December 31, 2008, we disposed of certain laboratory equipment, which had a cost of $1,325,196 and accumulated depreciation of $1,324,703 for proceeds of $57,113, resulting in a gain of $56,620.

During the year ended December 31, 2007, we disposed of certain laboratory equipment, which had a cost of $502,445 and accumulated depreciation of $461,999 for proceeds of $15,000, resulting in a loss of $25,446.

8. Loan Commitment Asset

In November 2008, we entered into strategic alliance agreements with each of Purdue and Mundipharma to develop and commercialize pharmaceutical products. In connection with these agreements, we also entered into a line of credit agreement with Purdue and PPLP. See note 13 for discussion on the strategic alliance agreements and the line of credit agreement.

The extension of the line of credit at an interest rate below our incremental borrowing rate represents the transfer of additional value to us in the arrangement. As such, we recorded this additional value as a loan commitment asset at its fair value of $17.3 million on our balance sheet in 2008. The fair value of the loan commitment asset was determined using a discounted cash flow model of the differential between the terms and

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

rates of the line of credit and market rates. The loan commitment asset is measured at fair value on a nonrecurring basis and will only be re-measured at fair value for nonrecurring events such as an impairment loss. We recorded the offset to this asset as deferred revenue in 2008.

We are amortizing this asset to interest expense over the life of the loan arrangement, or 10 years commencing on April 1, 2009, the date we could begin drawing on the line. We recorded approximately $1.3 million of related amortization expense in the year ended December 31, 2009. As of December 31, 2009, no amounts have been borrowed under this line of credit.

9. Restricted Cash

We held $1,146,788 in restricted cash as of December 31, 2009 and $1,138,161 in restricted cash as of December 31, 2008. The balances are held on deposit with a bank to collateralize a standby letter of credit in the name of our facility lessor in accordance with our facility lease agreement. During the year ended December 31, 2008, we amended the amount of a standby letter of credit with the permission of our facility lessor, and we accordingly reduced our restricted cash by $564,986.

10. Accrued Expenses

Accrued expenses consisted of the following:

	December 31,	
	2009	2008
Accrued drug manufacturing costs	$ 2,212,156	$ 2,768,588
Accrued toxicology studies	691,197	261,636
Accrued compensation and benefits	2,576,970	5,037,924
Accrued clinical studies	920,429	1,284,858
Other	2,142,171	2,209,635
Total accrued expenses	$ 8,542,923	$ 11,562,641

11. Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

	December 31,	
	2009	2008
Deferred rent	$ 1,125,369	$ 1,505,811
Accrued tax liability	684,322	646,338
Other	409,533	187,950
Total other long-term liabilities	$ 2,219,224	$ 2,340,099

12. Commitments and Contingencies

We lease our office and laboratory space under noncancelable facility lease agreements that expire in December 2012. We have the right to extend our primary office and laboratory lease for up to two consecutive five-year terms. We can exercise our right to extend on the same terms and conditions under the original leases by giving the landlord notice before the term of the lease expires.

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Notes to Consolidated Financial Statements (Continued)

Future minimum payments, excluding operating costs and taxes, under the facility lease, are approximately as follows:

	Facility Lease
Years Ending December 31:	
2010	$ 4,915,381
2011	5,056,907
2012	4,776,917
2013	
2014	
Total minimum lease payments	$ 14,749,205

Rent expense of $4,526,260, $4,455,781 and $4,334,575, before considering sublease income, was incurred during the years ended December 31, 2009, 2008 and 2007, respectively. During the years ended December 31, 2009, 2008 and 2007, we subleased a portion of our facility space for total sublease income of $512,510, $565,845 and $551,025, respectively. We record sublease payments as an offset to rental expense in our statement of operations. Future minimum sublease income under noncancelable leases is expected to be $607,343 for the year ended December 31, 2010.

13. Collaborations

Purdue and Mundipharma

In November 2008, we entered into strategic alliance agreements with each of Purdue and Mundipharma to develop and commercialize pharmaceutical products. The alliance includes product candidates that inhibit or target the Hedgehog pathway and fatty acid amide hydrolase, or FAAH, and product candidates arising out of all our discovery projects in all disease fields that achieve development candidate status on or before December 31, 2011 (with Mundipharma having the right, through the exercise of two consecutive one-year options, to extend such period through December 31, 2013). We refer to such three to five year period as the funded discovery period. Our heat shock protein 90, or Hsp90, and Bcl-2 programs are expressly excluded from the alliance. The agreement with Purdue is focused on the development and U.S. commercialization of products targeting FAAH. The agreement with Mundipharma is focused on the development and commercialization outside of the United States of all products and product candidates covered by the alliance, including those targeting FAAH.

Under the strategic alliance agreements, we have responsibility and decision-making authority for the performance of early discovery projects and the development of all product candidates on a worldwide basis. There are no joint steering or similar committees for the alliance. Mundipharma is obligated to pay 100% of our contractually budgeted amounts for research and development expenses incurred by us for early discovery projects and product candidates included in the alliance until the later of December 31, 2013 and the commencement of the first Phase 3 clinical trial of such product candidate, which we refer to as the transition date. The contractually budgeted amount for the period between November 19, 2008 and December 31, 2009 was $50 million and the contractually budgeted amount for the years ended December 31, 2010 and 2011 is $65 million and $85 million, respectively. After the transition date for each product candidate other than those arising out of the FAAH project, we will share with Mundipharma all research and development costs for such product candidate equally. Upon completion of the first Phase 1 clinical trial of the first product developed under the research program that inhibits or targets FAAH during 2010, Purdue and Mundipharma may elect to assume responsibility, at their own expense, for the future development of FAAH products and their sale in and outside of the United States, respectively. In addition to the annual opt-out right, Mundipharma and Purdue will each

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Notes to Consolidated Financial Statements (Continued)

have the right to opt out of participation in the FAAH project following completion of the first Phase 1 clinical trial of IPI-940. If Mundipharma and Purdue were to exercise this right, there is no residual funding obligation for the FAAH project, but we may redeploy contractually-budgeted amounts that had been allocated to the FAAH project to any other project that is the subject of the alliance. We are recording revenue for reimbursed research and development services we perform for Mundipharma and Purdue. We recorded $46.5 million and $2.7 million in such revenue in the years ended December 31, 2009 and 2008, respectively. In the first month of each quarter, Purdue and Mundipharma each prepay a quarterly research and development service amount, which we record as deferred revenue and recognize as revenue as expenses are incurred over the period of effort.

Except with respect to products that have been in-licensed by us, for which no royalties will be payable between the parties, we are obligated to pay Mundipharma a 5% royalty on net sales of the commercialized products until such time as Mundipharma has recovered all research and development expenses paid to us under the research program prior to the applicable transition date. After such cost recovery, we are obligated to pay a tiered, 1% to 3% royalty on U.S. net sales of those products. For products in which Mundipharma has opted-out of development prior to the transition date, we are obligated to pay royalties of 1% to 5% of worldwide net sales as a function of the stage of development of the applicable product candidate at the time of opt-out. For products in which either party has opted-out of development following the transition date, the commercializing party is obligated to pay the other party a 5% royalty on net sales. Mundipharma is obligated to pay us a tiered, 10% to 20% royalty on annual net sales outside of the United States of each product arising out of the alliance, and Purdue is obligated to pay us a tiered, 10% to 20% royalty on annual net sales of FAAH products in the United States. Royalties are payable until the later to occur of the last-to-expire of specified patent rights and the expiration of non-patent regulatory exclusivities in a country, provided that if royalties are payable solely on the basis of non-patent regulatory exclusivity, each of the rates above is reduced by one-half. In addition, all royalties payable under the strategic alliance agreements, whether by us, Purdue or Mundipharma, are subject to reduction on account of third party royalty payments or patent litigation damages or settlements, with any such reductions capped at 50% of the amounts otherwise payable during the applicable royalty payment period.

In connection with the entry into the strategic alliance agreements in November 2008, we also entered into a securities purchase agreement and line of credit agreement (see note 8) with Purdue and PPLP. In March 2009, Purdue assigned its interest under the line of credit agreement to PPLP. Under the securities purchase agreement we issued and sold in a first equity closing in November 2008 an aggregate of four million shares of our common stock at a purchase price of $11.25 per share, for an aggregate purchase price of $45 million. Of such shares, two million shares of our common stock were purchased by each purchaser. In January 2009, we conducted a second equity closing where we issued and sold an aggregate of two million shares of our common stock and warrants to purchase up to an aggregate of six million shares of our common stock, for an aggregate purchase price of $30 million. An equal number of shares and warrants were purchased by each purchaser.

In November 2008, for financial statement purposes, we recorded $41.1 million as deferred revenue associated with the grant of rights and licenses to Mundipharma and Purdue. This amount was comprised of $23.8 million for the excess of the amount paid by Purdue and PPLP for the four million shares of our common stock ($11.25 per share) over the closing market price on the day before the first equity closing ($5.29 per share) and $17.3 million for the value of the loan commitment asset (see note 8) related to a line of credit extended to us by PPLP at below market terms as discussed below. In 2008, we considered our obligation, absent material adverse changes, to issue Purdue and PPLP the second closing securities as a forward contract with immaterial intrinsic value, which was recorded in stockholders equity. This forward contract closed in January 2009 upon the issuance of the second closing securities. In January 2009, for financial statement purposes, we recorded an additional $18.2 million as deferred revenue associated with the grant of rights and licenses to Mundipharma and

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

Purdue representing the excess of the $30 million paid by Purdue and PPLP for the second closing securities over the fair market value of these securities ($5.29 per share for the common stock and approximately $1.3 million for the warrants) as of the day before the first equity closing.

Since the shares of our common stock were purchased by Purdue and PPLP at a premium to the closing stock price on November 19, 2008, and the fair value of the rights and licenses transferred as part of the collaboration arrangement could not be reliably determined, we have attributed the premium over the closing price of our common stock using the residual method to the grant of rights and licenses to Mundipharma and Purdue. In addition, we have attributed the value of the loan commitment asset of $17.3 million using the residual method to the grant of rights and licenses to Mundipharma and Purdue. There is no obligation for us to repay the $59.3 million allocated to the grant of rights and licenses and we are recognizing this deferred revenue ratably over 14 years, which is our estimated period of performance under the arrangement. We will periodically review this estimate and make adjustments as facts and circumstances dictate. We recognized $4.3 million and $0.3 million in such revenue in the years ended December 31, 2009 and 2008, respectively.

The line of credit agreement provides for the borrowing by us of one or more unsecured loans up to an aggregate maximum principal amount of $50 million. The loans may be drawn by us through March 31, 2012. The loans, which may be used by us for any proper corporate purpose, mature on April 1, 2019 and will be subordinate to any senior indebtedness that we may incur. Borrowings made under the line of credit agreement will bear interest, payable on the maturity date, at a fluctuating rate set at the prime rate on the business day prior to the funding of each loan and will be reset on the last business day of each month ending thereafter. Interest will be compounded on each successive three-month anniversary of the funding of each loan. Outstanding loans may be prepaid without penalty or premium prior to the maturity date. Amounts borrowed under the credit agreement, once borrowed, may not be borrowed again. We have certain rights to repay outstanding amounts under the line of credit agreement in shares of our common stock.

MedImmune/AZ

In August 2006, we entered into a product development and commercialization agreement with MedImmune/AZ to jointly develop and commercialize cancer drugs targeting Hsp90 and the Hedgehog pathway. Under the terms of this agreement, we shared equally with MedImmune/AZ all development costs, as well as potential profits and losses, from any future marketed products. MedImmune /AZ made non-refundable, up-front payments totaling $70.0 million to us in order to obtain co-exclusive rights to the Hsp90 and Hedgehog pathway development programs. These payments were made in two tranches of $35.0 million each, with the first having been paid in September 2006 and the second having been paid in January 2007. We began recognizing the up-front licesne fee as revenue on a straight-line basis over seven years, which was based on our estimate of the period under which product candidates would be developed under the collaboration. In November 2007, we regained from MedImmune/AZ worldwide development and commercialization rights under our Hedgehog pathway program on a royalty-free basis. In December 2008, we regained from MedImmune/AZ worldwide development and commercialization rights under our Hsp90 chaperone inhibitor program. Following the reacquisition of the Hsp90 chaperone inhibitor program in December 2008, we had no substantial performance obligations to MedImmune/AZ and as such, we recognized the remaining portion of the up-front license fee of $56.7 million as revenue during the year ended December 31, 2008. The change in accounting estimate for the research term resulted in a positive net income impact of $46.7 million and $2.31 in basic earnings per share for the year ended December 31, 2008. We also recorded reimbursable amounts from MedImmune/AZ through December 31, 2008 as income from residual funding, a component of other income in our statement of operations. MedImmune/AZ s funding obligation under the Hsp90 chaperone inhibitor program was to continue until June 2009. In January 2009, we reached an agreement with MedImmune/AZ to settle the residual funding

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Notes to Consolidated Financial Statements (Continued)

obligation remaining for 2009 through lump-sum payments totaling $12.5 million, which were recorded as income from residual funding after reacquisition of Hsp90 program (a component of other income) in the year ended December 31, 2009. We received $12.5 million in cash from MedImmune/AZ in the year ended December 31, 2009.

Since the MedImmune/AZ collaboration was a cost-sharing arrangement, we recorded reimbursable amounts for MedImmune/AZ s share of the development effort up through the date of our reacquisition of the Hsp90 chaperone inhibitor program on December 10, 2008 as a reduction of research and development expense. Of the amounts reimbursable by MedImmune/AZ in the year ended December 31, 2008, $16.7 million was credited against research and development expenses and $1.2 million was recorded as income from residual funding. During the year ended December 31, 2007, we offset against research and development expense approximately $13.7 million that was reimbursable from MedImmune/AZ for sharing of costs that we incurred for research and development under the collaboration. We will not recognize any revenue from the up-front license fee nor record any reduction of research and development expense or any income from residual funding after reacquisition of the Hsp90 program related to the MedImmune/AZ collaboration in future periods.

Novartis

In February 2006, we entered into a collaboration agreement (the Novartis Product Development Agreement) with Novartis to discover, develop and commercialize drugs targeting Bcl protein family members for the treatment of a broad range of cancers. Under the terms of the Novartis Product Development Agreement, we granted to Novartis an exclusive, worldwide license to research, develop and commercialize pharmaceutical products that are based upon our proprietary Bcl inhibitors. Novartis paid us a $15.0 million up-front license fee, which we recognized on a straight-line basis over the potential four year research term, and Novartis committed to provide us research funding of approximately $10.0 million during the initial two-year research term, which expired in February 2008. Novartis had the right to extend the research term for up to two additional one-year terms, under which Novartis could have obligated us to provide up to five full-time equivalents, at Novartis expense, to enable the full transition of the Bcl inhibitor program to Novartis. Novartis chose not to exercise its option for the one-year extensions; thus, the research term ended in February 2008 and we have no further performance obligations to Novartis. As a result, we recognized $8.1 million of the up-front license fee as revenue in the year ended December 31, 2008. The change in accounting estimate for the research term resulted in a positive net income impact of $4.4 million and $0.22 in basic earnings per share for the year ended December 31, 2008. We will not recognize any revenue from the up-front license fee in future periods. Novartis has agreed to make milestone payments totaling over $370 million if certain specified research, development and commercialization milestones are achieved for multiple products for multiple indications, such that total payments to us could exceed $400 million. Novartis has also agreed to pay us royalties upon successful commercialization of any products developed under the alliance. During the years ended December 31, 2008 and 2007, we recognized $8.1 million and $3.8 million, respectively, in revenue related to the amortization of the non-refundable license fee, and $0.8 million and $4.8 million, respectively, in revenue related to the reimbursable research and development services we performed for Novartis under the Novartis Product Development Agreement.

In November 2004, we entered into a collaboration and option agreement (the Novartis Collaboration Agreement) with Novartis International. Pursuant to the Novartis Collaboration Agreement, we and Novartis International agreed to jointly design a collection of novel small molecules that would be synthesized by us using our diversity oriented synthesis chemical technology platform. Under the Novartis Collaboration Agreement, Novartis International may use the resulting compound collection in its independent drug discovery efforts. We have certain rights to use the resulting compound collection in our own drug discovery efforts, and Novartis

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

International has the option to license from us on an exclusive worldwide basis specified lead compounds for further development and commercialization. In the event that Novartis International exercises its option to license specified lead compounds, it will pay us milestone payments and royalties on net sales of certain drug products incorporating such compounds. In addition, Novartis International has paid us $10.5 million for the successful acceptance of compounds. During the year ended December 31, 2007, we recognized $6.0 million as revenue for acceptance of compounds under the Novartis Collaboration Agreement. We did not recognize any revenue from the successful acceptance of compounds during the years ended December 31, 2009 or 2008.

14. Income Taxes

Our income tax benefit of $329,566 for the year ended December 31, 2009 primarily consisted of U.S. federal taxes.

Our income tax benefit or expense for the years ended December 31, 2009, 2008 and 2007 differed from the expected U.S. federal statutory income tax expense as set forth below:

	2009 (Restated)	2008 (Restated)	2007
Expected federal tax expense (benefit)	$ (10,724,857)	$ 8,070,539	$ (5,745,282)
Permanent differences	1,522,097	1,393,377	698,537
State taxes, net of deferral benefit	(1,715,554)	1,488,302	(1,059,498)
Tax credits and related adjustments	(2,928,454)	(3,533,790)	559,720
Alternative minimum tax	(282,191)		
Effect of change in state tax rate on deferred tax assets and deferred tax liabilities	47,828	780,028	
Expired state net operating loss	1,085,004	1,794,332	191,611
Limitation on federal net operating loss			2,837,291
Adjustments to deferred tax assets and deferred tax liabilities	(47,347)	77,963	(74,667)
Change in valuation allowance	12,619,791	(10,070,751)	2,592,288
Other	94,117		
Income tax benefit	$ (329,566)	$	$

The significant components of our deferred tax assets and liabilities are as follows:

	Year Ended December 31,	
	2009 (Restated)	2008 (Restated)
Deferred tax assets:		
Net operating loss carryforwards	$ 39,560,917	$ 46,250,820
Tax credits	14,274,743	11,404,967
Deferred revenue	14,950,097	6,827,193
Accrued expenses	309,667	548,970
Amortization	690,840	692,829
Stock-based compensation	5,456,411	3,834,023
Other	177,856	114,660
Valuation allowance	(75,420,531)	(62,743,756)
Total deferred tax assets		6,929,706

Deferred tax liabilities:		
Loan commitment		(6,819,703)
Depreciation		(110,003)
Net deferred tax asset	$	$

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Notes to Consolidated Financial Statements (Continued)

We have recorded a valuation allowance against our deferred tax assets in each of the years ended December 31, 2009, 2008 and 2007 because management believes that it is more likely than not that these assets will not be realized. The valuation allowance increased by approximately $12,677,000 during the year ended December 31, 2009 primarily as a result of increases in unbenefited deferred tax assets such as deferred revenue and tax credits and decreases in deferred tax liabilities offset by the utilization of previously unbenefited net operating losses. The valuation allowance decreased by approximately $11,188,000 during the year ended December 31, 2008 primarily as a result of the utilization of previously unbenefited deferred tax assets and an increase in deferred tax liabilities. The valuation allowance increased by approximately $3,600,000 during the year ended December 31, 2007 primarily as a result of unbenefited losses.

Subject to the limitations described below, at December 31, 2009, we had cumulative net operating loss carryforwards of approximately $107,774,000 and $63,329,000 available to reduce federal and state taxable income, which expire through 2028 and 2013, respectively. In addition, we have cumulative federal and state tax credit carryforwards of $10,755,000 and $5,333,000, respectively, available to reduce federal and state income taxes which expire through 2029 and 2024, respectively. The net operating loss carryforwards include approximately $1,561,000 of deductions related to the exercise of stock options. This amount represents an excess tax benefit and has not been included in the gross deferred tax asset reflected for net operating losses. Additionally, our net operating loss carryforwards and tax credits are limited as a result of certain ownership changes, as defined under Sections 382 and 383 of the Internal Revenue Code. This limits the annual amount of these tax attributes that can be utilized to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on our value immediately prior to an ownership change. Subsequent ownership changes may increase the limitation in future years. The net operating losses and tax credits that will expire unused in the future as a result of Section 382 and 383 limitations have been excluded from the amounts disclosed above.

During the twelve-month period ended December 31, 2009, there were no increases or decreases to our liability for unrecognized tax benefits; however, we recorded an additional interest expense of approximately $30,000 in connection with uncertain tax positions taken in prior periods. We have approximately $90,000 of interest and penalties accrued as of December 31, 2009. If the tax benefits are ultimately recognized, the effective tax rates in any future periods would be favorably affected by approximately $684,000. In addition, it is reasonably possible that during the next twelve month period, our liability for unrecognized tax benefits could decrease anywhere between $0 and approximately $684,000 as the result of the expiration of a statute of limitations.

A reconciliation of the allowance for uncertain tax positions for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Balance at January 1	$ 594,000	$ 13,644,000
Increase or decrease for tax positions taken during a prior period		(13,050,000)
Increase or decrease for tax positions taken during the current period		
Decrease relating to settlements		
Decrease resulting from the expiration of the statute of limitations		
Balance at December 31	$ 594,000	$ 594,000

We file income tax returns in the U.S. federal, Massachusetts, and other state jurisdictions and are generally subject to examinations by those authorities for all tax years from 2001 to the present.

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Notes to Consolidated Financial Statements (Continued)

15. Stockholders Equity

Stockholder Rights Agreement

We have a stockholder rights agreement that provides for a dividend distribution of one preferred share purchase right for each outstanding share of our common stock held of record at the close of business on February 24, 2003. The rights are not currently exercisable. Under certain conditions involving an acquisition or proposed acquisition by any person or group holding 15% or more of our outstanding common stock, or in the case of entities associated with Purdue, 33% or more of fully diluted number of shares of common stock outstanding (giving effect to all securities that are then exercisable for, or convertible into, common stock), the rights permit the holders to purchase from us one unit consisting of one-thousandth of a share of our Series A junior participating preferred stock at a price of $76.00 per unit, subject to adjustment. Under certain conditions, the rights may be redeemed by our board of directors in whole, but not in part, at a price of $0.01 per right.

Treasury Stock Retirements

We retire treasury stock periodically with the approval of our board of directors. Amounts retired have been immaterial for the years ended December 31, 2009, 2008 and 2007. These were all non-cash transactions, with the offset to additional paid-in capital.

Warrants

In connection with various loan and financing agreements during the period from December 2001 through December 2006, we issued warrants to purchase shares of convertible preferred stock, which subsequently became warrants to purchase common stock. The fair value of the warrants was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility ranging from 64% to 95%, a contractual life of ten years, and a risk-free interest rate ranging from 3.1% to 5.5%. The warrants have been recorded as a reduction of the associated debt and were amortized to interest expense over the life of the loans. These warrants are fully amortized.

In July 2002, we issued warrants to purchase shares of convertible preferred stock, which became warrants to purchase shares of common stock as a result of the DPI merger, in conjunction with the entry of our facility lease. The fair value of the warrants was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility of 75%, an estimated contractual life of ten years, and a risk-free interest rate of 5%. The warrants have been recorded in other non-current assets and are being amortized over the lease period as rent expense.

Warrants described above to purchase 246,629 shares of our common stock were outstanding at December 31, 2009, 2008 and 2007. These warrants are currently exercisable and expire on dates ranging from February 28, 2012 to June 30, 2016 and have exercise prices ranging from $7.64 to $13.35 per share.

In connection with the strategic alliance agreements we entered into with Mundipharma and Purdue, in January 2009 we issued warrants to purchase up to an aggregate of six million shares of our common stock. These warrants are exercisable for:

1,000,000 shares of our common stock at any time up to July 1, 2010, with an initial exercise price of $15.00 per share, with such exercise price increasing over time depending on when such warrants are exercised, up to a maximum exercise price of $20.00 per share,

2,000,000 shares of our common stock at any time up to July 1, 2011, with an initial exercise price of $20.00 per share, with such exercise price increasing over time depending on when such warrants are exercised, up to a maximum exercise price of $30.00 per share, and

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3,000,000 shares of our common stock at any time up to July 2, 2012, with an initial exercise price of $30.00 per share, with such exercise price increasing over time depending on when such warrants are exercised, up to a maximum exercise price of $40.00 per share.

The fair value of these warrants was estimated as of November 2008 using a binomial valuation model assuming no expected dividends, a volatility of 58%, estimated contractual lives ranging from 1.6 years to 3.6 years and risk-free interest rates ranging from of 1.0% to 1.5%. The aggregate fair value of these warrants of approximately $1.3 million was recorded as additional paid-in capital in the year ended December 31, 2009.

16. Income from NIH Reimbursement

During the year ended December 31, 2009, we received $1.7 million from the National Institutes of Health relating to contract work performed by Discovery Partners International, Inc. from August 2004 through June 2006. As the amount received is not related to our ordinary course of operations, we have recorded the amount as other income.

17. Defined Contribution Benefit Plan

We sponsor a 401(k) retirement plan in which substantially all of our full-time employees are eligible to participate. Participants may contribute a percentage of their annual compensation to this plan, subject to statutory limitations. During the years ended December 31, 2009, 2008 and 2007, we matched 50% of the first six percent of participant contributions with shares of our common stock. The cost of our matching contributions during the years ended December 31, 2009, 2008 and 2007 was $530,573, $404,236 and $370,698, respectively.

18. Accounting for Sabbatical Leave

All of our full-time employees are eligible to receive four paid weeks of sabbatical leave after five years of continuous employment. The cumulative effect of a change in accounting principle was recorded to accumulated deficit and accrued expenses as of January 1, 2007. We recorded additional compensation expense of $114,199, $116,761 and $96,075 during the years ended December 31, 2009, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements (Continued)

19. Quarterly Financial Information (unaudited)

	Quarter Ended March 31, 2009	Quarter Ended June 30, 2009	Quarter Ended September 30, 2009	Quarter Ended December 31, 2009
		(In Thousands, Except Shares and Per Share Amounts)		
	(Restated)	(Restated)	(Restated)	(Restated)
Collaborative research and development revenue from Purdue entities	$ 9,736	$ 13,472	$ 14,082	$ 13,476
Operating expenses:				
Research and development	21,242	20,713	18,499	17,404
General and administrative	5,330	5,681	4,571	3,874
Total operating expenses	26,572	26,394	23,070	21,278
Loss from operations	(16,836)	(12,922)	(8,988)	(7,802)
Other (expense) income:				
Interest expense		(433)	(433)	(433)
Income from residual funding after reacquisition of Hsp90 program	12,450			
Income from NIH reimbursement		1,745		
Interest and investment income	743	592	401	308
Total other income (loss)	13,193	1,904	(32)	(125)
Net loss before income taxes	(3,643)	(11,018)	(9,020)	(7,927)
Income tax benefit				330
Net loss	$ (3,643)	$ (11,018)	$ (9,020)	$ (7,597)
Basic and diluted net loss per common share	$ (0.14)	$ (0.42)	$ (0.34)	$ (0.29)
Basic and diluted weighted average number of common shares outstanding	25,910,687	26,118,758	26,154,557	26,198,415

INFINITY PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements (Continued)

	Quarter Ended March 31, 2008	Quarter Ended June 30, 2008	Quarter Ended September 30, 2008	Quarter Ended December 31, 2008
	(In Thousands, Except Shares and Per Share Amounts)			
				(Restated)
Collaborative research and development revenue				
From Purdue entities	$	$	$	$ 3,027
Other	11,391	2,500	2,500	64,167
Total revenue	11,391	2,500	2,500	67,194
Operating expenses:				
Research and development	8,522	10,775	11,732	16,437
General and administrative	3,771	3,682	3,781	5,603
Total operating expenses	12,293	14,457	15,513	22,040
Income (loss) from operations	(902)	(11,957)	(13,013)	45,154
Other (expense) income:				
Interest expense	(12)	(6)	(3)	(2)
Income from residual funding after reacquisition of Hsp90 program				1,195
Interest and investment income	1,336	815	624	569
Total other income	1,324	809	621	1,762
Net income (loss)	$ 422	$ (11,148)	$ (12,392)	$ 46,916
Earnings (loss) per common share:				
Basic	$ 0.02	$ (0.57)	$ (0.63)	$ 2.16
Diluted	$ 0.02	$ (0.57)	$ (0.63)	$ 2.11
Weighted average number of common shares outstanding:				
Basic	19,677,541	19,729,094	19,759,766	21,766,857
Diluted	20,235,482	19,729,094	19,759,766	22,183,541

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with our independent accountants on accounting and financial disclosure matters.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2009. In designing and evaluating our disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applied 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 December 31, 2009, 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. Subsequently, we became aware of a material weakness in our internal control over financial reporting; namely, that we require supplemental specialized technical accounting resources for complex transactions. This material weakness resulted in this amendment to our Annual Report on Form 10-K/A for the year ended December 31, 2009 in order to restate the financial statements for the years ended December 31, 2009 and 2008. Solely as a result of this material weakness, our management has revised its earlier conclusion and now has concluded that our disclosure controls and procedures were not effective as of December 31, 2009.

Management s report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) appears below.

Internal Control Over Financial Reporting

(a) Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company s principal executive and principal financial officers and effected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.*

In our Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 12, 2010, management concluded that our internal control over financial reporting was effective as of December 31, 2009. Subsequently, we became aware of a material weakness in our internal control over financial reporting; namely, that we require supplemental specialized, technical accounting resources for complex transactions such as new collaboration agreements. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented on a timely basis. Specifically, the material weakness related to our accounting for the offset to the loan commitment asset representing to the future availability to us, on below-market terms, of the $50 million line of credit extended to us by Purdue Pharmaceutical Products L.P., or Purdue and its independent associated company, Purdue Pharma L.P. in November 2008 upon entry into a strategic alliance with Purdue and its independent associated company, Mundipharma International Corporation Limited. This lack of adequate controls resulted in our failure to properly record the offset to the above mentioned loan commitment asset to deferred revenue instead of additional paid-in capital.

This material weakness resulted in this amendment to our Annual Report on Form 10-K/A for the year ended December 31, 2009, in order to restate the financial statements for the years ended December 31, 2009 and 2008. As a result of this material weakness, our management has revised its earlier conclusion and now has concluded that our internal control over financial reporting was not effective as of December 31, 2009.

Our independent registered public accounting firm has issued an attestation report of our internal control over financial reporting. This report appears below.

Remediation of Material Weakness

In 2010, we retained external accounting and financial reporting consultants to assist us in evaluating accounting for complex transactions. We expect to conclude the material weakness has been remediated during 2010.

(b) Attestation Report of the Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of

Infinity Pharmaceuticals, Inc.

We have audited Infinity Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Infinity Pharmaceuticals, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management s report on internal control over financial reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report on Infinity Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2009 dated March 11, 2010, we expressed an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on the COSO criteria. Management subsequently identified a material misstatement in its consolidated financial statements, which caused its consolidated financial statements to be restated, and therefore management subsequently revised its assessment of its internal controls over financial reporting, as presented in Item 9A, and concluded that the Company s internal control over financial reporting was not effective as of December 31, 2009. Accordingly, our opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2009, expressed herein is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment, management has identified a material weakness in controls related to the financial reporting of complex transactions. The lack of supplemental specialized, technical accounting resources for complex transactions resulted in a restatement of the Company s consolidated financial statements as of and for the years ended December 31, 2009 and 2008. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2008 and 2009 consolidated financial statements, and this report does not affect our report dated March 11, 2010, except for Note 2 as to which the date is March 15, 2011, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Infinity Pharmaceuticals, Inc. has not maintained effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria**.**

/s/ Ernst & Young LLP

Boston, Massachusetts

March 11, 2010, except for

the effects of the material weakness described in the

sixth paragraph above, as to which the date is March 15, 2011

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(c) Changes in Internal Control Over Financial Reporting

Except as described in Management s Report on Internal Control over Financial Reporting there have been no significant changes in our internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information
Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance
The sections titled Proposal 1 Election of Directors, Board and Committee Meetings, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Guidelines; Code of Business Conduct and Ethics appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on May 25, 2010 are incorporated herein by reference. The information required by this item relating to executive officers may be found in Part I, Item 1 of this report under the heading Business Executive Officers.

Item 11. Executive Compensation
The section titled Executive Officer Compensation appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on May 25, 2010 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The sections titled Stock Ownership of Certain Beneficial Owners and Management and Securities Authorized for Issuance under Equity Compensation Plans appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on May 25, 2010 are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence
The sections titled Transactions with Related Persons, Policies and Procedures for Related Persons Transactions, and Determination of Independence appearing in the definitive proxy statement we will file in connection with our Annual Meeting of Stockholders to be held on May 25, 2010 are incorporated herein by reference.

Item 14. Principal Accountant Fees and Services
The section titled Audit Fees appearing in the definitive proxy statement we will file in connection with our Annual Meeting of the Stockholders to be held on May 25, 2010 is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The financial statements listed below are filed as a part of this Annual Report on Form 10-K/A.

	Page number
Report of Independent Registered Public Accounting Firm on Financial Statements	56
Consolidated Balance Sheets at December 31, 2009 and 2008	57
Consolidated Statements of Operations for the years ended December 31, 2009, 2008, and 2007	58
Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008, and 2007	59
Consolidated Statements of Stockholders Equity for the years ended December 31, 2009, 2008 and 2007	61
Notes to Consolidated Financial Statements	63

(a)(2) Financial Statement Schedules

Financial statement schedules have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements or notes thereto.

(a)(3) Exhibits

The Exhibits listed in the Exhibit Index are filed as a part of this Annual Report on Form 10-K/A.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFINITY PHARMACEUTICALS, INC.

Date: March 15, 2011

By: /s/ ADELENE Q. PERKINS
Adelene Q. Perkins

President & Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ADELENE Q. PERKINS **Adelene Q. Perkins**	President, Chief Executive Officer and Director *(Principal Executive Officer and Principal Financial Officer)*	March 15, 2011
/s/ CHRISTOPHER M. LINDBLOM **Christopher M. Lindblom**	Controller and Assistant Treasurer *(Principal Accounting Officer)*	March 15, 2011
/s/ STEVEN H. HOLTZMAN **Steven H. Holtzman**	Executive Chair of the Board of Directors	March 15, 2011
/s/ MARTIN BABLER **Martin Babler**	Director	March 15, 2011
/s/ ANTHONY B. EVNIN, PH.D. **Anthony B. Evnin, Ph.D.**	Director	March 15, 2011
Harry F. Hixson, Jr., Ph.D.	Director	
/s/ ERIC S. LANDER, PH.D. **Eric S. Lander, Ph.D.**	Director	March 15, 2011
/s/ PATRICK P. LEE **Patrick P. Lee**	Director	March 15, 2011
/s/ ARNOLD J. LEVINE, PH.D. **Arnold J. Levine, Ph.D.**	Director	March 15, 2011
/s/ THOMAS J. LYNCH, JR. M.D. **Thomas J. Lynch, Jr., M.D.**	Director	March 15, 2011
/s/ FRANKLIN H. MOSS, PH.D. **Franklin H. Moss, Ph.D.**	Director	March 15, 2011
/s/ IAN F. SMITH **Ian F. Smith**	Director	March 15, 2011
/s/ JAMES B. TANANBAUM, M.D.	Director	March 15, 2011

James B. Tananbaum, M.D.		
/s/ MICHAEL C. VENUTI, PH.D. **Michael C. Venuti, Ph.D.**	Director	March 15, 2011

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EXHIBIT INDEX

Exhibit	Description
3.1	Restated Certificate of Incorporation of the Registrant. Previously filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 000-31141) and incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Registrant. Previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on March 17, 2009 (File No. 000-31141) and incorporated herein by reference.
4.1	Form of Common Stock Certificate. Previously filed as Exhibit 4.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-31141) and incorporated herein by reference.
4.2	Rights Agreement between the Registrant and American Stock Transfer & Trust Company dated February 13, 2003, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Stock as Exhibit C. Previously filed as Exhibit 4.2 to the Registrant s Current Report on Form 8-K filed on February 24, 2003 (File No. 000-31141) and incorporated herein by reference.
4.3	First Amendment to the Rights Agreement between the Registrant and American Stock Transfer & Trust Company dated April 11, 2006. Previously filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on April 12, 2006 (File No. 000-31141) and incorporated herein by reference.
4.4	Second Amendment to the Rights Agreement between the Registrant and American Stock Transfer & Trust Company, LLC dated November 19, 2008. Previously filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on November 20, 2008 (File No. 000-31141) and incorporated herein by reference.
10.1	Strategic Alliance Agreement, dated as of November 19, 2008, by and between the Registrant and Purdue Pharmaceutical Products L.P. Previously filed as Exhibit 10.1 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-31141) and incorporated herein by reference.
10.2	Strategic Alliance Agreement, dated as of November 19, 2008, by and between the Registrant and Mundipharma International Corporation Limited. Previously filed as Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-31141) and incorporated herein by reference.
10.3	Securities Purchase Agreement, dated as of November 19, 2008, by and among the Registrant, Purdue Pharma L.P. and Purdue Pharmaceutical Products L.P. Previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on November 20, 2008 (File No. 000-31141) and incorporated herein by reference.
10.4	Line of Credit Agreement, dated as of November 19, 2008, by and between the Registrant and Purdue Pharma L.P., directly and as assignee of Purdue Pharmaceutical Products L.P. Previously filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on November 20, 2008 (File No. 000-31141) and incorporated herein by reference.
10.5	License Agreement, dated as of July 7, 2006, by and between Infinity Discovery Inc. (formerly known as Infinity Pharmaceuticals, Inc.) (IDI) and Amgen Inc. Previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.

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Exhibit	Description
10.6	Collaboration and Option Agreement, dated as of November 16, 2004, by and between IDI and Novartis International Pharmaceutical Ltd. Previously filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.7	Collaboration Agreement, dated as of February 24, 2006, by and between IDI and Novartis Institutes for BioMedical Research, Inc. Previously filed as Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.8	Collaboration Agreement, dated as of August 25, 2006, by and between MedImmune, Inc. and IDI. Previously filed as Exhibit 10.1 to MedImmune s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-19131) and incorporated herein by reference.
10.9	Lease Agreement dated July 2, 2002 between IDI and ARE-770/784/790 Memorial Drive LLC (the Lease), as amended by First Amendment to Lease dated March 25, 2003, Second Amendment to Lease dated April 30, 2003, Third Amendment to Lease dated October 30, 2003 and Fourth Amendment to Lease dated December 15, 2003. Previously filed as Exhibit 10.36 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.10	Sublease dated August 24, 2004 between IDI and Hydra Biosciences, Inc (Hydra), together with Consent to Sublease dated September 16, 2004 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra Biosciences, Inc., as amended by First Amendment to Sublease dated October 17, 2005, together with Consent to Amendment to Sublease dated as of October 31, 2005 by ARE-770/784/790 Memorial Drive LLC and Second Amendment to Sublease dated as of January 9, 2006, together with Consent to Amendment to Sublease dated as of January 26, 2006 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra. Previously filed as Exhibit 10.37 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.11	Third Amendment to Sublease dated April 17, 2009 between IDI and Hydra, together with Consent to Third Amendment to Sublease dated May 5, 2009 by ARE-770/784/790 Memorial Drive LLC, IDI and Hydra. Previously filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 000-31141) and incorporated herein by reference.
10.12*	Offer Letter between IDI and Steven Holtzman dated as of August 1, 2001. Previously filed as Exhibit 10.9 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.13*	Amendment to Offer Letter between IDI and Steven Holtzman dated as of October 25, 2007. Previously filed as Exhibit 99.3 to the Registrant s Current Report on Form 8-K filed on October 30, 2007 (File No. 000-31141) and incorporated herein by reference.
10.14*	Offer Letter between IDI and Julian Adams dated as of August 19, 2003. Previously filed as Exhibit 10.10 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.15*	Amendment to Offer Letter between IDI and Julian Adams dated as of October 25, 2007. Previously filed as Exhibit 99.4 to the Registrant s Current Report on Form 8-K filed on October 30, 2007 (File No. 000-31141) and incorporated herein by reference.
10.16*	Offer Letter between IDI and Adelene Perkins dated as of February 6, 2002. Previously filed as Exhibit 10.11 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.17*	Amendment to Offer Letter between IDI and Adelene Perkins dated as of October 25, 2007. Previously filed as Exhibit 99.5 to the Registrant s Current Report on Form 8-K filed on October 30, 2007 (File No. 000-31141) and incorporated herein by reference.

Exhibit	Description
10.18*	Letter Agreement between IDI and Steven Holtzman dated effective as of March 31, 2006. Previously filed as Exhibit 10.12 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.19*	Letter Agreement between IDI and Julian Adams dated effective as of March 31, 2006. Previously filed as Exhibit 10.13 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.20*	Letter Agreement between IDI and Adelene Perkins dated effective as of March 31, 2006. Previously filed as Exhibit 10.14 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.21	Pre-Merger Stock Incentive Plan. Previously filed as Exhibit 10.18 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.22*	Form of Restricted Stock Agreement entered into with each of the officers and directors identified on the schedule thereto. Previously filed as Exhibit 10.24 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.23*	Form of Incentive Stock Agreement entered into with each of the officers identified on the schedule thereto. Previously filed as Exhibit 10.25 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.24*	Form of Nonstatutory Stock Option Agreement entered into with each of the officers identified on the schedule thereto. Previously filed as Exhibit 10.27 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference
10.25*	Form of Stock Restriction Agreement entered into with Steven H. Holtzman on October 27, 2008 and with Julian Adams on October 28, 2008. Previously filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 000-31141) and incorporated herein by reference.
10.26	2000 Stock Incentive Plan. Previously filed as Exhibit 10.59 to the Registrant s Registration Statement on Form S-1 filed on May 9, 2000 (File No. 333-36638) and incorporated herein by reference.
10.27	Amendment No. 1 to 2000 Stock Incentive Plan; Amendment No. 2 to 2000 Stock Incentive Plan; Amendment No. 3 to 2000 Stock Incentive Plan. Previously filed as Exhibit 10.32 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.28	Amendment No. 4 to 2000 Stock Incentive Plan. Previously filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 000-31141) and incorporated herein by reference.
10.29	Amendment No. 5 to 2000 Stock Incentive Plan. Previously filed as Exhibit 99.4 to the Registrant s Registration Statement on Form S-8 filed on May 23, 2008 (File. No. 333-151135) and incorporated herein by reference.
10.30	Form of Incentive Stock Option Agreement under 2000 Stock Incentive Plan. Previously filed as Exhibit 10.33 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
10.31	Form of Nonstatutory Stock Option Agreement under 2000 Stock Incentive Plan. Previously filed as Exhibit 10.34 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.

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Exhibit	Description
10.32	Form of Restricted Stock Agreement under 2000 Stock Incentive Plan. Previously filed as Exhibit 10.35 to the Registrant s Current Report on Form 8-K filed on September 18, 2006 (File No. 000-31141) and incorporated herein by reference.
21.1	Subsidiaries of the Registrant. Filed herewith.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. Filed herewith.
31.1	Certification of principal executive and principal financial officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. Filed herewith.
32.1	Statement of principal executive and principal financial officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

* Indicates management contract or compensatory plan
Confidential treatment has been requested and/or granted as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.