

LIGAND PHARMACEUTICALS INC

Form 10-Q

August 08, 2018

Table of Contents

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, 2018

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)

(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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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   
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 7, 2018, the registrant had 21,103,841 shares of common stock outstanding.



Table of Contents

LIGAND PHARMACEUTICALS INCORPORATED  
QUARTERLY REPORT

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>ITEM 1. Financial Statements (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>29</u>
<u>ITEM 4. Controls and Procedures</u>	<u>30</u>
PART II. OTHER INFORMATION	
<u>ITEM 1. Legal Proceedings</u>	<u>31</u>
<u>ITEM 1A. Risk Factors</u>	<u>32</u>
<u>ITEM 6. Exhibits</u>	<u>41</u>
<u>SIGNATURE</u>	<u>41</u>

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation Definition

2019 Notes	\$245.0 million aggregate principal amount of convertible senior unsecured notes due 2019
2023 Notes	\$750.0 million aggregate principal amount of convertible senior unsecured notes due 2023
ANDA	Abbreviated New Drug Application
Amgen	Amgen, Inc.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Aziyo	Aziyo Med, LLC
CEO	Chief Executive Officer
Company	Ligand Pharmaceuticals Incorporated, including subsidiaries
CorMatrix	CorMatrix Cardiovascular, Inc.
CVR	Contingent value right
Crystal	Crystal Bioscience, Inc.
CyDex	CyDex Pharmaceuticals, Inc.
ESPP	Employee Stock Purchase Plan, as amended and restated
FASB	Financial Accounting Standards Board
FDA	Food and Drug Administration
GAAP	Generally accepted accounting principles in the United States
GRA	Glucagon receptor antagonist
Hovione	Hovione Farmaciencia
IPR&D	In-Process Research and Development
Ligand	Ligand Pharmaceuticals Incorporated, including subsidiaries
Metabasis	Metabasis Therapeutics, Inc.
NOLs	Net Operating Losses
Novartis	Novartis AG
OMT	OMT, Inc. or Open Monoclonal Technology, Inc.
Orange Book	Publication identifying drug products approved by the FDA based on safety and effectiveness
Q1 2008	The Company's fiscal quarter ended March 31, 2018
Q2 2018	The Company's fiscal quarter ended June 30, 2018
Q1 2017	The Company's fiscal quarter ended March 31, 2017
Q2 2017	The Company's fiscal quarter ended June 30, 2017
Retrophin	Retrophin Inc.
Roivant	Roivant Sciences GMBH
SEC	Securities and Exchange Commission
Selexis	Selexis, SA
Viking	Viking Therapeutics
WuXi	Wuxi Biologics
YTD	Year-to-date

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

LIGAND PHARMACEUTICALS INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except share data)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 151,459	\$ 20,620
Short-term investments	805,468	181,041
Investment in Viking	59,796	—
Accounts receivable, net	42,001	25,596
Inventory	9,520	4,373
Derivative asset	399,409	—
Other current assets	12,817	5,391
Total current assets	1,480,470	237,021
Deferred income taxes	44,586	84,422
Investment in Viking	—	6,438
Intangible assets, net	222,001	228,584
Goodwill	85,961	85,959
Commercial license rights, net	20,437	19,526
Property and equipment, net	4,187	4,212
Other assets	642	4,859
Total assets	\$ 1,858,284	\$ 671,021
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,682	\$ 2,259
Accrued liabilities	9,312	7,377
Current contingent liabilities	7,495	4,703
Current deferred revenue, net	1,700	—
2019 convertible senior notes, net	210,370	224,529
Derivative liability	401,291	—
Total current liabilities	632,850	238,868
2023 convertible senior notes, net	595,912	
Long-term contingent liabilities	8,146	9,258
Other long-term liabilities	1,563	4,248
Total liabilities	1,238,471	252,374
Commitments and contingencies		
Equity component of currently redeemable convertible notes (Note 3)	—	18,859
Stockholders' equity:		
Common stock, \$0.001 par value; 60,000,000 and 33,333,333 shares authorized; 21,095,174 and 21,148,665 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	21	21
Additional paid-in capital	874,183	798,205
Accumulated other comprehensive (loss) income	(151	) 2,486

Edgar Filing: LIGAND PHARMACEUTICALS INC - Form 10-Q

Accumulated deficit	(254,240 )	(400,924 )
Total stockholders' equity	619,813	399,788
Total liabilities and stockholders' equity	\$1,858,284	\$ 671,021

See accompanying notes.

4

---

Table of ContentsLIGAND PHARMACEUTICALS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Royalties	\$31,396	\$14,211	\$52,216	\$38,441
Material sales	7,612	5,550	12,003	6,672
License fees, milestones and other revenues	51,035	8,234	81,981	12,151
Total revenues	90,043	27,995	146,200	57,264
Operating costs and expenses:				
Cost of sales <sup>(1)</sup>	1,134	903	1,922	1,244
Amortization of intangibles	3,305	2,706	6,584	5,420
Research and development	6,135	4,822	13,540	13,495
General and administrative	9,294	6,549	16,938	13,872
Total operating costs and expenses	19,868	14,980	38,984	34,031
Income from operations	70,175	13,015	107,216	23,233
Other (expense) income:				
Gain (loss) from Viking	39,963	(1,400 )	61,808	(2,406 )
Interest income	2,762	481	3,637	835
Interest expense	(13,454 )	(3,341 )	(16,933 )	(6,638 )
Other expense, net	(3,867 )	(455 )	(4,835 )	(531 )
Total other income (expense), net	25,404	(4,715 )	43,677	(8,740 )
Income before income taxes	95,579	8,300	150,893	14,493
Income tax expense	(22,419 )	(2,242 )	(32,452 )	(3,356 )
Net income	\$73,160	\$6,058	\$118,441	\$11,137
Basic net income per share	\$3.45	\$0.29	\$5.58	\$0.53
Shares used in basic per share calculations	21,212	21,013	21,209	20,975
Diluted net income per share	\$2.99	\$0.26	\$4.81	\$0.48
Shares used in diluted per share calculations	24,438	23,216	24,618	23,117

(1) Excludes amortization of intangibles.

See accompanying notes.

Table of ContentsLIGAND PHARMACEUTICALS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income:	\$73,160	\$6,058	\$118,441	\$11,137
Unrealized net gain (loss) on available-for-sale securities, net of tax	135	90	(14	) 24
Less: Reclassification of net realized gain (loss) included in net income, net of tax	—	(136	) —	292
Comprehensive income	\$73,295	\$6,012	\$118,427	\$11,453
See accompanying notes.				

Table of ContentsLIGAND PHARMACEUTICAL INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six months ended June 30, 2018		2017 (Revised)
Operating activities			
Net income	\$ 118,441		\$ 11,137
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash change in estimated fair value of	2,730		966
contingent liabilities			
Payments to CVR holders and other	—		(4,998 )
contingent payments			
Depreciation and amortization	6,013		5,564
Amortization of debt discount and issuance fees	15,455		5,720
Stock-based compensation	9,367		10,669
Deferred income taxes	32,263		3,224
Change in fair value of the Viking convertible debt receivable and warrants	(8,450 )		77
(Gain) / loss from equity investments	(53,689 )		2,330
Royalties recorded in retained earnings upon adoption of ASU 606	32,707		—
Changes in operating assets and liabilities:			
Accounts receivable	(16,405 )		1,263
Inventory	(4,395 )		(4,286 )
Accounts payable, accrued liabilities and Other	368		(2,056 )
Net cash provided by operating activities	134,405		29,610
Investing activities			

Edgar Filing: LIGAND PHARMACEUTICALS INC - Form 10-Q

Payments to CVR holders and other contingency payments	(1,000	)	—	
Purchase of short-term investments	(745,783	)	(124,282	)
Proceeds received from repayment of Viking note receivable	3,914		—	
Proceeds received from repayment of commercial license rights	—		2,859	
Proceeds from sale of short-term investments	12,791		83,268	
Proceeds from maturity of short-term investments	110,175		51,887	
Other	(416	)	(199	)
Net cash (used in) provided by investing activities	(620,319	)	13,533	
Financing activities				
Repayment of debt	(21,785	)	—	
Gross proceeds from issuance of 2023 Convertible Senior Notes	750,000		—	
Payment of debt issuance costs	(16,900	)	—	
Proceeds from issuance of warrants	90,000		—	
Purchase of convertible bond hedge	(140,250	)	—	
Net proceeds from stock option exercises and ESPP	11,849		2,370	
Taxes paid related to net share settlement of equity awards	(3,434	)		