

LIGAND PHARMACEUTICALS INC

Form 10-Q

May 09, 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 March 31, 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

77-0160744

(State or other jurisdiction of
incorporation or organization)

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

11119 North Torrey Pines Road, Suite 200 92037

La Jolla, CA (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 May 1, 2016, the registrant had 20,822,444 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 Pharmaceutical, 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)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$31,293	\$97,428
Short-term investments	81,908	102,791
Accounts receivable	11,779	6,170
Note receivable from Viking Therapeutics	4,767	4,782
Inventory	1,750	1,633
Other current assets	1,562	1,908
Total current assets	133,059	214,712
Deferred income taxes	157,258	216,564
Investment in Viking Therapeutics	28,118	29,728
Intangible assets, net	212,823	48,347
Goodwill	72,997	12,238
Commercial license rights	8,546	8,554
Property and equipment, net	567	372
Other assets	70	27
Total assets	\$613,438	\$530,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,688	\$4,083
Accrued liabilities	3,669	5,397
Current contingent liabilities	5,285	10,414
Current lease exit obligations	577	934
Other current liabilities	21	8
Total current liabilities	12,240	20,836
Long-term debt, net	204,653	201,985
Long-term contingent liabilities	4,022	3,033
Other long-term liabilities	446	297
Total liabilities	221,361	226,151
Commitments and Contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 33,333,333 shares authorized; 20,815,636 and 19,949,012 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	21	20
Additional paid-in capital	783,890	701,478
Accumulated other comprehensive income	3,568	4,903
Accumulated deficit	(395,402)	(402,010)
Total stockholders' equity attributable to Ligand Pharmaceuticals	392,077	304,391
Total liabilities and stockholders' equity	\$613,438	\$530,542
See accompanying notes.		

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

	Three months ended March 31,	
	2016	2015
Revenues:		
Royalties	\$ 14,390	\$ 10,287
Material sales	5,341	3,729
License fees, milestones and other revenues	9,917	586
Total revenues	29,648	14,602
Operating costs and expenses:		
Cost of sales ⁽¹⁾	955	1,074
Amortization of intangibles	2,524	594
Research and development	4,004	3,368
General and administrative	6,825	5,994
Lease exit and termination costs	244	223
Total operating costs and expenses	14,552	11,253
Income from operations	15,096	3,349
Other (expense) income:		
Interest expense, net	(3,005)	(2,973)
Increase in contingent liabilities	(1,306)	(3)
Equity in net losses from Viking Therapeutics	(1,605)	—
Other, net	391	(447)
Total other (expense) income, net	(5,525)	(3,423)
Income (loss) before income taxes	9,571	(74)
Income tax expense	(3,694)	(15)
Income (loss) from operations	5,877	(89)
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 income (loss) including noncontrolling interests:	6,608	(89)
Less: Net loss attributable to noncontrolling interests	—	(843)
Net income	\$ 6,608	\$ 754
Per share amounts attributable to Ligand common shareholders:		
Basic earnings per share data		
Income from continuing operations	\$ 0.28	\$ 0.04
Income from discontinued operations	0.04	—
Net income	\$ 0.32	\$ 0.04
Diluted earnings per share data		
Income from continuing operations	\$ 0.26	\$ 0.04
Income from discontinued operations	0.03	—
Net income	\$ 0.30	\$ 0.04

Shares used for computation (in thousands)

Basic	20,708	19,612
Diluted	22,284	20,631

(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 March 31,	
	2016	2015
Net income:	\$6,608	\$754
Unrealized net (loss) gain on available-for-sale securities, net of tax	(1,098)	4,614
Less: Reclassification of net realized (gains) losses included in net income, net of tax	(236)	(234)
Comprehensive income (loss)	\$5,274	\$5,134

See accompanying notes.

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

	Three months ended March 31,	
	2016	2015
Operating activities		
Net income (loss) including noncontrolling interests	\$6,608	\$(89)
Less: gain from discontinued operations	731	—
Income (loss) from continuing operations	5,877	(89)
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	1,306	3
Realized (gain) loss on sale of short-term investment	(406)	447
Depreciation and amortization	2,575	650
Amortization of discount on investments, net	320	—
Amortization of debt discount and issuance fees	2,668	2,509
Stock-based compensation	4,118	2,914
Deferred income taxes	4,101	6
Accretion of note payable	—	14
Change in fair value of the convertible debt receivable from Viking	15	—
Loss on equity investment in Viking Therapeutics, Inc.	1,605	—
Other		(1)
Changes in operating assets and liabilities:		
Accounts receivable	(5,604)	5,211
Inventory	853	(150)
Other current assets	16	445
Other long-term assets	(41)	(291)
Accounts payable and accrued liabilities	(4,302)	(4,667)
Restricted investments	—	661
Deferred revenue	13	(83)
Net cash provided by operating activities	13,114	7,579
Investing activities		
Payments to CVR holders and other contingency payments	(5,446)	(3,247)
Purchases of property and equipment	(238)	(10)
Cash paid for acquisition, net of cash acquired	(92,855)	—
Purchase of short-term investments	(49,892)	—
Proceeds from sale of property and equipment	—	1
Proceeds from sale of short-term investments	20,270	459
Proceeds from maturity of short-term investments	48,401	—
Net cash used in investing activities	(79,760)	(2,797)
Financing activities		
Net proceeds from stock option exercises and ESPP	1,013	781
Purchase of common stock for RSU vesting	(502)	—

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Net cash provided by financing activities		511	781
Net (decrease) increase in cash and cash equivalents		(66,135)	5,563
Cash and cash equivalents at beginning of period		97,428	160,203
Cash and cash equivalents at end of period		\$31,293	\$165,766
Supplemental disclosure of cash flow information			
Interest paid	\$ 919	\$ 903	
Taxes paid	1	11	
Supplemental schedule of non-cash activity			
Stock issued for acquisition, net of issuance cost	(77,615)	—	
Accrued inventory purchases	600	2,402	
Unrealized gain (loss) on AFS investments	(1,834)	4,614	
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 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 as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 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. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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 months ended March 31, 2015 for comparability purposes. These reclassifications had no effect on the reported net income, stockholders' equity, and operating cash flows as previously reported.

Income Per Share

Basic income per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income 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 and 4.5 million, as of March 31, 2016 and 2015, respectively.

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

	Three months ended March 31,	
	2016	2015
Net income from continuing operations	\$5,877	\$ 754
Net income from discontinued operations	731	—
Net income	\$6,608	\$ 754
Shares used to compute basic income per share	20,707,926	20,611,881
Dilutive potential common shares:		
Restricted stock	66,736	61,538
Stock options	759,581	957,369
0.75% Convertible Senior Notes, Due 2019	749,736	—
Shares used to compute diluted income per share	22,283,979	20,630,788
Basic per share amounts:		
Income from continuing operations	\$0.28	\$ 0.04
Income from discontinued operations	0.04	—
Basic net income per share	\$0.32	\$ 0.04
Diluted per share amounts:		
Income from continuing operations	\$0.26	\$ 0.04
Income from discontinued operations	0.03	—
Diluted net income per share	\$0.30	\$ 0.04

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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Restricted Investments

Restricted investments consist of certificates of deposit held with a financial institution as collateral under a facility lease and third-party service provider arrangements.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2016				
Short-term investments				
Bank deposits	\$ 42,376	\$ 87	\$ —	\$42,463
Corporate bonds	24,268	84	(2)	24,350
Commercial paper	8,401	2	—	8,403
Asset backed securities	2,067	1	(1)	2,067
Corporate equity securities	1,811	2,814	—	4,625
	\$ 78,923	\$ 2,988	\$ (3)	\$ 81,908
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 months ended March 31, 2016 and 2015.

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Goodwill and Other Identifiable Intangible Assets

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

	March 31, 2016	December 31, 2015
Indefinite lived intangible assets		
Acquired IPR&D	\$12,556	\$12,556
Goodwill	72,997	12,238
Definite lived intangible assets		
Complete technology	182,267	15,267
Less: Accumulated amortization	(5,883)	(3,762)
Trade name	2,642	2,642
Less: Accumulated amortization	(685)	(652)
Customer relationships	29,600	29,600
Less: Accumulated amortization	(7,674)	(7,304)
Total goodwill and other identifiable intangible assets, net	\$285,820	\$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 \$60.8 million. Amortization of definite-lived intangible assets is computed using the straight-line method over the estimated useful life of the asset of 20 years. Amortization expense of \$2.5 million was recognized for the three months ended March 31, 2016 and amortization expense of \$0.6 million was recognized for the three months ended March 31, 2015. Estimated amortization expense for the year ending December 31, 2016 is \$10.6 million and estimated amortization expense for the years ended December 31, 2017 through 2020 is \$10.7 million per year. For each of the three months ended March 31, 2016 and 2015, there was no impairment of IPR&D or goodwill.

Commercial License Rights

Commercial license rights represent a portfolio of future milestone and royalty payment rights acquired from Selexis in April 2013 and April 2015. Individual commercial license rights acquired under the agreement 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 March 31, 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.

Property and Equipment

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

	March 31, 2016	December 31, 2015
Lab and office equipment	\$2,482	\$2,248
Leasehold improvements	273	273
Computer equipment and software	636	632

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	3,391	3,153
Less accumulated depreciation and amortization	(2,824)	(2,781)
Total property and equipment, net	\$567	\$ 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

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the estimated useful lives or the related lease term. Depreciation expense of \$0.1 million was recognized for each of the three months ended March 31, 2016 and 2015, respectively, which is included in operating expenses.

Other Current Assets

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

	March	December
	31,	31,
	2016	2015
Prepaid expenses	\$1,087	\$ 1,177
Other receivables	475	731