

LIGAND PHARMACEUTICALS INC

Form 10-Q

August 04, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

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: 001-33093

LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

77-0160744

(I.R.S. Employer
Identification No.)

3911 Sorrento Valley Boulevard, Suite 110 San Diego, CA 92121
(Address of principal executive offices) (Zip Code)

(Address of principal executive offices)

(858) 550-7500

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

As of August 1, 2016, the registrant had 20,854,368 shares of common stock outstanding.

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LIGAND PHARMACEUTICALS INCORPORATED
QUARTERLY REPORT

FORM 10-Q

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GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation	Definition
2019 Convertible Senior Notes	\$245.0 million aggregate principal amount of convertible senior unsecured notes due 2019
Amgen	Amgen, Inc.
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Company	Ligand Pharmaceuticals Incorporated, including subsidiaries
CorMatrix	CorMatrix Cardiovascular, Inc.
CVR	Contingent value right
CyDex	CyDex Pharmaceuticals, Inc.
Amended ESPP	Employee Stock Purchase Plan, as amended and restated
Eisai	Eisai Incorporated
EMA	European Medicines Agency
FASB	Financial Accounting Standards Board
FDA	Food and Drug Administration
FSGS	Focal segmental glomerulosclerosis
GAAP	Generally accepted accounting principles in the United States
IPO	Initial public offering
IPR&D	In-Process Research and Development
Ligand	Ligand Pharmaceuticals Incorporated, including subsidiaries
LSA	Loan and Security Agreement
Metabasis	Metabasis Therapeutics, Inc.
MLA	Master License Agreement
NOLs	Net Operating Losses
OMT	OMT, Inc. or Open Monoclonal Technology, Inc.
Par	Par Pharmaceuticals, Inc.
Pfizer	Pfizer Inc.
Retrophin	Retrophin Inc.
SEC	Securities and Exchange Commission
Selexis	Selexis, SA
TPE	Third-party evidence
VIE	Variable interest entity
Viking	Viking Therapeutics
Viking IPO	Viking's initial public offering
VSOE	Vendor-specific objective evidence

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIGAND PHARMACEUTICALS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except share data)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$61,350	\$97,428
Short-term investments	45,603	102,791
Accounts receivable	9,966	6,170
Note receivable from Viking Therapeutics	3,207	4,782
Inventory	3,835	1,633
Other current assets	2,602	1,908
Total current assets	126,563	214,712
Deferred income taxes	161,076	216,564
Investment in Viking Therapeutics	18,733	29,728
Intangible assets, net	210,142	48,347
Goodwill	72,360	12,238
Commercial license rights, net	26,141	8,554
Property and equipment, net	1,181	372
Other assets	603	27
Total assets	\$616,799	\$530,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,336	\$4,083
Accrued liabilities	4,951	5,397
Current contingent liabilities	5,337	10,414
Current lease exit obligations	239	934
2019 convertible senior notes, net	207,363	—
Other current liabilities	121	8
Total current liabilities	220,347	20,836
2019 convertible senior notes, net	—	201,985
Long-term contingent liabilities	4,138	3,033
Other long-term liabilities	398	297
Total liabilities	224,883	226,151
Commitments and Contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 33,333,333 shares authorized; 20,853,127 and 19,949,012 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	21	20
Additional paid-in capital	789,315	701,478
Accumulated other comprehensive income	3,745	4,903
Accumulated deficit	(401,165)	(402,010)
Total stockholders' equity attributable to Ligand Pharmaceuticals	391,916	304,391
Total liabilities and stockholders' equity	\$616,799	\$530,542
See accompanying notes.		

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS(Unaudited)
(in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Royalties	\$9,754	\$6,606	\$24,144	\$16,893
Material sales	3,886	10,681	9,227	14,410
License fees, milestones and other revenues	5,881	1,131	15,798	1,717
Total revenues	19,521	18,418	49,169	33,020
Operating costs and expenses:				
Cost of sales ⁽¹⁾	720	2,600	1,675	3,673
Amortization of intangibles	2,681	594	5,206	1,188
Research and development	4,507	3,416	8,508	6,784
General and administrative	6,863	7,225	13,691	13,219
Lease exit and termination costs	374	218	618	441
Total operating costs and expenses	15,145	14,053	29,698	25,305
Income from operations	4,376	4,365	19,471	7,715
Other (expense) income:				
Interest expense, net	(3,051)	(2,969)	(6,055)	(5,945)
Increase in contingent liabilities	(332)	(7,274)	(1,638)	(7,277)
Gain on deconsolidation of Viking Therapeutics	—	28,190	—	28,190
Loss from Viking Therapeutics	(11,138)	(870)	(12,743)	(870)
Other income, net	501	850	892	404
Total other (expense) income, net	(14,020)	17,927	(19,544)	14,502
Income (loss) before income taxes	(9,644)	22,292	(73)	22,217
Income tax benefit (expense)	3,881	(265)	187	(279)
(Loss) income from operations	(5,763)	22,027	114	21,938
Discontinued operations:				
Gain on sale of Oncology Product Line before income taxes	—	—	1,139	—
Income tax expense on discontinued operations	—	—	(408)	—
Income from discontinued operations	—	—	731	—
Net (loss) income including noncontrolling interests:	(5,763)	22,027	845	21,938
Less: Net loss attributable to noncontrolling interests	—	(1,537)	—	(2,380)
Net (loss) income	\$(5,763)	\$23,564	\$845	\$24,318
Per share amounts attributable to Ligand common shareholders:				
Basic earnings (loss) per share data				
(Loss) income from continuing operations	\$(0.28)	\$1.19	\$0.01	\$1.24
Income from discontinued operations	—	—	0.03	—
Net (loss) income	\$(0.28)	\$1.19	\$0.04	\$1.24
Diluted earnings per share data				
(Loss) income from continuing operations	\$(0.28)	\$1.11	\$0.01	\$1.16
Income from discontinued operations	—	—	0.03	—
Net (loss) income	\$(0.28)	\$1.11	\$0.04	\$1.16

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Shares used for computation (in thousands)

Basic	20,832	19,725	20,765	19,668
Diluted	20,832	21,276	22,615	20,953

(1) Excludes amortization of intangibles.

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)
 (in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net (loss) income:	\$(5,763)	\$23,564	\$845	\$24,318
Unrealized net gain (loss) on available-for-sale securities, net of tax	539	3,230	(559)	7,844
Less: Reclassification of net realized gains included in net (loss) income, net of tax	(364)	(1,300)	(600)	(1,533)
Comprehensive income (loss)	\$(5,588)	\$25,494	\$(314)	\$30,629

See accompanying notes.

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LIGAND PHARMACEUTICAL INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited, in thousands)

	Six months ended June 30,	
	2016	2015
Operating activities		
Net income including noncontrolling interests	\$845	\$21,938
Less: gain from discontinued operations	731	—
Income from continuing operations	114	21,938
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Non-cash change in estimated fair value of contingent liabilities	1,638	7,277
Realized gain on sale of short-term investment	(602)	(502)
Gain on write-off of assets	133	—
Depreciation and amortization	5,388	1,296
Amortization of discount on investments, net	331	(34)
Amortization of debt discount and issuance fees	5,378	5,058
Stock-based compensation	8,359	6,675
Deferred income taxes	187	268
Accretion of note payable	—	16
Gain on deconsolidation of Viking Therapeutics	—	(28,190)
Change in fair value of the Viking convertible debt receivable and warrants	(310)	—
Loss from Viking Therapeutics	12,743	870
Changes in operating assets and liabilities:		
Accounts receivable	(3,791)	7,102
Inventory	(2,202)	(533)
Other current assets	(629)	(462)
Other long-term assets	(42)	(598)
Accounts payable and accrued liabilities	(3,323)	(3,107)
Restricted investments	—	661
Deferred revenue	113	(110)
Net cash provided by operating activities	23,485	17,625
Investing activities		
Purchase of commercial license rights	(17,691)	(4,030)
Payments to CVR holders and other contingency payments	(5,635)	(3,663)
Purchases of property and equipment	(1,021)	(27)
Cash paid for acquisition, net of cash acquired	(92,504)	—
Purchase of short-term investments	(49,892)	(60,432)
Purchase of Viking common stock and warrants	(700)	(9,000)
Proceeds from sale of property and equipment	—	1
Proceeds received from repayment of Viking note receivable	300	—
Reduction of cash due to deconsolidation of Viking	—	(247)
Proceeds from sale of short-term investments	22,077	2,378
Proceeds from maturity of short-term investments	83,523	—

Net cash used in investing activities	(61,543)	(75,020)
Financing activities		
Net proceeds from stock option exercises and ESPP	2,482	5,430
Purchase of common stock for RSU vesting	(502)	—
Net cash provided by financing activities	1,980	5,430
Net decrease in cash and cash equivalents	(36,078)	(51,965)
Cash and cash equivalents at beginning of period	97,428	160,203
Cash and cash equivalents at end of period	\$61,350	\$108,238

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Supplemental disclosure of cash flow information		
Interest paid	\$ 919	\$ 903
Taxes paid	36	13
Supplemental schedule of non-cash activity		
Stock issued for acquisition, net of issuance cost	(77,615)	—
Stock and warrant received for repayment of Viking notes receivable	1,200	—
Unrealized gain (loss) on AFS investments	(1,198)	7,844
See accompanying notes		

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LIGAND PHARMACEUTICALS INCORPORATED
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Significant Accounting Principles

Business

Ligand is a biopharmaceutical company with a business model that is based upon the concept of developing or acquiring royalty revenue generating assets and coupling them with a lean corporate cost structure. We operate in one business segment: development and licensing of biopharmaceutical assets.

Principles of Consolidation

The accompanying consolidated financial statements include Ligand and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Company's accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of the Company and its subsidiaries, have been included. Interim financial results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and notes therein included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and the accompanying notes. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made to the previously issued balance sheet and statement of operations for the three and six months ended June 30, 2015 for comparability purposes. These reclassifications had no effect on the reported net income, stockholders' equity, and operating cash flows as previously reported.

Income (Loss) Per Share

Basic income (loss) per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing net income by the weighted-average number of common shares and common stock equivalents of all dilutive securities calculated using the treasury stock method and the if-converted method. The total number of potentially dilutive securities including stock options and warrants excluded from the computation of diluted income per share because their inclusion would have been anti-dilutive was 3.5 million for the period ended June 30, 2015. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of otherwise dilutive potential common shares is anti-dilutive and therefore excluded.

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The following table presents the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net (loss) income from continuing operations	\$(5,763)	\$ 23,564	\$114	\$ 24,318
Net income from discontinued operations	—	—	731	—
Net (loss) income	\$(5,763)	\$ 23,564	\$845	\$ 24,318
Shares used to compute basic income per share	20,831,809	19,725,410	20,765,105	20,668,183
Dilutive potential common shares:				
Restricted stock	—	42,836	86,419	52,187
Stock options	—	1,044,926	785,921	001,147
2019 convertible senior notes	—	463,232	977,339	31,617
Shares used to compute diluted income per share	20,831,809	21,276,404	22,614,773	20,953,134
Basic per share amounts:				
(Loss) income from continuing operations	\$(0.28)	\$ 1.19	\$0.01	\$ 1.24
Income from discontinued operations	—	—	0.03	—
Basic net (loss) income per share	\$(0.28)	\$ 1.19	\$0.04	\$ 1.24
Diluted per share amounts:				
(Loss) income from continuing operations	\$(0.28)	\$ 1.11	\$0.01	\$ 1.16
Income from discontinued operations	—	—	0.03	—
Diluted net (loss) income per share	\$(0.28)	\$ 1.11	\$0.04	\$ 1.16

Cash Equivalents

Cash equivalents consist of all investments with maturities of three months or less from the date of acquisition.

Short-term Investments

Short-term investments primarily consist of investments in debt securities that have effective maturities greater than three months and less than twelve months from the date of acquisition. The Company classifies its short-term investments as "available-for-sale". Such investments are carried at fair value, with unrealized gains and losses included in the statement of comprehensive income (loss). The Company determines the cost of investments based on the specific identification method.

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The following table summarizes the various investment categories at June 30, 2016 and December 31, 2015 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
June 30, 2016				
Short-term investments				
Bank deposits	\$ 10,000	\$ 28	\$ —	\$ 10,028
Corporate bonds	23,210	174	(1)	23,383
Commercial paper	6,665	3	—	6,668
Asset backed securities	695	—	—	695
Corporate equity securities	1,700	3,129	—	4,829
	\$ 42,270	\$ 3,334	\$ (1)	\$ 45,603
December 31, 2015				
Short-term investments				
Bank deposits	\$ 43,043	\$ —	\$ (4)	\$ 43,039
Corporate bonds	41,238	—	(35)	41,203
Commercial paper	1,747	—	—	1,747
Asset backed securities	10,020	—	(5)	10,015
Corporate equity securities	1,843	4,944	—	6,787
	\$ 97,891	\$ 4,944	\$ (44)	\$ 102,791

Inventory

Inventory, which consists of finished goods, is stated at the lower of cost or market value. The Company determines cost using the first-in, first-out method. Inventory levels are analyzed periodically and written down to its net realizable value if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected requirements. There were no write downs related to obsolete inventory recorded for the three and six months ended June 30, 2016 and 2015.

Goodwill and Other Identifiable Intangible Assets

Goodwill and other identifiable intangible assets consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Indefinite lived intangible assets		
Acquired IPR&D	\$ 12,556	\$ 12,556
Goodwill	72,360	12,238
Definite lived intangible assets		
Complete technology	182,267	15,267
Less: Accumulated amortization	(8,161)	(3,762)
Trade name	2,642	2,642
Less: Accumulated amortization	(718)	(652)
Customer relationships	29,600	29,600
Less: Accumulated amortization	(8,044)	(7,304)

Total goodwill and other identifiable intangible assets, net \$282,502 \$60,585

As Discussed in Note 2-Business Combination, on January 8, 2016, the Company completed its acquisition of OMT. As a result of the transaction, the Company recorded \$167.0 million of intangibles with definite lives and goodwill of \$60.1 million. Amortization of definite-lived intangible assets is computed using the straight-line method over the estimated useful

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life of the asset of 20 years. Amortization expense of \$2.7 million and \$5.2 million was recognized for the three and six months ended June 30, 2016, respectively. Amortization expense of \$0.6 million and \$1.2 million was recognized for the three and six months ended June 30, 2015, respectively.

The Company tests the carrying value of goodwill in accordance with accounting rules on impairment of goodwill, which require that the Company estimate the fair value of the reporting unit annually, or when impairment indicators exist, and compare such amounts to their respective carrying values to determine if an impairment is required. The Company performed its annual assessment for goodwill impairment for the year ended December 31, 2015, noting no impairment.

Commercial License Rights

Commercial License Rights consist of the following (in thousands):

	June 30, 2016	December 31, 2015
CorMatrix	\$17,692	\$—
Selexis	8,602	8,602
	26,294	8,602
Less: accumulated amortization (153)	(48)	
Total commercial rights, net	\$26,141	\$ 8,554

Commercial license rights represent a portfolio of future milestone and royalty payment rights acquired from Selexis in April 2013 and April 2015 and CorMatrix in May 2016. Individual commercial license rights acquired are carried at allocated cost and approximate fair value. The carrying value of the license rights will be reduced on a pro-rata basis as revenue is realized over the term of the agreement. Declines in the fair value of individual license rights below their carrying value that are deemed to be other than temporary are reflected in earnings in the period such determination is made. As of June 30, 2016, management does not believe there have been any events or circumstances indicating that the carrying amount of its commercial license rights may not be recoverable.

Relationships between the CorMatrix Parties

As previously disclosed in Ligand's filings, Jason Aryeh is a director of both Ligand and CorMatrix. Mr. Aryeh beneficially owns equity of CorMatrix representing approximately .56% of CorMatrix's outstanding equity. Mr. Aryeh recused himself from all of the board's consideration of the Purchase Agreement, including any financial analysis, the terms of the Purchase Agreement and the vote to approve the Purchase Agreement and the related transactions.

Property and Equipment

Property and equipment is stated at cost and consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Lab and office equipment	\$1,063	\$ 2,248
Leasehold improvements	929	273
Computer equipment and software	692	632
	2,684	3,153

Less accumulated depreciation and amortization	(1,503)	(2,781)
Total property and equipment, net	\$1,181	\$ 372

Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives or the related lease term. Depreciation expense of \$0.1 million was recognized for each of the six months ended June 30, 2016 and 2015, which is included in operating expenses.

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Other Current Assets

Other current assets consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Prepaid expenses	\$2,122	\$ 1,177
Other receivables	480	731
Total other current assets	\$2,602	\$ 1,908

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Compensation	\$1,463	\$ 1,711
Professional fees	828	726
Amounts owed to former licensees	852	915
Royalties owed to third parties	1,037	823
Other	771	